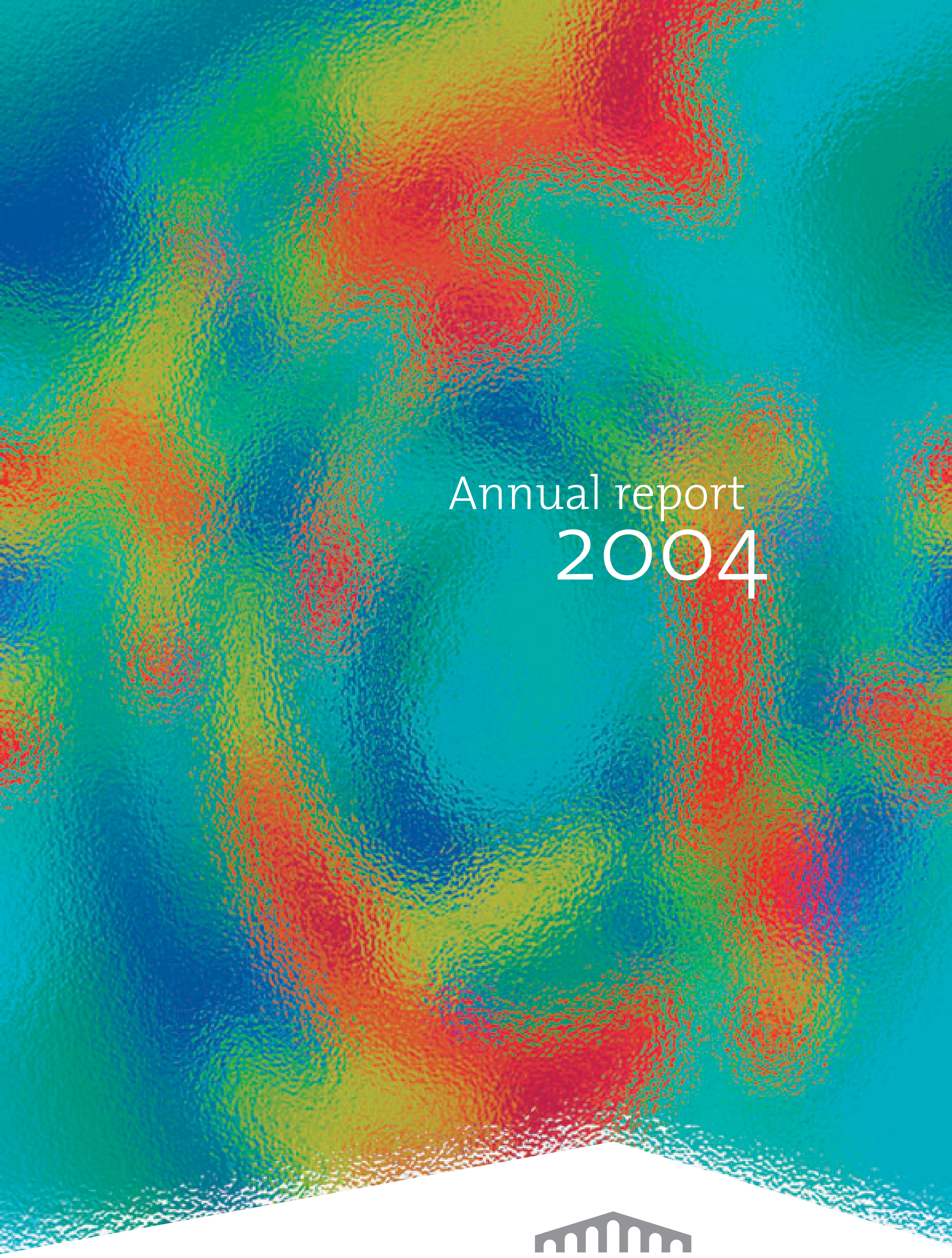
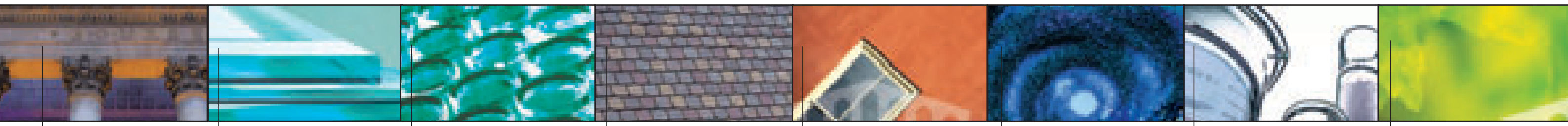


Annual report 2004

SAINT-GOBAIN



SAINT-GOBAIN

The origins of the Saint-Gobain Group go back to the formation of Manufacture Royale des Glaces de Miroirs in France in 1665. Over the course of its development and diversification in the intervening years, Saint-Gobain has consistently been at the forefront of successive technological revolutions. Saint-Gobain's present configuration is the fruit of a **sweeping transformation of its business operations** and structures, which began in the 1990s and went on to fundamentally reshape the Group's strategic focus. This new strategy has since been strengthened by the strong performances turned in by the Group since its adoption.

Today, Saint-Gobain operates as a **global manufacturer of high-technology materials and a provider of associated services.** Its dual mission for each of its businesses is to produce, process and distribute the most advanced materials and to deliver sustained profitable growth by leveraging its strong leadership positions.

The Group's move into businesses with a higher technological content has helped to energize its traditional policy for innovation. Saint-Gobain's new role in specialized distribution has led to a retooled approach to marketing and services, which, alongside the shift downstream to semi-finished goods, has made for a better appreciation within the Group of the needs of end customers. All businesses combined, this strategy has **doubled Saint-Gobain's global footprint over the last seven years.** External growth operations have played a significant role in Building Distribution and High-Performance Materials. And every one of the Group's businesses has made strides into emerging countries.

Saint-Gobain in 2004 at a glance:

€32,025 million in sales
€1,083 million in net income
€2,612 million in cash flow from operations
€1,537 million in capital expenditure
181,228 employees
A manufacturing or retail presence in **49** countries

CHAIRMAN'S STATEMENT

Jean-Louis Beffa
Chairman and Chief Executive Officer

IN 2004, THE SAINT-GOBAIN GROUP AGAIN EXCEEDED ITS GROWTH OBJECTIVES.

In an uneven economic environment, Group sales rose 4.6% on a like-for-like basis. This organic growth, outpacing the gross domestic product of OECD countries, was mainly attributable to a sharp 8.9% upturn in the High-Performance Materials Sector, a further 5% expansion in Building Distribution and strong sales progress – totaling 14% – in emerging countries and Asia.

Thanks to these sales performances, the Group recorded an 8.1% surge in operating income on a like-for-like basis, despite spiraling raw material and energy costs, and was therefore ahead of its growth objectives.

Higher growth and profitability were primarily driven by the three areas pinpointed as strategic for the Group: Building Distribution, which posted a rise of 32% in operating income; High-Performance Materials, with operating income up 26%; and emerging countries – where the Group's historic businesses are particularly well established – which saw operating income climb 28%. This robust performance enabled the Group to expand its capital expenditure – totaling €1.5 billion – particularly in emerging countries. It also supported an extensive program of acquisitions of around €1 billion, focused chiefly on Distribution, with the newly-acquired Scandinavian leader Dahl boosting results as from its first year. Thanks to high levels of cash flow generated from operations and a continuing tight rein over working capital, these investments did not lead to an increase in debt, which was actually scaled back by 1.6%.

2004 therefore confirmed the merits of the Group's business model.

The ascendancy of the new businesses (Building Distribution and High-Performance Materials) allowed Saint-Gobain to capitalize on high spending in developed countries, which reported buoyant renovation and new technologies markets. The gains recorded by all Sectors in emerging countries and Asia provide a solid basis for the Group's advance in those regions where population trends and increasing worldwide trade point to a strong growth potential.

The Group modified its structure in 2004 to bring it into line with its business model and further improve the implementation of the latter. Five new operating sectors were created, two for new businesses and three for historical businesses.

Going forward, Saint-Gobain expects moderate worldwide economic growth in 2005. The robustness of emerging countries, of the construction industry in France and of technological markets, should offset the slowdown in certain European countries and possibly in new construction starts in the US. Against this backdrop, and building on further productivity gains and a steady stream of capital spending, **the Group aims to achieve year-on-year growth of 6% in operating income based on constant exchange rates.**

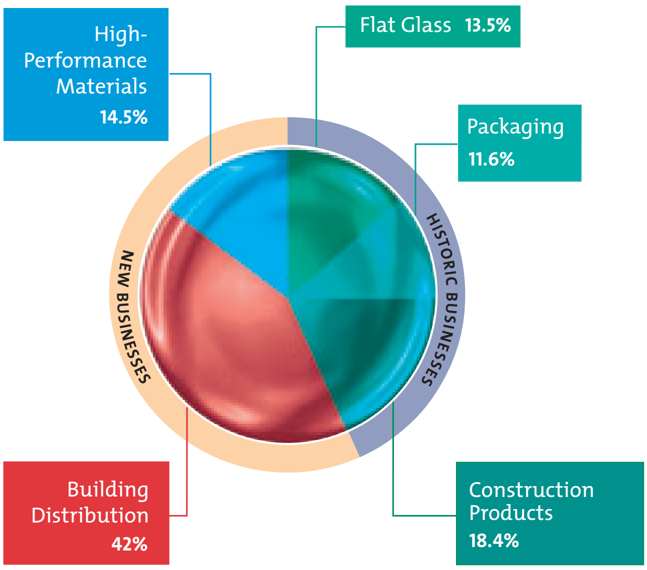
The Group owes its impressive performances in 2004 to the commitment and dedication of its employees and leadership, the trust of its customers and the support of its shareholders.

Saint-Gobain has seen the merits of its strategy clearly demonstrated, and from a position of strength and competitive advantage, is well poised to leverage all the growth opportunities 2005 will present.

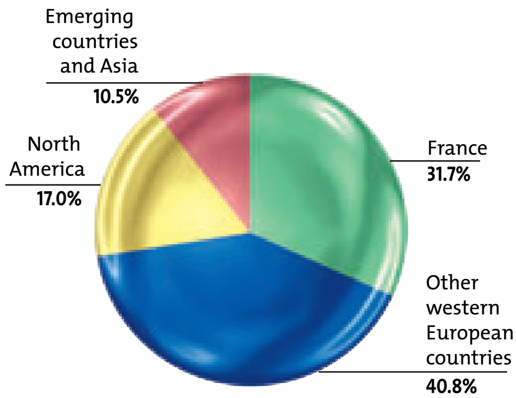
Jean-Louis Beffa

2004 key figures

Sales by Sector



Sales by geographic area



2004 ANNUAL REPORT

This *"Document de Référence"* was filed with the *Autorité des Marchés Financiers* on April 8, 2005 (D.05-0378), in accordance with Regulation 98-01. It may be used as a supporting document for a financial operation, but only alongside an information memorandum approved by the *Autorité des Marchés Financiers*.
This English-language version of the annual report is a free translation of the original French text. It is not a binding document. In the event of a conflict of interpretation, reference should be made to the French version which is the authentic text. The auditors' report applies to the French version of the Management Report and the financial statements.

Contents

1 Saint-Gobain today

A strategy based on growth and differentiation

The origins of the Saint-Gobain Group go back to the founding in France of the *Manufacture Royale des Glaces de Miroirs* (Royal Mirror Glass Works) in 1665. Over the course of its development and diversification in the intervening years, the Group has consistently been at the forefront of successive technological revolutions. Saint-Gobain's present configuration is the fruit of a sweeping transformation of its business operations and structures which began in the 1990s and went on to fundamentally reshape the Group's strategic focus. The transformation has subsequently been vindicated by the strong performances since reported by the Group.

Today, Saint-Gobain operates as a global manufacturer of high-technology materials and a provider of associated services. Its mission is to produce, process and distribute the most advanced materials, and to deliver sustained profitable growth by leveraging its strong leadership positions.

A diversified structure that adapts to changing environments

The principle landmarks of the Group's reorganization efforts have been the targeted acquisition of a series of new businesses that all meet two key criteria: close connections to Saint-Gobain's existing businesses and strong growth prospects. The reorganization of the Group was carried out in several phases, as set out below:

- the acquisition of Norton (Abrasives and Ceramics) in 1990, to create the basic platform for the future High-Performance Materials Sector (HPM);
- the acquisition of Poliet in 1996, marking the Group's entry into Building Distribution;
- the refocusing of the historic businesses on downstream activities and services. This phase also combined the development of their international profile and their expansion into emerging countries;
- the development of the new businesses through organic and external growth.

This development strategy has had a profound impact on the Group's geographical profile, product offerings, identity and culture. Its move into businesses with higher technological content has helped to reorientate the Group's traditional policy for innovation. Saint-Gobain's new role in specialized distribution has led to a retooled approach to marketing and services which, alongside the shift downstream to semi-finished goods, has made for a better appreciation of the needs of end customers. All businesses combined, this strategy has doubled Saint-Gobain's global footprint over the last seven years. External growth operations have played a particularly significant role in the development of Building Distribution and High-Performance Materials. And every one of the Group's businesses has made strides into emerging countries.

The Group's various structures have been aligned with its business model to ensure strategic continuity. In April 2004 the Group was reorganized around five core Sectors, which encompass two new businesses – Building Distribution and High-Performance Materials – and three historic businesses – Flat Glass, Packaging (formerly Containers), and Construction Products. This new-look organization is discussed in greater detail further on the report.

The extensive experience acquired over the years by the historic businesses provide solid foundations that can be shared by the entire Group: longstanding and constantly evolving technological expertise, worldwide and European leadership positions, ability to generate high levels of free cash flow, and substantial growth potential in emerging markets. Aside from being less capital intense, the new businesses offer considerable organic growth potential, as well as numerous opportunities for external growth.

By combining geographical development with business diversification, the Group has been able to adapt to changes in its various markets. These markets have become highly segmented according to the technologies they use, the role played by service offerings and the intensity of international competition. In terms of management approach and value creation, the Group's businesses can be divided into three key categories:

- **Local businesses** covering major economic regions. Products and services in these businesses are sold on a local market with all companies competing on a level playing field. A common feature of such businesses is their reduced exposure to competition from afar due to extremely high transport costs. Because these businesses have a limited geographic range, it is essential they find a way of differentiating themselves through their local service offerings. This is particularly the case for Building Distribution, although Insulation and Building Materials, as well as certain basic Flat Glass products designed for the building industry also fall within this category.

• **Global, "joint-development" businesses**. In these businesses, although products and services are marketed on a global scale, there is a strong reliance on close customer-supplier relations. To succeed, these businesses need to plough considerable effort into technology, spearheaded by a powerful research and development program to ensure frequent product renewal and high added value for the customer. Proximity between the plant and the decision centers is an important factor and service quality and logistics must continually be of the highest standard. Growth in such businesses, such as High-Performance Materials and the downstream segments of Reinforcements and the Automotive Flat Glass, is rooted in the speed at which new products can be created.

• **Global businesses facing increasing competition from low-cost countries.** Products and services in these businesses are sold on an international scale and differentiation is limited. This category, which includes certain divisions of the Flat Glass and Packaging Sectors and more substantial sections of the Pipe Division, is faced with the need to consider evolving towards a joint-development model in a bid to lessen its sensitivity to business cycles, particularly where prices are concerned. Production capabilities for these businesses are increasingly shifting to emerging countries.

To confront this new set of realities, Saint-Gobain has adapted its strategy by:
• consolidating the current positions held by its local business lines, for example Insulation, Mortars and Building Distribution in Europe, and stepping up the expansion of these businesses into the emerging markets of Central Europe, Russia, Brazil and China;
• reinforcing its technological edge by ramping up research and development efforts in its global business lines with a view to improving product offerings and obtaining closer cooperation from customers;
• redeploying and retooling the production strategies of businesses that are most exposed to international competition, focusing particularly on product diversification.

One of the major advantages of this business diversification is that it improves the spread of risks that stem from strong exposure to local markets. In 2004, 74% of Saint-Gobain's sales were generated by local or regional businesses, 18% by strictly global joint-development lines and 9% by businesses exposed to low-price competition. By way of comparison, these numbers stood at 59%, 17% and 24%, respectively, in 1995.

The Group's current configuration is thus able to meet the challenges of a changing global environment. In contrast to its historic rivals, the Group has been able to successfully differentiate itself, by enlarging its footprint in emerging countries which offer strong growth potential, and by unrelenting efforts to cut costs and improve competitiveness in the face of new rivals which are springing up at a spectacular rate.

This measured development policy draws strength from the Group's solid financial structure. Gearing has been scaled back, from 49% at end-2003 to 46% at end-2004, and consistently high levels of free cash flow (over €1 billion in 2004) are generated across all businesses.

Continued strategic development

Over the long term, the Group's strategy has focused on developing its businesses in accordance with the proven model, rooted in leveraging strong growth potential to achieve ongoing improvements in profitability. This target breaks down into a number of key priorities.

Building Distribution – which is a recent major diversification – bears testimony to a vigorous development policy, both financially (see below) and strategically, with the development of the plumbing-heating-bathroom and tiling segments, expansion into five new countries (Scandinavia and the Baltics), and strong organic growth (100 new sales outlets opened in 2004). As regards external growth, the acquisition of Dahl in Scandinavia warrants particular mention, having boosted 2004 consolidated net income by €28 million following consolidation on May 1, 2004. The Sector has ratcheted up eight consecutive years of growth alongside robust profit margins. Average annual growth is 25% for sales and 23% for operating income. The business can now boast the largest specialized Building Distribution network in Europe, with 3,300 sales outlets. In addition to developing its various Distribution brands, the Group has strengthened the La Plateforme banner, with the launch of around 50 La Platforme sites in eight different countries.

High-Performance Materials constitutes another strategic development angle. The business is enjoying renewed prospects for strong growth and profitability following the market downturn between 2001 and 2003, with average annual growth of 7.3% over ten years (9.4% growth in Reinforcements alone). High-Performance Materials serves a broad spectrum of fast-growing markets, only half of which are sensitive to the manufacturing cycle. Saint-Gobain's strategy in this Sector centers on two fundamental goals. The first is to ensure that the business maintains a technological edge by either developing new markets and new applications in electronics, aeronautics or telecoms, or by replacing existing materials with new materials. The second is to take advantage of global opportunities offered by emerging countries which provide new sources of growth as well as low-cost production platforms.

Growth opportunities in emerging countries thus represent another priority, and have led to escalating development in these regions. This has already fueled impressive top-line growth, with sales multiplying by 5.5 between 1997 and 2004, and average annual sales growth coming in at 28% over the same period. The principal components of the development strategy have to be specifically tailored to each country and each business. Local business lines (Flat Glass, Insulation, Packaging, Building Materials and Distribution) are poised to benefit from market growth, whereas global business lines – as defined above – can capitalize on low production costs (Pipe and High-Performance Materials). It is estimated that emerging countries will account for 40% of the Group's total sales growth over the period 2004-2009.

Generating steady growth in profitability represents another strategic goal. Building on the strong levels of free cash flow mentioned earlier, this target focuses on improving operating margins by keeping a tight rein on capital expenditure and working capital requirements; achieving a high return on capital employed; and ensuring strong contributions from newly acquired companies to the Group's results.

The implementation of the various components of this strategy should reduce the Group's exposure to the risks of international competition. Already, close to 75% of the Group's sales are generated in local markets.

In 2005, Saint-Gobain will continue to press ahead with its business development strategy, against a backdrop of moderate economic growth and ongoing uncertainties regarding the cost of raw materials and energy and the weak US dollar.

Ten-year consolidated financial summary

(in € millions)	**2004**	2003	2002	2001	2000	1999	1998	1997	1996	1995
Net sales	**32,025**	29,590	30,274	30,390	28,815	22,952	17,821	16,324	13,931	10,719
Gross margin	**8,096**	7,327	7,604	7,698	8,146	6,851	4,573	4,118	3,374	2,664
Operating income	**2,632**	2,442	2,582	2,681	2,693	2,314	1,776	1,593	1,434	1,187
Income before tax and before profit/(loss) on sales of non-current assets	**1,914**	1,722	1,848	1,988	1,947	1,821	1,393	1,220	1,124	1,070
Net income before minority interests	**1,120**	1,065	1,074	1,174	1,642	1,389	1,182	970	767	716
Net income	**1,083**	1,039	1,040	1,134	1,517	1,226	1,097	858	659	642
Earnings per share (in €)	**3.18**	2.99	12.20 3.05*	13.30	17.80	14.05	12.15	9.62	7.61	7.69
Net income excluding profit/(loss) on sales of non-current assets	**1,122**	1,020	1,051	1,057	1,026	883	790	656	636	613
Earnings per share excluding profit/(loss) on sales of non-current assets (in €)	**3.29**	2.93	12.32 3.08*	12.40	12.04	10.12	8.75	7.35	7.34	7.34
Cash flow from operations	**2,612**	2,471	2,673	2,733	2,643	2,360	1,912	1,693	1,628	1,404
Capital expenditure	**1,537**	1,351	1,431	1,430	1,722	1,712	1,288	1,353	1,169	852
Total investment outlay(1)	**2,194**	1,911	2,061	2,246	4,694	3,479	3,019	2,447	3,034	1,448
Net equity	**11,806**	11,310	11,542	12,348	11,724	11,151	9,924	9,959	9,082	7,017
Net debt	**5,566**	5,657	7,012	7,792	8,217	6,306	3,885	2,668	2,249	600
Non-current assets	**17,515**	17,237	18,840	19,678	19,530	16,909	14,033	13,139	12,103	8,463
Working capital	**4,943**	5,247	3,951	3,075	3,222	2,612	1,838	2,262	1,757	2,499
Employees (as of Dec. 31)	**181,228**	172,811	172,357	173,329	171,125	164,698	117,287	107,968	111,701	89,852

** After the four-for-one stock split carried out on June 27, 2002.*

(1) Capital expenditure on plant and equipment plus investments in securities, excluding Saint-Gobain shares bought back.

Saint-Gobain's businesses

As a result of the redeployment of operations and the definition of the business development model, several core Sectors have emerged, each of which includes one or more operating Divisions. Saint-Gobain is a global or European leader in each of its sectors. Following the internal reorganization carried out in 2004, there are now a total of five core Sectors.

This organization reflects the Group's efforts to appreciate the specific characteristics and constraints of the various markets in which it operates. A manufacturer of basic materials such as glass and cast iron in the 1970s, Saint-Gobain shifted its focus in the 1980s to use these same materials in the manufacture of goods such as bottles, jars and solutions for external features of buildings. The structural organization of the Group has gradually been adapted to the large end-markets it serves:

• consumer markets, such as the packaging market: these are not typically cyclical and are likely to change at short notice in step with purchasing power;
• construction, civil engineering and public works markets: these markets are usually cyclical, relying on sales agreements and strong commercial relations (Distribution, Flat Glass, Insulation and Pipe);
• manufacturing markets: these are marked by uneven cyclical swings. A vital role is played by R&D, new product development (Automotive Flat Glass and High-Performance Materials) and the creation of technological synergies.

The Group's five core Sectors, which bear the hallmarks of this gradual development, are made up of both historic and new businesses.

Historic businesses

The *Flat Glass* Sector brings together Saint-Gobain's four main flat glass activities. These are the manufacture of basic flat glass products; the processing and distribution of glass and flat glass products for the building and automotive industries; and the production of specialty glass, which includes products for home appliances, nuclear safety glass, fireproof glass and glass for electronic products. Flat Glass continues to follow an impressive rate of international expansion. The business currently operates in 36 countries, including many emerging countries and Brazil, and has recently pursued expansion into China. Additional new float-glass lines are also under construction in India, Romania and Poland.

The *Packaging* Sector is a major international player in its three key markets: the manufacture of glass bottles and jars for the packaging of foodstuffs and beverages; the manufacture and sale of glass flasks for perfume and pharmaceutical products; and the manufacture of high-performance plastic pump dispensers for the packaging of beauty, personal care and cleaning products. To address a diverse range of markets and demands, the Packaging business operates production facilities in Europe, the United States, Latin America and China.

The *Construction Products* Sector (CP) is comprised of the Building Materials, Insulation and Pipe Divisions. Building Materials and Insulation serve both the new housing starts and renovation segments. They provide external fittings such as wall facings, roofing, road-building components and utilities, as well as interior solutions including glass wool, rock wool and soundproof ceilings. The Pipe Division also manufactures products used in road-building and is the world's leading supplier of ductile cast-iron pipes used in water supply networks. The Construction Products Sector incorporates both local (Insulation and Building Materials) and global business lines (Pipe).

New businesses

The *Building Distribution* Sector, the leading distributor of building materials in Europe and foremost distributor of tiles worldwide, was born of the acquisition of Poliet Group subsidiaries, Point.P and Lapeyre. Since its creation, the business has grown considerably through both organic and external expansion. The firm grip of the European market is the result of various acquisitions, including Jewson and Graham in the United Kingdom, Raab Karcher in Germany, the Netherlands and Eastern Europe, and more recently Dahl in Scandinavia (2004).

The *High-Performance Materials* Sector (HPM) combines the Ceramics & Plastics and Abrasives Divisions, and the Reinforcements Division since 2004. Saint-Gobain High-Performance Materials is world leader in Abrasives and in thermal and mechanical applications of Ceramics. The Sector has also captured the number one position in High-Performance Plastics. The Reinforcements Division has a well-established international network spanning 20 countries and is the world's leading manufacturer of glass threads. High-Performance Materials generates 70% of its sales from global joint-development businesses where it relies on strong technological know-how. A further 24% is accounted for by Specialties lines and businesses in areas exposed to competition from low-cost countries.

Flat Glass

Businesses and products	Key uses	Key competitors	Competitive ranking*
◆ Basic flat glass products	◆ Clear and colored glass, layered glass	◆ Pilkington (United Kingdom) ◆ Asahi (Japan) ◆ Guardian (United States) ◆ PPG (United States)	
◆ Processing and distribution Building industry	◆ Construction, building industry, interior design, furniture		◆ No. 1 in Europe ◆ No. 2 worldwide
◆ Automotive glass	◆ Clear and safety products for the automotive industry, glass for replacement parts ◆ Aeronautics and mass transit		
◆ Specialty glass	◆ Fireproof glass, nuclear safety, industrial optics, home appliances, industrial refrigeration, glass for electronics	◆ Schott (Germany)	

* *Source: Saint-Gobain*

Packaging

Businesses and products	Key uses	Key competitors	Competitive ranking*
◆ Bottles and jars	◆ Food packaging (for drinks and miscellaneous foodstuffs)	◆ Owens Illinois (United States, Europe, Latin America) ◆ Rexam (Europe) ◆ Anchor Glass (United States) ◆ Vidrala (Spain)	◆ Joint world leader and ◆ No. 1 in Europe (all businesses combined)
◆ Flasks	◆ Fragrances, pharmaceutical and medical products	◆ Pochet (France) ◆ Rocco Bormioli (Italy) ◆ Gerresheim (Germany, United States) ◆ Wheaton (United States)	◆ World leader
◆ Plastic pumps and dispensers	◆ Cleaning products, health and beauty care products ◆ Fragrances and pharmaceuticals	◆ Continental AFA (United States) ◆ Crown Cork (Europe) ◆ Guala (Italy) ◆ Aptar (Europe, United States) ◆ Coster (Italy)	◆ World or joint world leader for all business lines

* *Source: Saint-Gobain*

Construction Products

Building Materials

Businesses and products	Key uses	Key competitors	Competitive ranking*
• PVC indoor and outdoor sidings (United States) • Roofing products (United States) • Concrete products • Composite materials, mortars	• New construction and renovation of existing homes • Wall coatings, glues and joints for tiling • Road-building and utilities • Civil engineering • Urban furniture • Materials for gardens and landscaping	• Materis (France) • Owens Corning (United States) • Trex (United States) • GAF (United States) • Elk (United States) • James Hardie (United States) • Etex (Belgium) • Royal Group (Canada) • Bonna-Sabla (France)	• European leader in industrial mortars • Among the world leaders in wall facings • Joint world no. 1 for roofing products

Insulation

Businesses and products	Key uses	Key competitors	Competitive ranking*
• Glass wool • Rock wool • Soundproof ceilings • Insulating foam • Metal frames and ceilings	• Thermal insulation and soundproofing of buildings, technical facilities, rolling materials • Hydroponic cultivation	• Owens Corning (United States, China) • Johns-Manville (United States) • Rockwool (Europe) • Ursa (Europe) • Knauf (United States, Europe) • Armstrong (United States, Europe)	• Insulation: world leader

Pipe

Businesses and products	Key uses	Key competitors	Competitive ranking*
• Entire systems of ductile cast-iron pipes and accessories for multi-material pipe systems	• Drinking water supply • Irrigation • Wastewater systems • Fire protection • Rainwater drainage	• US Pipe (United States) • Mac Wane (United States) • Kubota (Japan) • Xinxing (China) • Buderus (Germany) • Tyco (United States)	• World leader in ductile cast-iron pipes
• Ductile cast iron and steel road-building components • Entire pipe systems for wastewater and rainwater drainage for the building industry	• Access to wet and dry networks • Pipes for buildings	• Norinco (France)	• World leader in ductile cast-iron road-building components • European leader in cast-iron components for the building industry

* *Source: Saint-Gobain*

Building Distribution

Businesses and products	Key uses	Key competitors	Competitive ranking*
• Distribution of building materials for new construction and renovation • Industrial carpentry	• Market for houses and apartments • Household equipment: kitchens, carpentry, bathrooms, heating	• Wolseley (United Kingdom, France) • CRH (Ireland, Netherlands) • Travis Perkins (United Kingdom)	• European leader in building materials distribution and leading distributor of ceramic tiles worldwide

* *Source: Saint-Gobain*

High-Performance Materials

Ceramics & Plastics

Businesses and products	Key uses	Key competitors	Competitive ranking*
• Ceramics	• Refractories for glassmaking, ceramics, metallurgy and power generation furnaces • Fine and structural ceramics for applications in home appliances, automotive, aeronautics and aerospace components, nuclear power, oil and petrochemicals industries, telecommunications,	• Cookson (United Kingdom) • Morgan Crucible (United Kingdom) • NGK Insulators (Japan) • Asahi (Japan)	• World leader for refractory applications
• Ceramic pellets and powders	• Ceramic pellets and powders for industrial abrasive, refractories and micro-grinding applications • Catalysts substrate for the petrochemicals industry • Proppants for the oil industry	• Carboceramics (United States) • Imerys (France)	• No. 1 worldwide for silicon carbide • No. 1 worldwide for zirconium based abrasives • No. 1 worldwide for ceramic pellets • No. 2 worldwide for proppants
• Crystals	• Substrates, components and equipment for the semiconductor and optics industries • Detectors for security and medical imaging applications	• Kyocera (Japan) • Toshiba Ceramics (Japan) • II-VI (United States) • Heraeus (Germany)	• World leader for scintillation
• High-performance plastics	• Fluid systems for the food, healthcare, automotive and semiconductor industries • Specialty films and flexible composites • Plummer blocks and seals for the automotive and aeronautics industries	• Entegris (United States) • Trelleborg (Sweden) • DuPont (United States) • 3M (United States) • Rodgers (United States)	• No. 1 or No. 2 worldwide in all High-Performance Plastics business lines

Abrasives

Businesses and products	Key uses	Key competitors	Competitive ranking*
• Grinding wheels	• Roughing, precision grinding and sharpening of materials and tools for the aeronautics, automotive, metals processing, mechanical bearings and iron and steel industries	• Carbo plc (United Kingdom) • Noritake (Japan) • Tyrolit (Austria)	• World leader for all business lines
	• Cutting and trimming, metals processing, maintenance, energy, iron and steel, construction and home improvement (thin grinding wheels)	• SAIT (Italy, United States) • Tyrolit (Austria) • Comet (Slovenia)	
• Coated abrasives	• Surface treatments, sanding: aeronautics, automotive, furniture, portable machines, steel, jewelry, watchmaking, biomedical industries	• 3 M (United States) • Hermes (Germany) • Klingspor (Germany) • SIA (Switzerland)	
• Superabrasives	• Precision work for the aeronautics, automotive, bearings, cutting tools, electronics, composite, materials industries. • Glass products • Building materials	• Asahi (Japan) • Diamant Boart (Belgium) • Noritake (Japan) • Wendt Boart (Belgium)	

Reinforcements

Businesses and products	Key uses	Key competitors	Competitive ranking*
• Glass threads (TD,TPA,Tx, etc.)	• Automotive, mass transit, construction, industrial and consumer machines, electrical and electronics industries	• Owens Corning (United States) • P.P.G. (United States) • Johns-Manville (United States) • Nippon Electric Glass (Japan)	• Reinforcements: world leader
• Processing (glass, carbon polyester and Kevlar® glass grids and reinforcing fabrics)	• Building industry, industrial materials, technical composites	• Nitto-Boseki (Japan)	• Leader in external insulation grids for buildings

* *Source: Saint-Gobain*

The Saint-Gobain share

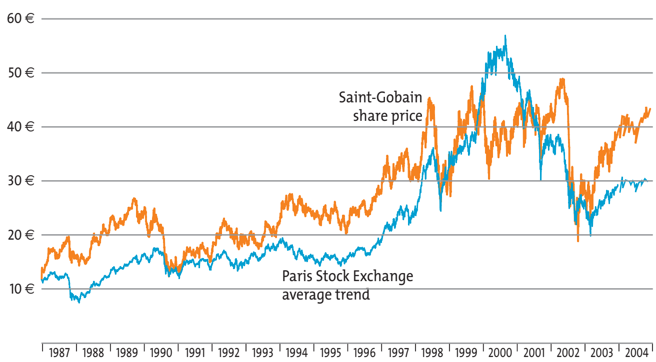
STOCK EXCHANGE INFORMATION

At December 31, 2004, Saint-Gobain ranked seventeenth in France as regards market capitalization (€15,108 million) and eighteenth as regards the volume of shares traded on the Eurolist of Euronext Paris (ISIN code: FR 0000 125007), with an average of 1,521,647 shares traded daily in 2004. Saint-Gobain stock is also traded on the principal European stock exchanges of Frankfurt, London, Zurich (since 1987), Amsterdam, and Brussels (since 1988). The average transaction volume on these foreign markets was also large, notably on the London Stock Exchange. The Saint-Gobain share is also included in the Dow Jones "Sustainable Development" indexes (DJS World Index and DJS European Index) and in the DJ Euro Stoxx 50 index of 50 leading European stocks.

The Saint-Gobain share forms part of the support shares on the traded options market of the Paris Stock Exchange (MONEP) and of the London Stock Exchange. The number of option transactions on the Paris Stock Exchange in Saint-Gobain shares was 2,518,383 lots in 2004, against 3,471,495 in 2003.

Share price

After the four-for-one stock split of June 27, 2002



Highest and lowest share prices

(source: Euronext Paris SA)

Year	High	Low	Year-end price
	(in euros)		
2000	195.70	116.50	167.30
2001	180.00	128.20	169.50
2002*	49.05	18.57	27.96
2003	39.10	22.40	38.81
2004	45.11	38.00	44.32

(*) After the four-for-one stock split of June 27, 2002.

Dividends

Year	Number of shares on which dividends paid	Net dividend per share (in euros)	Yield based on closing price for the year
2002*	341,010,680 shares	1.13	4.04%
2003	347,824,967 shares	1.15	2.96%
2004	340,988,000 shares	1.28	2.89%

(*) After the four-for-one stock split of June 27, 2002.

Dividends which are not claimed within five years of the date of payment become statute-barred and are then paid to the State.

Total shareholder return

• Since the Company's privatization in December 1986: 11.8% per year of which:

+7.6% in share price gains
+4.2% in gross dividends (including the 50% *avoir fiscal* tax credit)

The calculation breaks down as follows:

- IPO price: FRF 310, or €11.81 per share (after the four-for-one stock split of June 27, 2002)
- payment of dividends in cash in 1987 and 1988 "reinvestment" of dividends in shares between 1989 and 1997 inclusive
- payment of dividends in cash between 1998 and 2004 inclusive
- share price at December 31, 2004: €44.32

• **Over 10 years – from December 31, 1994 to December 31, 2004: 10.9% per year of which:**

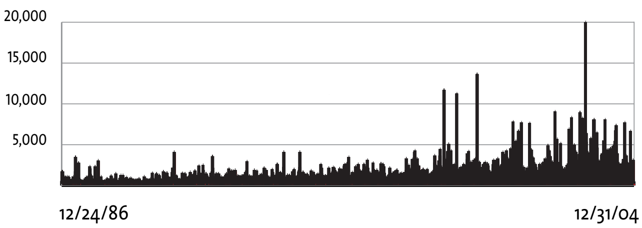
6.6% in share price gains
4.3% in gross dividends (including the 50% *avoir fiscal* tax credit)

The calculation breaks down as follows:

- share price at December 31, 1994: FRF 576, or €21.96 per share (after the four-for-one stock split of June 27, 2002)
- "reinvestment" of dividends in shares between 1994 and 1997 inclusive
- payment of dividends in cash between 1998 and 2004 inclusive
- share price at December 31, 2004: €44.32

Number of shares traded

After the four-for-one stock split (in thousands)



Transactions since October 2003

(source: Euronext Paris SA)

Paris Stock Exchange	Volume of shares	Value (in €)	High (in €)	Low (in €)
2003				
October	45,673,234	1,570,622,810	36.41	31.22
November	34,998,971	1,276,670,025	38.00	34.91
December	30,042,609	1,136,720,146	39.10	36.88
TOTAL	**110,714,814**	**3,984,012,981**		
2004				
January	33,912,190	1,348,062,400	42.00	38.15
February	30,532,612	1,283,670,018	43.68	40.16
March	39,932,504	1,629,243,034	44.09	38.31
April	33,043,116	1,404,018,959	44.45	40.90
May	27,334,559	1,103,063,783	43.27	38.12
June	43,106,142	1,792,487,201	42.69	40.20
July	35,601,294	1,408,419,455	41.65	38.00
August	26,504,797	1,073,494,625	41.87	39.00
September	33,028,312	1,384,873,464	43.10	40.75
October	32,299,829	1,373,794,226	43.50	41.42
November	27,812,161	1,223,863,860	45.00	42.72
December	30 999 103	1 363 410 647	45.11	42.81
TOTAL	**394,106,619**	**16,388,401,672**		
2005				
January	29,703,093	1,363,860,573	47.59	44.35
February	29,674,709	1,408,744,480	49.25	44.85
March	29,855,754	1,396,228,204	47.65	46.11

Transactions since October 2003

(source: London Stock Exchange)

London Stock Exchange	Volume of shares	In £
2003		
October	13,283,555	317,368,230
November	9,975,818	252,256,118
December	11,775,611	312,028,002
TOTAL	**35,034,984**	**881,652,350**
2004		
January	16,447,200	457,122,690
February	12,807,680	365,023,356
March	13,207,456	360,992,159
April	10,850,788	308,982,788
May	11,344,486	303,563,481
June	15,300,820	421,619,688
July	14,297,240	378,911,988
August	6,251,609	169,139,060
September	8,873,155	252,711,479
October	7,653,739	224,050,976
November	12,278,836	378,871,261
December	10,960,867	331,466,330
TOTAL	**140,273,876**	**3,952,454,256**
2005		
January	8,038,539	258,239,791
February	7,178,177	235,592,076
March	6,637,138	215,367,743

A total of 277,900 shares were traded on the Frankfurt Stock Exchange in 2004 (source: Datastream).

In 2001, the Group issued successful public tender offers for the minority interests in a Spanish subsidiary and three Brazilian subsidiaries and these four companies were delisted. In 2002, the Group issued a public buyback offer for the shares which it did not already own in Lapeyre, followed by a compulsory buyout. Further to these transactions, the only Group companies, other than Compagnie de Saint-Gobain, which are currently listed are Saint-Gobain Oberland, listed on the Frankfurt, Munich and Stuttgart stock exchanges, Hankuk Glass Industries, listed in Seoul, and Grindwell Norton and Saint-Gobain Sekurit India Ltd, listed in Mumbai.

Océane bonds

(Convertible into either new or existing shares)

In February 2002, Compagnie de Saint-Gobain issued five-year Océane bonds that are convertible into either new or existing shares, for a total amount of €920 million. These securities have been listed on the Eurolist of Euronext Paris since February 18, 2002.

Transactions since October 2003

(source: Euronext Paris SA)

Paris Stock Exchange	Volume of shares	Value (in €)	High (in €)	Low (in €)
2003				
October	16,013	3,479,788	218.50	215.00
November	25,109	5,517,943	221.00	216.80
December	6,123	1,355,911	224.50	220.50
TOTAL	**47,245**	**10,353,642**		
2004				
January	29,826	6,518,225	220.40	215.00
February	11,954	2,664,581	224.15	217.00
March	11,855	2,644,647	240.00	220.25
April	47,565	10,705,490	227.00	223.10
May	5,446	1,202,767	225.80	207.00
June	3,171	698,292	222.50	219.40
July	497	108,434	222.50	215.00
August	22,904	5,050,777	221.60	219.60
September	6,542	1,448,714	223.00	209.10
October	5,237	1,153,820	222.40	216.50
November	58,187	12,885,627	224.30	221.30
December	52,176	11,691,388	225.85	211.00
TOTAL	**255,360**	**56,772,761**		
2005				
January	8,593	1,889,546	239.10	210.10
February	6,239	1,386,200	224.40	217.00
March	10,720	2,360,444	221.70	206.00

Non-voting participating securities

In June 1983, Compagnie de Saint-Gobain issued non-voting participating securities for FRF 700 million, with an attached warrant giving the right to subscribe to an additional FRF 700 million of non-voting participating securities. In all, 1,288,299 securities of FRF 1,000 have been issued. Their par value now stands at €152.45 following the conversion into euros carried out in 1999.

Since their issue, the remuneration of the non-voting securities has always reached the maximum permitted under the terms of the prospectus, that is 125% of the average rate of interest of bonds (TMO). Based on the 2004 results, the remuneration in 2005 should be at the same level. The remuneration is in fact fixed between 75% and 125% of TMO, based on the consolidated results of Saint-Gobain. The amount paid per security in 2004 in respect of the 2003 fiscal year was €8.39.

Transactions since October 2003

(source: Euronext Paris SA)

Paris Stock Exchange	Volume of shares	Value (in €)	High (in €)	Low (in €)
2003				
October	765	121,552	164.00	154.90
November	1,249	197,193	165.50	151.10
December	1,917	307,702	179.00	155.30
TOTAL	**3,931**	**626,447**		
2004				
January	3,084	514,385	170.00	162.00
February	3,196	539,313	169.80	167.00
March	8,906	1,594,780	192.90	168.80
April	1,993	376,411	191.00	182.00
May	933	176,718	192.50	188.00
June	1,085	206,047	191.90	182.00
July	535	100,476	192.00	180.45
August	1,781	321,507	182.00	178.00
September	2,838	515,912	195.00	179.60
October	1,808	339,143	195.00	181.20
November	1,520	279,492	188.00	181.30
December	1,168	213,486	187.70	181.60
TOTAL	**28,847**	**5,177,670**		
2005				
January	696	129,511	193.50	182.10
Febuary	2,598	482,532	188.00	184.10
March	2,727	501,859	185.90	180.10

In April 1984, non-voting participating securities amounting to ECU 100 million were issued together with a warrant giving the right to acquire an equivalent number of participating securities in ECUs. In all, 194,633 securities of ECU 1,000 have been issued. Their par value is now €1,000.

The remuneration of the non-voting participating securities in ECUs comprises a fixed portion of 7.5% per annum applied to 60% of the par value of the security and a variable amount on the remaining 40% based on the consolidated net income of the previous year within the limits set by the prospectus. The total remuneration varies, depending on consolidated net income, between the average rate of interest on bonds (TMOE) less 0.50% and the TMOE plus 1.75%. The amount paid by security in 2004 was €67.50, paid in two installments.

Transactions since October 2003

(source: Euronext Paris SA)

Paris Stock Exchange	Volume of shares	Value (in €)	High (in €)	Low (in €)
2003				
October	50	7,785	156.80	155.00
November	228	35,592	158.36	155.00
December	324	50,001	158.00	152.00
TOTAL	**602**	**93,378**		
2004				
January	98	15,528	163.51	156.01
February	227	36,671	164.00	161.10
March	148	25,232	173.00	161.20
April	244	43,892	183.70	175.50
May	232	42,618	183.71	183.70
June	23	4,229	184.00	183.71
July	179	32,469	184.70	179.85
August	20	3,564	178.20	178.20
September	118	20,961	180.01	177.00
October	73	13,126	180.00	177.20
November	110	19,800	180.00	180.00
December	46	7,993	176.50	173.00
TOTAL	**1,518**	**266,085**		
2005				
January	291	51,322	177.40	172.00
February	185	34,061	185.00	180.90
March	58	10,475	182.00	180.00

There are no other Compagnie de Saint-Gobain securities traded on a market other than shares, Océane bonds and non-voting participating securities.

Shareholders

Capital stock

At December 31, 2004, the capital stock of Compagnie de Saint-Gobain amounted to €1,363,952,000, breaking down into 340,988,000 ordinary shares (after the four-for-one stock split of June 27, 2002) with a par value of €4 each, compared to 347,824,967 shares at December 31, 2003. In the course of 2004, the number of shares was reduced by a total of 11,281,859 – more than offsetting the 4,099,192 shares subscribed by employees under the Group Savings Plan and the issue of 345,700 shares following the exercise of the same number of stock options.

Ownership structure

	December 31, 2004		December 31, 2003		December 31, 2002	
	Interest	Voting rights	Interest	Voting rights	Interest	Voting rights
Group Savings Plan	6.7%	11.6%	7.4%	11.7%	6.3%	9.6%
Caisse des Dépôts et Consignations	3.1%	2.9%	4.2%	4.0%	4.6%	4.4%
Cogema	1.9%	1.8%	1.8%	1.8%	1.9%	1.8%
AXA Group	1.2%	1.2%	1.1%	1.2%	2.4%	3.8%
BNP Paribas Group	0.5%	1.0%	0.6%	1.2%	1.0%	1.8%
Treasury stock	1.7%	0	3.3%	0	1.5%	0
Other shareholders	84.9%	81.5%	81.6%	80.1%	82.3%	78.6%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

The breakdown of ownership and voting rights has changed considerably in recent years. The cross-shareholdings which Saint-Gobain formerly had with Suez and Vivendi Universal have been completely unwound, so that Saint-Gobain no longer has any capital ties with these companies. Institutional investors such as Caisse des Dépôts et Consignations have gradually taken over the role previously occupied by these two historic shareholders. Lastly, the Group Savings Plan has considerably increased both its ownership interest and its voting rights over the last few years and has been the Company's leading shareholder since 2000.

During 2004, Caisse des Dépôts et Consignations informed the Company that it had crossed the disclosure threshold of 5% of the Company's capital and voting rights by increasing its interest, and then crossed these two thresholds by reducing its interest (Notification numbers 204C0751 and 875, dated June 27 and July 7, 2004, issued by the *Autorité des Marchés Financiers).*

To the best of the Company's knowledge, there are no pacts concerning the capital stock and the major shareholders mentioned above do not act in concert.

Saint-Gobain does not hold any of its own shares other than those held in treasury stock mentioned above.

According to the December 31, 2004 official identification of holders of bearer shares, the number of shareholders is estimated to be around 230,000.

Since 1987, the Company's bylaws have provided that fully paid up shares registered for two years in the name of the same shareholder carry double voting rights. In addition, when the capital is increased by the capitalization of reserves, profits or issue premiums, a right to a double vote is granted on issue to each bonus share distributed free of charge to a shareholder owning shares giving rise to this right. Any share converted into bearer form or whose ownership is transferred loses the right to a double vote. Nevertheless, transfers resulting from an inheritance or from the liquidation of the joint estate of a husband and wife or donations inter vivos in respect of a husband, wife or parent entitled to share in the estate of an intestate, do not result in the loss of the right and do not interrupt the two-year period referred to above.

At December 31, 2004, the number of voting rights was 358,860,924 for 340,988,000 shares. Given the 7,536,800 outstanding stock options at that date, the potential capital would be made up of 348,524,800 shares assuming all rights were to be exercised and not taking into account any conversion into new shares of the Océane bonds in issue. If all of those bonds were to be converted, the Company's capital would be made up of 366,048,612 shares.

The percentage of the share capital held personally by members of the Board of Directors is below 0.5%. The same applies to Group Management.

Changes in capital in the last five years

	Capital	Number of shares	
6-00	€1,342,036,944	83,877,309	Cancellation of 3,359,441 shares
9-00	€1,373,336,528	85,833,533	Group Savings Plan: issue of 1,956,224 shares (at €106)
11-00	€1,361,990,544	85,124,409	Cancellation of 709,124 shares
12-00	€1,363,412,208	85,213,263	Subscription to 88,854 shares by the exercise of as many stock options
6-01	€1,377,862,608	86,116,413	Group Savings Plan: issue of 903,150 shares (at €133)
11-01	€1,362,189,600	85,136,850	Cancellation of 979,563 shares
12-01	€1,364,138,048	85,258,628	Subscription to 121,778 shares by the exercise of as many stock options
6-02	€1,382,951,632	86,434,477	Group Savings Plan: issue of 1,175,849 shares (at €135.50)
6-02	€1,383,404,272	86,462,767	Subscription to 28,290 shares by the exercise of as many stock options
6-02	€1,383,404,272	345,851,068	Four-for-one stock split (par value of shares reduced from €16 to €4)
11-02	€1,363,589,440	340,897,360	Cancellation of 4,953,708 shares
11-02	€1,364,000,000	341,000,000	Subscription to 102,640 shares by the exercise of as many stock options
12-02	€1,364,042,720	341,010,680	Subscription to 10,680 shares by the exercise of as many stock options
7-03	€1,390,164,428	347,541,107	Group Savings Plan: issue of 6,499,407 shares (at €21.14) and subscription to 31,020 shares by the exercise of as many stock options
12-03	€1,391,299,868	347,824,967	Subscription to 283,860 shares by the exercise of as many stock options
1-04	€1,364,100,540	341,025,135	Cancellation of 6,799,832 shares
6-04	€1,380,497,308	345,124,327	Group Savings Plan: issue of 4,099,192 shares (at €31.41)
11-04	€1,362,569,200	340,642,300	Cancellation of 4,482,027 shares
12-04	€1,363,952,000	340,988,000	Subscription to 345,700 shares by the exercise of as many stock options

Financial authorizations

Following resolutions adopted by the Company's shareholders at the Ordinary and Extraordinary General Meetings of June 5, 2003 and June 10, 2004, the Board of Directors has been granted the following financial authorizations[1]:

- An authorization until December 2005 to buy back and possibly resell a maximum of 29,576,000 shares with a maximum purchase price of €55 each and a minimum sale price of €23 each.

- Until June 2005, authorization to:

– cancel all or some of the Saint-Gobain shares bought back by the Company provided that the total number of shares cancelled within any twenty-four month period does not exceed 10% of the Company's capital, and to reduce the capital accordingly.

- Until August 2005, authorization to:

– issue debt securities with a maximum face value of €3 billion.
– increase the Company's capital stock, either through the issue – with pre-emptive subscription rights for existing shareholders – of shares or share equivalents, or through the capitalization of additional paid-in capital, reserves, income or other capitalizable items, by a maximum of €760 million (par value of shares) or €3 billion (debt securities).
– increase the Company's capital stock, through the issue – without pre-emptive subscription rights for existing shareholders – of shares or share equivalents, including if applicable securities to be issued by subsidiaries, by a maximum of €760 million (par value of shares) or €3 billion (debt securities).
– the €760 million ceilings on the par value of shares mentioned in these authorizations may not be aggregated.
– carry out employee share issues for members of the Group Savings Plan, representing a maximum aggregate par value of approximately €47 million. The shares issued under this authorization may not be offered at a discount of over 20% of the average of the opening share prices quoted over the twenty trading days preceding the date of the decision made by the Board of Directors.
– grant stock purchase or subscription options to the employees or officers of Saint-Gobain. The purchase or subscription price of the shares must be at least equal to 100% of the average of the opening prices quoted for the Company's shares over the twenty trading days preceding the date of grant. The total number of stock options granted may not entitle beneficiaries to purchase or subscribe to a number of shares representing more than approximately 0.7% of Compagnie de Saint-Gobain's capital stock.

As these authorizations are due to expire at the end of 2005 at the latest, resolutions generally aiming to extend them will be presented at the Ordinary and Extraordinary General Meeting of June 9, 2005.

In 2004, transactions were carried out under the following resolutions:

- purchase and resale of Saint-Gobain shares: 6,730,702 shares purchased, 1,227,819 shares sold.
- cancellation of shares bought back: 11,281,859 shares canceled.
- Group Savings Plan: 4,099,192 shares issued.
- stock options: 3,881,800 options granted.

(1) Where the Board has used authorizations given, the amounts shown correspond to the available amount at March 1, 2005.

Issue of Océane bonds

In February 2002, Compagnie de Saint-Gobain issued Océane bonds convertible into either new or existing shares, for a total amount of €920 million, at an annual interest rate of 2.625%. These bonds, maturing on January 1, 2007, have a nominal value of €52.50 each (taking into account the stock split). They have been listed on the Eurolist of Euronext Paris since February 18, 2002 (see page 13) and carry an early repayment option that can be exercised by the issuer as from February 18, 2005 if the Saint-Gobain share price exceeds 31.25% of the bond issue price. If all of the bonds were to be converted, this would give rise to the issue of 17,523,812 new Saint-Gobain shares. At December 31, 2004, no conversion requests had been received.

Group Savings Plan

The Group Savings Plan (PEG) is a key feature of the social contract within the Group. It represents an excellent means of including employees in the Company's successes and resulting profits.

In 2004, the Group Savings Plan offered employees the standard options of five- and ten-year terms. The PEG subscribed to 4,099,192 shares in 2004, for a total of €128.8 million, compared to 6,499,407 shares for €137.4 million in 2003, when employees were also offered a plan with a leverage effect.

In France, some 66% of employees have subscribed to the PEG through Company mutual funds. The PEG has been extended to employees in twenty other European countries and seven countries on other continents. In all, about 39,000 Group employees have participated in the PEG.

At December 31, 2004, the Group Savings Plan mutual funds held 6.7% of the Company's capital stock and 11.6% of its voting rights. In June 2004, following the annual issue of shares under the employee savings plan, the PEG mutual funds held 8.4% of capital stock and 12.4% of voting rights. The significant decrease recorded between that date and December 31, 2004 was attributable to early disposals of shares authorized in France until the end of the year by a law dated August 9, 2004 designed to boost consumer spending and investment.

A new plan was launched in January 2005, offering employees the standard options of five- and ten-year terms, with a ceiling of six million five hundred thousand shares (see prospectus dated February 4, 2005 approved by the AMF under visa No. 05-065).

Saint-Gobain stock option plans

Stock option plans have been approved by the Board of Directors every year since 1987. The plans for the years from 1987 to 1996 inclusive are now terminated, as the maximum term to exercise these options had been set at five years up to 1991, eight years up to 1998 and then ten years subsequently.

Saint-Gobain stock option plans are decided by the Board of Directors following a review of proposals presented by the Appointments Committee. In 2004, this committee was chaired by Gérard Mestrallet and the other members were Daniel Bernard and Bruno Roger.

In addition to Group Management (10 persons), the options granted in November 2004 concerned three categories of recipients:

- Category A includes the Presidents of the Divisions, the General Delegates, and Functional Directors who are part of the Group Coordination Committee (17 persons);
- Category B includes the main operational and functional managers of the Divisions and General Delegations (1,013 persons);
- Category C includes high-potential executives as well as managers or employees who have achieved superior performance (440 persons).

The total number of beneficiaries of the November 2004 plan was 1,480, on a par with 2003 when they numbered 1,393. In each of the above categories, the number of options granted is individually tailored according to responsibilities handled and performance achieved. The total number of options granted in 2004 was 3,881,800 (compared with 3,717,700 in 2003), which represented 1.1% of capital stock at December 31, 2004.

Until 1996 and in 2003 and 2004, these plans involved subscription options on new shares. Between 1997 and 2002 they involved purchase options on existing shares held in treasury stock for this purpose.

All discounts on the average share price for the period immediately preceding the date of grant of the options were discontinued in 1999; the exercise price was therefore set at 100% of this average price, i.e. €43.56 for the November 2004 plan.

The main general conditions set by the Board for the exercise of these options are the following:

- options must be exercised within ten years of the date of grant;
- the minimum period before the options vest is either three or four years;

- all rights to options are forfeited if the employee terminates employment with the Group, unless expressly agreed otherwise by the Chairman of the Board and the Appointments Committee.

Specific exercise conditions are attached to some categories of beneficiaries. For instance, as in 2003, the Board of Directors has made the vesting of half of the options granted to Group Management and Category A recipients in November 2004 conditional upon the Saint-Gobain share price outperforming the exercise price by more than 20% at the end of the minimum vesting period.

Further, in accordance with an internal rule instituted by the Board of Directors in 1997, Group Management and Category A persons who are members of the Group Coordination Committee and benefit from stock options, were required at the end of 2004, if they had more than five years' seniority in their current function, to own at least 3,600 registered Saint-Gobain shares and to increase their holdings by at least 400 shares per annum; the main Category B beneficiaries are required to own at least 400 registered shares at all times.

The following three tables summarize key data on unexpired stock option plans at December 31, 2004, with the latter two dealing with the stock options of corporate officers and of the ten largest recipients.

Date of Shareholders' Meeting authorizing plan	June 13 1995	June 25 1997	June 25 1998	June 24 1999	June 24 1999	June 28 2001	June 28 2001	June 5 2003	June 5 2003
Date of Board of Directors' Meeting	11/21/1996	11/20/1997	11/19/1998	11/18/1999	11/16/2000(***)	11/22/2001	11/21/2002	11/20/2003	11/18/2004
Type of options	subscription	purchase	purchase	purchase	purchase	purchase	purchase	subscription	subscription
Number of beneficiaries	161	182	218	393	780	1,351	1,368	1,393	1,480
Total number of shares which may be obtained (*)	1,214,760	1,187,460	1,287,980	1,750,900	2,696,500	3,774,800	3,785,500	3,717,700	3,881,800
Of which:									
Number of shares that Group Management may obtain	484,800	550,400	548,000	538,000	810,400	924,800	936,200	914,800	1,002,800
Number of corporate officers concerned	20	19	19	19	20	18	18	17	17(**)
Start of exercice period	11/21/1998	11/20/1999 or 11/20/2002	11/19/2001 or 11/19/2003	11/18/2002 or 11/18/2004	16/11/2003 or 11/16/2005	11/22/2004 or 11/22/2005	11/22/2005 or 22/11/2006	11/21/2006 or 11/21/2007	11/19/2007 or 11/19/2008
Expiry date	11/20/2004	11/19/2005	11/18/2006	11/17/2009	11/15/2010	11/21/2011	11/21/2012	11/20/2013	11/18/2014
Subscription/ Purchase price (*)	€21.42	€28.47	€29.54	€40.63	€37.72	€40.22	€23.53	€35.67	€43.56
Discount on average share price	20%	10%	5%	0	0	0	0	0	0
Options outstanding at 12/31/2004 (*)	0	374,580	576,965	1,562,890	2,466,500	3,632,000	3,679,300	3,655,000	3,881,800

** As the Company carried out a four-for-one stock split in June 2002, all numbers of shares relating to dates prior to June 2004 have been multiplied by four to facilitate comparisons. The same applies to the options outstanding at December 31, 2004, for which the exercise/subscription prices have been divided by four.*

*** The list of the 17 members of the Group Management is provided on page 30.*

**** In addition, a specific grant of 20,000 purchase options at an exercise price of €33.11 was carried out on March 30, 2000.*

Stock purchase options granted to each corporate officer and options exercised in 2004

	Number of options granted	Exercise price	Start of exercise period
Stock options granted to each corporate officer by the issuer and any Group company			
• Jean-Louis Beffa	280,000 (*)	€43.56	November 2008
• Gianpaolo Caccini (**)	140,000 (*)	€43.56	November 2008
Options exercised by each corporate officer	Number of shares subscribed or purchased		Expiry date
• Jean-Louis Beffa	76,000	€29.54	November 2006
• Gianpaolo Caccini	15,000	€21.42	November 2004
• Christian Streiff	13,600 16,000	€28.47 €29.54	November 2005 November 2006

Stock options granted to the ten largest recipients other than corporate officers and options exercised by these individuals

	Number of options granted/Number of shares subscribed or purchased	Unit price
Options granted in 2004 by the issuer and any Group company granting options, to the ten largest recipients of options among employees of the issuer or any other Group company granting options (aggregate figure)	546,000 (*)	€43.56
Exercise in 2004 of options granted by the issuer and any Group company granting options, to the ten largest recipients of options among employees of the issuer or any other Group company granting options (aggregate figure)	124,400	Weighted average price €27.23

(*) As mentioned above, the vesting of half of the options is conditional upon the Saint-Gobain share price outperforming the exercise price by more than 20% at the end of the minimum vesting period.

(**) Chief Operating Officer up to March 31, 2004; Director since June 10, 2004.

There are no other outstanding stock option plans or any other options on shares in Group companies in France or abroad, whether publicly traded or not.

Saint-Gobain share buybacks and cancellations

In the course of 2004, the Company bought back 6,730,702 of its own shares in accordance with the authorizations granted by the Ordinary and Extraordinary General Meetings of June 5, 2003 (prospectus dated May 6, 2003 bearing COB approval no. 03-386) and June 10, 2004 (prospectus dated May 12, 2004, bearing AMF approval no. 04-405). The shares were purchased for a total of €280 million and no derivative instruments were used for the buybacks. During the same period, 1,227,819 Saint-Gobain shares were sold to option holders on the exercise of their options, for a total of €52.3 million. The Board of Directors canceled 6,799,832 treasury shares on January 29, 2004 and another 4,482,027 shares on November 18, 2004, reducing the number of shares making up the Company's capital to 340,988,000 at December 31, 2004.

INFORMATION POLICY

The Investor Relations department is responsible for implementing the Group's information policy with the financial community, investors and shareholders. The Department - which is headed by Florence Triou-Teixeira (Tel.: +33 (0)1 47 62 33 33 - Fax: +33 (0)1 47 62 50 62) - answers requests for information about the Group and regularly issues a Letter to Shareholders, as well as a Shareholder's Handbook.

Saint-Gobain
Investor Relations Department
Les Miroirs
92096 La Défense Cedex - France
Toll-free number (France): 0800 32 33 33

In 2004, Saint-Gobain organized several meetings with its shareholders in France – in Saint-Etienne in June, in Nantes and Reims in November, in Nice and Orleans in December. The Company also took part, for the seventh time, in the Salon Actionaria event held in November in Paris. In addition to the two annual meetings with analysts and journalists held in January and July in Paris and London at the time of the publication of estimated results, several other information meetings took place during the year in the European cities where the Company's shares are listed, as well as in the United States and Japan.

Information on the Group can also be obtained from the Compagnie de Saint-Gobain website as can presentations to financial analysts:

www.saint-gobain.com

The following e-mail address has also been set up for shareholders:

actionnaires@saint-gobain.com

A Minitel service 3615 code GOBAIN (€0.15/min), (a videotext system operated by France Telecom) is also available for shareholders, financial analysts, stockbroking firms, portfolio managers and individuals.

This provides current information regarding the Group and the market price of its shares and enables shareholders to contact Saint-Gobain correspondents directly. Through BNP Paribas, Compagnie de Saint-Gobain makes available to its shareholders a number of complementary services to improve the administration of their fully registered shares. For full details, please contact Compagnie de Saint-Gobain's Investor Relations Department, or:

BNP Paribas
Immeuble Tolbiac
GIS - EMETTEURS
75450 Paris Cedex 09 - France
Toll-free number (in France): 0 800 03 33 33
Toll-free fax (in France): 0 800 77 25 85

2005 financial calendar

2004 estimated results:	January 27, 2005, after close of trading on the Paris Bourse
2004 final results:	March 24, 2005, after close of trading on the Paris Bourse
Impact of IFRS on 2004 results:	March 29, 2005, after close of trading on the Paris Bourse
First-quarter 2005 sales:	April 26, 2005, after close of trading on the Paris Bourse
General Meeting:	3:00 p.m. on June 9, 2005 at the Palais des Congrès (Porte Maillot), Paris 17e
Dividend payment date:	June 23, 2005
First-half 2005 results:	July 28, 2005
Sales for the first nine months of 2005:	October 25, 2005, after close of trading on the Paris Bourse

Corporate Governance

BOARD OF DIRECTORS

Compagnie de Saint-Gobain upholds the principles of corporate governance defined by the Committees chaired by Marc Viénot and Daniel Bouton, and implements in full the recommendations that they have issued, brought together in the October 2003 report published by AFEP-MEDEF entitled “The Corporate Governance of Listed Companies”.

Board of Directors

At March 1, 2005, the membership of the Board of Directors of Compagnie de Saint-Gobain was as follows:

Jean-Louis Beffa

Chairman and Chief Executive Officer of Compagnie de Saint-Gobain.

Jean-Louis Beffa, 63, is also Vice-Chairman of the Board of Directors of BNP Paribas, a Director of Gaz de France and of the Bruxelles Lambert Group, a member of the Supervisory Board of Le Monde SA and Société Editrice du Monde SA, President of Claude Bernard Participations SAS and a member of the Supervisory Board of Le Monde Partenaires SAS. Within the Saint-Gobain Group, he is the Company’s permanent representative on the Board of Saint-Gobain PAM, a Director of Saint-Gobain Cristalería and Saint-Gobain Corporation. He is also joint Chairman of the Cournot Center for Economic Research and Vice-Chairman of the Supervisory Board of the Pension Reserve Fund. He owns 210,000 Saint-Gobain shares.

Les Miroirs - 92096 La Défense Cedex, France

Daniel Bernard

Former Chairman and Chief Executive Officer of Carrefour.

Daniel Bernard, 59, is is also a Director of Alcatel. He owns 4,400 Saint-Gobain shares.

42, avenue de la Grande-Armée - 75017 Paris, France

Isabelle Bouillot

Isabelle Bouillot, 56, is a member of the Supervisory Board of Accor and a Director of La Poste and Umicore, as well as the Managing Partner of IB Finance. She owns 1,200 Saint-Gobain shares.

42, rue Henri Barbusse - 75005 Paris, France

Rolf-E. Breuer

Chairman of the Supervisory Board of Deutsche Bank AG.

Rolf-E. Breuer, 67, of German nationality, is also Chairman of the Supervisory Board of Deutsche Börse AG, a member of the Supervisory Boards of E.ON AG and Bertelsmann AG, and a Director of Landwirtschaftliche Rentenbank and Kreditanstalt für Wiederaufbau (KfW). He is also a member of the advisory committee of C.H. Boehringer Sohn. He owns 4,516 Saint-Gobain shares.

Taunusanlage 12, D-60262 Frankfurt am Main, Germany

Gianpaolo Caccini

Former Chief Operating Officer of Compagnie de Saint-Gobain.

Gianpaolo Caccini, 66, an Italian citizen, is also a Director of Nexans, JM Huber Corp. and Saint-Gobain Corporation, as well as the Chairman of Assovetro, the Italian Association of Glass Manufacturers. He owns 4,820 Saint-Gobain shares.

Assovetro, Via Bissolati 76, 00187 Rome, Italy

Paul A. David

Professor of Economics at Stanford University.

Paul A. David, 70, a U.S. citizen, is also Emeritus Professor of Economics and Economic History at the University of Oxford (United Kingdom). He does not hold any other directorships. He owns 800 Saint-Gobain shares.

Stanford University, Department of Economics, Stanford, CA 94305-6072, United States of America

Jean-Martin Folz

Chairman of the Management Board of Peugeot SA.

Jean-Martin Folz, 58, is also a Director of Solvay. Within the PSA group, he is Chairman of the Board of Directors of Automobiles Peugeot and Automobiles Citroën, and a Director of Banque PSA Finance, Peugeot Citroën Automobiles and Faurecia. He owns 1,200 Saint-Gobain shares.

75, avenue de la Grande-Armée -75116 Paris, France

Sylvia Jay

Lady Sylvia Jay, 58, a British citizen, is the Director General of the British Food and Drink Federation. She is a lay member of the Procedures and Disciplinary Committee of the General Council to the Bar, Industrial Governor of the British Nutrition Foundation, Chairman of the Pilgrim Trust and the Entente Cordiale Scholarships Scheme, and a member of the Council of Food from Britain and the Franco-British Council. She owns 800 Saint-Gobain shares.

6 Catherine Street, London WC2B 5JJ, United Kingdom

Pierre Kerhuel

President of the Saint-Gobain Employees' and Former Employees' Shareholders' Association and Chairman of the Supervisory Board of the Saint-Gobain Group Savings Plan Mutual Funds.

Pierre Kerhuel, 61, is Director in charge of the Building Materials Division of Saint-Gobain. He owns 800 Saint-Gobain shares.

Les Miroirs - 92096 La Défense Cedex, France

José Luis Leal Maldonado

Chairman of the Spanish Banking Association.

José Luis Leal Maldonado, 65, of Spanish nationality, is also a Director of Carrefour, CEPSA and Renault España, as well as Saint-Gobain Cristalería. He owns 4,000 Saint-Gobain shares.

C/Velasquez, 64-6to E-28001 Madrid, Spain

Sehoon Lee

Co-Chairman of Hankuk Glass Industries and Hankuk Sekurit (South Korea).

Sehoon Lee, 55, of South Korean nationality, is also Chairman of the Board of Directors of Saint-Gobain Hanglas Asia and SL Investment Ltd. He owns 1,000 Saint-Gobain shares.

Youngpoong Building, 33 Seorin-dong, Jongno-gu, Seoul 100-752, Republic of Korea

Gérard Mestrallet

Chairman and Chief Executive Officer of Suez.

Gérard Mestrallet, 55, is also a member of the Supervisory Boards of AXA and Taittinger, and a Director of Crédit Agricole and Pargesa Holding. Within the Suez group, Gérard Mestrallet is the Chairman of the Board of Directors of Suez-Tractebel, Suez Environnement and Electrabel, and Vice-Chairman of Hisusa and Sociedad General de Aguas de Barcelona. He owns 840 Saint-Gobain shares.

16, rue de la Ville-l'Evêque - 75008 Paris, France

Michel Pébereau

Chairman of the Board of Directors of BNP Paribas.

Michel Pébereau, 63, is also a Director of Lafarge and Total, a member of the Supervisory Board of AXA, and a non-voting Director of Galeries Lafayette. Within the BNP Paribas group, he is a Director of BNP Paribas UK and of Banque Marocaine pour le Commerce et l'Industrie. In addition, he is Chairman of the European Banking Federation, of *Institut de l'Entreprise* and of the Advisory Board of *Institut Aspen France*, as well as a member of the International Monetary Conference, the International Advisory Panel of the Monetary Authority of Singapore, the International Capital Markets Advisory Committee of the Federal Reserve Bank of New York and the International Business Leaders' Advisory Council for the Mayor of Shanghai. He owns 820 Saint-Gobain shares.

3, rue d'Antin - 75002 Paris, France

Denis Ranque

Chairman and Chief Executive Officer of Thales.

Denis Ranque, 53, is also Chairman of the Board of Directors of *École Nationale Supérieure des Mines de Paris* and of the *Cercle de l'Industrie* and a Director of the *Fondation de l'École Polytechnique*. He owns 800 Saint-Gobain shares.

45, rue de Villiers - 92526 Neuilly-sur-Seine Cedex, France

Bruno Roger

President of Lazard Frères SAS.

Bruno Roger, 71, is also a Director of Cap Gemini and a member of the Supervisory Boards of Axa and Pinault Printemps Redoute. Within the Lazard Group, he is a non-voting Director of Eurazeo (having been a member of the Supervisory Board until May 2004). He was also a Director of Sofina until May 2004. He owns 48,040 Saint-Gobain shares.

121, Boulevard Haussmann - 75008 Paris, France

* * *

Chief Operating Officer:

Pierre-André de Chalendar

Pierre-André de Chalendar, 47, graduated from Essec and *Ecole Nationale d'Administration*, following which he obtained the rank of *Inspecteur des finances*. He joined the Saint-Gobain Group in 1989 as Vice-President, Corporate Planning. He headed the Abrasives Division for Europe from 1992 to 1996 and went on to become President of the worldwide Abrasives Division from 1996 to 2000. Between 2000 and 2002, he was Saint-Gobain's General Delegate to the United Kingdom and Republic of Ireland, as well as President-Delegate of the Building Distribution Division for the United Kingdom and the United States. Since 2003, he has been Senior Vice-President of Saint-Gobain and President of the Building Distribution Sector.

On May 3, 2005 the Board of Directors appointed Pierre-André de Chalendar as Chief Operating Officer of Compagnie de Saint-Gobain, to replace Christian Streiff, who is stepping down from the position he has held since April 1, 2004 and is leaving the Group.

Secretary to the Board of Directors:

Bernard Field, Corporate Secretary of Compagnie de Saint-Gobain.

Membership of the Board of Directors

Acting upon a recommendation presented by the Appointments Committee, in 2004 the Board of Directors once again reviewed the independence of each director in compliance with the criteria established in the AFEP-MEDEF report on corporate governance issued in September 2002 and brought together in the October 2003 publication entitled "The Corporate Governance of Listed Corporations". It was subsequently concluded that in accordance with the above criteria, the following are independent Directors: Daniel Bernard, Isabelle Bouillot, Paul A. David, Jean-Martin Folz, Sylvia Jay, Gérard Mestrallet and Denis Ranque. This corresponds to seven directors out of fifteen, at March 1, 2005. If shareholders approve the appointment of the new Directors presented below at the General Meeting of June 9, 2005, the Board of Directors will include as from that date two more independent Directors (Gehrard Cromme and Jean-Cyril Spinetta), bringing the total number of independent Directors to nine, out of fifteen. The Board does not include any Director elected by employees (although it does include a Director representing employee shareholders), or non-voting Directors. In accordance with the Company bylaws, each Director must own at least 800 shares.

Renewal of the Board of Directors

The dates on which Directors were first elected are as follows:

- Jean-Louis Beffa and Bruno Roger: February 1987;
- Rolf-E. Breuer and Michel Pébereau: June 1993;
- Gérard Mestrallet: November 1995;
- Isabelle Bouillot and José-Luis Leal Maldonado: June 1998;
- Daniel Bernard: June 2000;
- Jean-Martin Folz: March 2001;
- Paul A. David and Sylvia Jay: June 2001;
- Sehoon Lee: November 2002;
- Pierre Kerhuel and Denis Ranque: June 2003;
- Gianpaolo Caccini: June 2004.

The Ordinary and Extraordinary General Meeting of June 5, 2003 reduced the duration of Directors' terms of office from six to four years. This reduction applies to terms of office granted on or after June 5, 2003 and not to those in force at that date. The dates on which Directors' terms of office expire are as follows:

- Rolf-E. Breuer, Gianpaolo Caccini, Jean-Martin Folz, Michel Pébereau and Bruno Roger: 2005 Annual Meeting;
- Daniel Bernard: 2006 Annual Meeting;
- Paul A. David, Pierre Kerhuel, Sehoon Lee, Gérard Mestrallet and Denis Ranque: 2007 Annual Meeting;
- Jean-Louis Beffa, Isabelle Bouillot, Sylvia Jay and José-Luis Leal Maldonado: 2008 Annual Meeting.

Acting upon a recommendation of the Appointments Committee, the Board of Directors will be submitting for approval the following renewals of Directors' terms of office and appointments to four-year terms at the next Annual General Meeting scheduled to take place on June 9, 2005:

Renewal of the term of office of Director:

Gianpaolo Caccini

Former Chief Operating Officer of Compagnie de Saint-Gobain.

Gianpaolo Caccini, 66, an Italian citizen, has a doctorate in Chemistry from the University of Pavia in Italy. He joined the Saint-Gobain Group in 1973 as Sales Director for the Insulation Division of the Italian subsidiary Balzaretti Modigliani. He was appointed Director of the Sealings Division of that company in 1980, before going on to become Chief Executive Officer of Vetrotex Italia in 1983, and a Director of Vitrofil in 1986 (two companies within the Group's Reinforcements Division). He was then appointed Chairman and Chief Executive Officer of Saint-Gobain Desjonquères (Packaging Division) in 1988, President of the Insulation Division in 1991 and also of the Reinforcements Division in 1993. In 1996, he became Senior Vice-President of Compagnie de Saint-Gobain and General Delegate for North America. Then in 2000, he went on to become Chief Operating Officer of Compagnie de Saint-Gobain, a position he held until his retirement on April 1, 2004.

Other directorships and positions currently held by Gianpaolo Caccini are listed on page 21.

Gianpaolo Caccini was appointed Director of Compagnie de Saint-Gobain by the General Meeting of June 20, 2004 for the remaining term of office of Eric d'Hautefeuille, the Director he is replacing (i.e. until the 2005 AGM).

He owns 4,820 Saint-Gobain shares.

Jean-Martin Folz

Chairman of the Management Board of Peugeot SA.

Jean-Martin Folz, 58, is a former graduate of the *École Polytechnique* and *École des Mines*. After one year in Tokyo at the Maison Franco-Japonaise, he began his professional career in 1972 in a local office of the French Ministry of Industry. Between 1975 and 1978, he held various ministerial positions and was appointed Chief of Staff to the French Secretary of State for Industry. In 1978, he joined the Rhône-Poulenc group as Plant Manager of the Saint-Fons unit before going on to become Chief Operating Officer of the Rhône-Poulenc Specialty Chemicals Division. From 1984 to 1987, he was Chief Operating Officer and then Chairman and Chief Executive Officer of Jeumont-Schneider, a subsidiary of the Schneider group, and in July 1987, became Chief Executive Officer of Péchiney and then Chairman of Carbone Lorraine. He was appointed Chief Executive Officer of Eridania Béghin-Say and Chairman of Béghin-Say in 1991. In July 1995 he joined the PSA Peugeot Citroën group and became Director of its Automobile Division in April 1996 and Chairman of the PSA Peugeot Citroën group on October 1, 1997. On the same date, he also became Chairman of Automobiles Peugeot and Automobiles Citroën. Other directorships and positions currently held by Jean-Martin Folz are listed on page 21.

He became a Director of Compagnie de Saint-Gobain in March 2001, and on June 28, 2001, the General Meeting approved his appointment to the Board for the remaining term of office of Pierre Faurre, the Director he is replacing (i.e. until the 2005 AGM).

Jean-Martin Folz holds 1,200 Saint-Gobain shares.

Michel Pébereau

Chairman of the Board of Directors of BNP Paribas.

Michel Pébereau, 63, is a graduate of the *École Polytechnique* and the *École Nationale d'Administration*. He obtained the rank of *Inspecteur des finances* in 1967 and between 1970 and 1974 served in the French Ministry of Finance as Policy Officer and subsequently Technical Advisor. As Policy Officer, Assistant Director, Deputy Director and then Head of the Monetary and Financial Affairs section of the French Treasury Department, between 1978 and 1981 he acted as Director of the office of the Finance Minister and subsequently Policy Officer for the Minister. In 1982, he was appointed Chief Executive Officer of Crédit Commercial de France, before becoming Chairman and Chief Executive Officer in 1987. He held the positions of Chairman and Chief Executive Officer of BNP and then BNP Paribas from 1993 to 2003, and since 2004, has been Chairman of the Board of Directors of BNP Paribas. Other directorships and positions currently held by Michel Pébereau are listed on page 22.

Michel Pébereau was elected as a Director of Compagnie de Saint-Gobain by the General Meeting of June 1993, and his term of office was renewed by the General Meeting of June 24, 1999.

Michel Pébereau holds 820 Saint-Gobain shares.

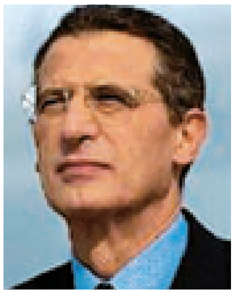
Appointment of new Directors:

Gehrard Cromme

Chairman of the Supervisory Board of ThyssenKrupp AG.

Gehrard Cromme, 62, a German citizen, graduated in Economics and holds a doctorate in law. In 1971, he joined the Saint-Gobain Group in Germany, and in the early 1980s became Deputy General Delegate to Germany and Chairman of Vegla, the Group's German glass subsidiary. In 1986, he joined the Krupp group and was appointed Chairman of the Management Boards of Krupp Stahl AG, then Fried.Krupp AG Hoesch-Krupp and subsequently ThyssenKrupp AG. Since October 2001, he has been Chairman of the Supervisory Board of ThyssenKrupp AG. He is also Chairman of the German Governmental Commission on Corporate Governance, and Chairman of the European Round Table of Industrialists. He currently sits on the Supervisory Boards of Allianz, Axel Springer, Deutsche Lufthansa, E.ON, Hochtief, Siemens, and Volkswagen in Germany, and on the Board of Directors of BNP Paribas and Suez in France.

August-Thyssen-Strasse 1, D-40211 Düsseldorf (Germany)



Jean-Cyril Spinetta

Chairman and Chief Executive Officer of Air France-KLM.

Jean-Cyril Spinetta, 61, holds a university degree in public law and is a graduate of the *Institut d'études politiques* in Paris and the *École Nationale d'Administration*. He entered the French Civil Service as Head of the Investments and Planning Department of the Ministry of Education in 1972 and was seconded as a legal assistant at the *Conseil d'État*. He was appointed to the office of Secretary General in 1978, and became Head of the Information Department for the Prime Minister in 1981, and then Director of Schools for the French Ministry of Education in 1983. In 1984, he became Chief of Staff for the Ministry of Employment and Vocational Training, the Ministry of Social Affairs and Development and subsequently the Housing and Transport Ministry. He became Chairman and Chief Executive Officer of Air Inter in 1990, where he remained until 1993. Between 1994 and 1995, he acted as advisor to the President of France on industrial issues. In 1996, he joined the staff of the European Commissioner in charge of science, research and education, and was appointed Special Advisor to the Minister of Education and to the Minister of Employment and Solidarity in 1997.

Jean-Cyril Spinetta was appointed Chairman and Chief Executive Officer of Air France in 1997, and has been Chairman and Chief Executive Officer of the Air France-KLM group since June 2004. He also acted as Chairman of the Association of European Airlines in 2001 and was elected Chairman of the IATA for 2004/2005.

45, rue de Paris - 95747 Roissy-Charles de Gaulle Cedex (France)

Operational structure of the Board of Directors

Pursuant to the NRE Act *(Loi sur les nouvelles régulations économiques)*, the Board of Directors decided in July 2002 and confirmed on June 10, 2004, that Jean-Louis Beffa, Chairman of the Board of Directors, would continue to be responsible for the general management of Compagnie de Saint-Gobain, with the title of Chairman and Chief Executive Officer.

In accordance with the recommendations of the AFEP-MEDEF report on corporate governance dated September 2002, brought together in the October 2003 publication entitled *"The Corporate Governance of Listed Corporations"*, the

Board of Directors adopted internal rules of operation in the course of 2003.

The purpose of the **Internal Rules of the Board of Directors** is to establish an organizational and operational framework for the Board, as summarized below.

• *Board meetings.* At least seven ordinary meetings should be held annually, including one at a different Group site each year. The Directors may attend meetings by means of videoconferencing technology to the extent allowed by law.

• *Provision of information to Directors prior to meetings and on a continuing basis.* The notice of each meeting should be accompanied by a selection of financial analyses and press articles concerning the Group. In addition, the texts of statements and presentations featured on the agenda, the draft annual report, and draft consolidated and Company financial statements should be sent to the Directors prior to the meetings at which they are to be discussed. The information pack provided at each meeting should include an analysis of Group operating income and net debt, as determined at the month-end preceding the meeting. Between meetings, the Directors should systematically receive all press releases issued by the Group and, where appropriate, all useful information concerning significant events or operations for the Group. In general, the Directors are entitled to request any additional information deemed necessary for the conduct of Board Meetings, and to ask to meet key members of Group management without the corporate officers being present, after consulting with the Chairman of the Board.

• *Deliberations of the Board.* In addition to the deliberations related to its duties under the applicable laws and regulations and the Company's bylaws, the Board reviews and finalizes the Saint-Gobain Group's corporate strategy at least once annually. The prior approval of the Board is required for investments, restructuring programs, acquisitions, and the purchase and divestment of equity stakes with a unit value in excess of €150 million, as well as for any significant transaction outside the Group's stated strategy. The operation of the Board should be discussed at least once each year, and a formal evaluation of its organization and operation should be performed on a regular basis under the supervision of the Appointments Committee. Based on the report submitted by the Appointments Committee, the Board reviews the independence of each Director in compliance with the criteria established in the AFEP-MEDEF report dated September 2002. The Directors may meet without the presence of the corporate officers to evaluate said officers' performance and to consider the general management of the Group going forward.

• *Board committees.* The work and deliberations of the Board of Directors are prepared by the Financial Statements Committee and the Appointments Committee, whose members are appointed by the Board. The committees may commission technical appraisals by outside experts at the expense of Compagnie de Saint-Gobain and confer with members of Group Management, after consulting with the Chairman of the Board. The Internal Rules governing the Board of Directors establish the terms of reference of the Financial Statements Committee and the Appointments Committee, notably concerning their respective duties. Said duties are presented below in the sections concerning the individual committees.

• *Dealing in Compagnie de Saint-Gobain shares by Directors.* Without prejudice to legal and regulatory provisions concerning insider trading, periods are defined annually during which the Directors are required to abstain from carrying out any direct, indirect or derivative transactions relating to Saint-Gobain shares. These periods cover the 45 days preceding the Board meetings at which the estimated annual consolidated financial statements and the interim consolidated financial statements are discussed, the 15 days preceding the meeting dealing with the final version of the annual consolidated financial statements and the day following each of said meetings[1].

• *Attendance fees.* The Internal Rules specify the allocation of attendance fees among the Directors. The rules governing said allocation are presented below in the corresponding section.

• *Various provisions* of the Internal Rules provide for the possibility of further training for Directors with regard to business lines and sectors, and the accounting, financial and operational aspects of the Group. They also deal with the attendance of Directors at shareholders' meetings, and establish the duty of confidentiality binding upon directors in respect of documents, information and the deliberations of the Board.

Evaluation of the operation of the Board of Directors

The Board commissioned a formal evaluation of its operation in 2000 and again in 2003.[2]

In 2004, the Appointments Committee performed a new evaluation based on a questionnaire sent to each Director by the Chairman of the Committee, dealing with the membership of the Board, its operation, the information provided to Directors prior to meetings, the frequency and structure of

(1) The Group's top executives and employees with access to "sensitive" information are also subject to these restrictions.
(2) 2000 Annual Report, page 55, and 2003 Annual Report, page 26.

meetings, and the operation of the Financial Statements Committee and Appointments Committee. The responses to the questionnaire, which were analyzed by the Chairman of the Appointments Committee, show that all Directors share a positive assessment of the workings of the Board, and that they have noted progress regarding several points on which suggestions had been made in the course of the prior evaluation, especially as regards the timing according to which preparatory documents are made available prior to meetings, the organization of discussions, particularly on strategic issues, and the inclusion of all Directors in the work of the Appointments Committee with respect to planning the Chairman's succession. Responses also emphasized the importance of holding at least one meeting a year in a different location, as this makes it possible to combine a Board meeting with a visit to a Group site and to meet senior executives other than the Group's corporate officers. Lastly, it was also suggested that issues not directly related to management of the Company be added to the agenda.

* * *

In 2004, in accordance with *Commission des Opérations de Bourse* (COB) recommendation 2002-01, the Company again published on the AMF website declarations by the Group's Directors and corporate officers with regard to transactions in the second half of 2003 and the first half of 2004 concerning the subscription, purchase or sale of Saint-Gobain shares (excluding stock options) and any forward financial instruments relating to Saint-Gobain shares. In addition, in line with the guidelines provided in the AMF press release dated December 27, 2004, Directors and corporate officers were informed of regulations governing transactions on the Company's shares by senior leadership *(dirigeants)* and persons closely related to them.

* * *

The Board of Directors held eight meetings during fiscal 2004. The attendance rate at these meetings was 85%.

Board of Directors' Committees

Financial Statements Committee

Michel Pébereau, Chairman
Isabelle Bouillot
Jean-Martin Folz

Two-thirds of the Committee is composed of independent directors (see page 22).

The Internal Rules of the Board of Directors define the duties of the Financial Statements Committee as follows:

The main responsibility of the Financial Statements Committee is to ensure the relevance and consistency of the accounting methods used to prepare the financial statements and to verify that the internal procedures used to gather and control the related data provide a guarantee of such relevance and consistency. To this end, the Committee:

- Examines the annual and interim consolidated financial statements and the annual accounts of the Company submitted to it by General Management, prior to their examination by the Board of Directors;
- Considers the scope of consolidation and, where appropriate, the reasons for the exclusion of any companies from the consolidation process;
- Examines significant risks and off-balance sheet commitments, and receives a related explanatory report from the Finance Director;
- Gives its opinion on the organization of the internal audit function, is informed of the internal audit work schedule and receives a summary internal audit report on a regular basis;
- Reviews the audit plan of the Company's Statutory Auditors and the findings of their audits, and receives a report from the Statutory Auditors on key audit findings and the accounting methods selected;
- Conducts the process for the selection of the Company's Statutory Auditors, forms an opinion on the amount of fees charged for the performance of statutory audits and submits the results of the selection process to the Board of Directors;
- Examines, in compliance with applicable standards, the advisory and other services directly related to their engagement that the Statutory Auditors and their network are authorized to provide to the Company and to other companies in the Saint-Gobain Group;
- Is informed annually by the Statutory Auditors of the amount and allocation of fees for audit, advisory and other services paid by the Saint-Gobain Group to the Statutory Auditors and the members of their network during the past fiscal year, and submits its findings to the Board of Directors, together with its opinion on the independence of the Statutory Auditors.

The Committee met five times in 2004. The attendance rate at these meetings was 100%.

At three of these meetings, the Committee reviewed issues with Group Management, the Finance Department and the Statutory Auditors, and performed a prior, in-depth examination of the estimated annual consolidated financial statements (January), the annual Company and consolidated financial statements (March), as well as the interim consolidated financial statements (July).

On each of these occasions, a summary of the main points raised by the Statutory Auditors with the Finance Department during the preparation of the financial statements was reviewed in the presence of the Statutory Auditors, notably concerning significant risks and off-balance sheet commitments, about which the Finance Director provided the Committee with a specific memorandum.

A status report on asbestos-related litigation in the United States was presented regularly to the Committee. In conjunction with the Statutory Auditors, the Committee conducted a detailed review of the financial impact and accounting implications of asbestos-related litigation on the US subsidiaries concerned and the Group as a whole. The findings of this review were subsequently presented to the Board of Directors.

The Committee interviewed in turn each of the four audit firms short-listed following the first stage of the competitive bidding process launched in September 2003 to succeed the Company's two auditors whose terms were due to expire. The Committee then provided the Board of Directors with its recommendations, which enabled the latter to select the two firms that were recommended for approval by the Ordinary and Extraordinary General Meeting of June 10, 2004.

The Committee was further informed by each of the Statutory Auditors of the amount of fees received from Group companies during 2003 in relation to statutory audits and other services; fees for non-audit services did not exceed 13% of the total amount of fees paid (see pages 52 and 53). Since October 1, 2003, the Company has implemented a procedural rule that strictly defines the services that may be commissioned from the Statutory Auditors and members of their network by Saint-Gobain Group companies, and services that are prohibited.

In addition, the Committee reviewed the budget for 2004 and considered several issues relating to changes in accounting standards. It also reviewed the Statutory Auditors' report on the information systems of the Treasury and Financing Department, as well as the Internal Audit Department's 2003 activity report, its audit schedule for 2004 and its first-half 2004 activity report, in addition to Doctrine briefs issued by the Finance Department in 2004.

Lastly, the Committee also met individually and privately with the deputy finance director in charge of financial control and consolidation operations, the deputy finance director in charge of treasury and financing operations and the head of the Internal Audit Department, then with the Statutory Auditors, in compliance with the recommendations of the September 2002 AFEP-MEDEF report.

The Committee presented its work to the Board of Directors at meetings held on January 29, March 25, July 29 and September 23, 2004.

Appointments Committee

Gérard Mestrallet, Chairman
Daniel Bernard
Bruno Roger

Two-thirds of the Committee's members are independent Directors (see page 22).

The Appointments Committee also performs the work of a remunerations committee, as provided for in the AFEP-MEDEF reports on corporate governance.

In accordance with the Internal Rules of the Board of Directors, the duties of the Appointments Committee are as follows:

- The Committee is charged with making recommendations to the Board of Directors whenever a directorship becomes vacant or expires. The Committee organizes a selection procedure for future independent Directors, in compliance with the criteria laid down in the AFEP-MEDEF report dated September 2002.
- Each year, the Committee reviews the independence of each Director in compliance with the criteria established in the AFEP-MEDEF report dated September 2002 and presents its findings to the Board of Directors.
- It considers and makes recommendations to the Board regarding the appointment of the Chairman of the Board of Directors, whatever the reason for the vacancy.
- It considers the recommendation(s) of the Chairman of the Board regarding the appointment of a Chief Executive Officer and/or of one or several Chief Operating Officers, and reports accordingly to the Board.
- It makes recommendations to the Board of Directors regarding the amount and conditions of compensation, particularly the criteria governing the variable portion, and pension benefits awarded to the Chairman of the Board, and other arrangements relating to the status of Chairman.
- It likewise makes recommendations regarding the compensation of the Chief Executive Officer and/or of the Chief Operating Officer(s).
- It reviews the Group's general stock options policy, including the choice between share subscription options and share purchase options, and considers the recommendations of General Management concerning the granting of share subscription or purchase options to employees of the Saint-Gobain Group.
- It formulates recommendations regarding the granting of share subscription or purchase options to the Chairman of the Board of Directors and to other members of Group Management.

- It submits corporate governance issues for examination by the Board of Directors, and conducts a periodic evaluation of the organization and operation of the Board of Directors.

The Committee met twice in 2004. The attendance rate at these meetings was 83% (one absence).

The Committee's first task was to address the issue of appointments to be recommended at the General Meeting to fill expiring directorships and it submitted its proposals at a subsequent Board meeting. It also prepared the Board's review of the criteria for each Director's independence, as laid down in the September 2002 AFEP-MEDEF report.

In addition, the Committee decided to carry out directly the annual evaluation of the operation of the Board of Directors, based on a questionnaire sent to each director by the Committee Chairman, who then analyzed responses and presented the results to the Board (see page 25).

As is the case each year, the Committee reviewed Saint-Gobain's stock options[1] policy and finalized its recommendations to the Board of Directors concerning the number of beneficiaries and their breakdown and the nature of options granted, as well as the general and specific conditions for exercising the options and the performance conditions to which a portion of these options is subject. Prior to presenting them to the Board, the Committee reviewed the proposed allocations of stock options based on the objectives as defined and finalized its proposals for options to be granted to Group Management[2].

The Committee further made recommendations to the Board concerning the criteria to be applied to determine the variable portion of corporate officers' compensation for 2004 (see page 27).

The Committee presented its conclusions to the Board of Directors at the meetings of March 25 and November 18, 2004.

Remuneration of Directors

The Ordinary and Extraordinary General Meeting of June 28, 2001 set the annual amount of attendance fees payable to Directors at €500,000.

The Board of Directors decided to allocate the amount according to the following rules:

- The Chairman of the Company does not receive attendance fees.
- Each of the other members of the Board of Directors is allocated an annual lump sum of €16,000, to which is added €2,200 for each meeting attended.
- In addition, each Director who is the Chairman or a member of the Financial Statements Committee or Appointments Committee is respectively allocated an annual lump sum of €4,600 or €1,600, to which is added €1,600 for each Committee meeting attended.
- Lump-sum amounts are paid on an accruals basis when terms of office begin or end in the course of the period.
- Payments are made in arrears at the end of each half-year and any remaining balance in the allocated annual amount is distributed at the outset of the following year proportionally to attendance at Board meetings during the previous year.

Attendance fees paid for fiscal 2004 amounted to €500,000, unchanged from the previous year.

The net[3] individual amounts of attendance fees paid by the Company to its Directors (including both lump-sum and variable payments) for 2004 were as follows: Daniel Bernard €34,600, Isabelle Bouillot €47,005, Rolf-E. Breuer €23,371, Gianpaolo Caccini €14,182[4], Paul A. David €25,267, Jean-Martin Folz €44,478, Sylvia Jay €23,371, Pierre Kerhuel €36,216, José-Luis Leal Maldonado €27,162, Sehoon Lee €25,267, Gérard Mestrallet €36,910, Michel Pébereau €47,478, Bruno Roger €38,964, Denis Ranque €28,635.

Remuneration of corporate officers

The gross fixed remuneration, as well as compensation in kind, paid for fiscal 2004 to Jean-Louis Beffa, Chairman and Chief Executive Officer, by Group companies was unchanged from 2002 and 2003, i.e. €980,000. The amount for Gianpaolo Caccini was €122,500[5], covering the period from January 1, 2004 to March 31, 2004, and Christian Streiff received €487,500 for the period from April 1 to December 31, 2004.

One half of the gross variable remuneration paid to Jean-Louis Beffa and Christian Streiff for 2004 was based on a quantitative criterion in the form of a predetermined objective for growth in consolidated net income excluding capital gains or losses. The remaining half was based on qualitative considerations that are defined and assessed by the Appoint-

(1) Details of the stock options policy and the terms of the plans currently in force are provided on pages 17 to 19.
(2) See page 30.

(3) After deduction of the withholding tax for Messrs. Breuer, Caccini, David, Leal Maldonado, Lee and Mrs. Jay, whose tax residence is outside France.
(4) For the period when he was appointed as Director, to December 31, 2004.
(5) Gross variable remuneration paid to Gianpaolo Caccini for the period from January 1, 2004 to March 31, 2004 was based on the criteria set out in the 2003 Annual Report (pages 29-30) and amounted to €133,750.

ments Committee. The gross variable remuneration may not be more than 1.3 times the gross fixed remuneration. The estimated gross variable amount which should be paid for 2004 by Group companies comes to €1,237,000 for Jean-Louis Beffa (€1,070,000 for 2003) and €430,125 for Christian Streiff in respect of the period from April 1, 2004 to December 31, 2004.

Jean-Louis Beffa benefits from the retirement scheme resulting from the Regulations drawn up in respect of pension benefits for engineers and senior officers *(Règlement de retraite des ingénieurs et cadres)*, adopted in 1972. In application of these Regulations, the basis for the calculation of pension benefits accruing to Jean-Louis Beffa will be the sum of the last fixed remuneration received and the average variable remuneration received over the five years preceding the end of his office as Chairman. The average variable amount used for the calculation may not exceed 50% of the last fixed remuneration paid.

Compagnie de Saint-Gobain officers do not receive any attendance fees for their functions as corporate officers in Group companies.

Remuneration of Group Management

Attendance fees paid by the subsidiaries of Compagnie de Saint-Gobain to Directors representing the Group, particularly Group Management, are either transferred by the individual to the company which employs him or her, or are paid directly to the company.

For companies in which the Group has interests but which are not members of the Group, Director attendance fees paid to the Chairman of Compagnie de Saint-Gobain are fully repaid to the Company.

Remuneration levels for members of Group Management are set with the dual aim of placing them on a par with remuneration levels in comparable industrial groups and of structuring them in a way that ensures that the personal work of these individuals contributes to growth in the Group's results.

To define a remuneration structure meeting these two criteria, Group Management commissioned specialized consultants to produce specific studies.

Remuneration for members of Group Management has for several years included a variable portion which is directly linked to the individual's personal involvement in leading an organization. This principle is gradually being rolled out to all European countries, which requires the development of pay schemes taking into account quantifiable data such as return on assets (ROA) or return on investment (ROI), as well as more qualitative objectives such as the development of a specific business line or the setting up of Group operations in a new country.

The remuneration of members of Group Management is now clearly tied to management by objectives, requiring intense personal commitment on their part, with the possibility of significant changes in pay from one year to the next according to results.

The total direct and indirect remuneration received in 2004 from Group companies by Group Management(6), as defined below, amounted to €13.8 million (2003: €12.7 million), of which the variable portion represented €5.1 million (2003: €4.5 million).

(6) Including the pro rata amount paid to Directors and corporate officers indicated on page 30.

GROUP MANAGEMENT

The members of Group Management were as follows at December 31, 2004:

Executive Management(1)

Jean-Louis Beffa
Chairman and Chief Executive Officer

Christian Streiff
Chief Operating Officer

Jacques Aschenbroich
Senior Vice-President

Jean-Claude Breffort
Senior Vice-President

Roberto Caliari
Senior Vice-President

Pierre-André de Chalendar
Senior Vice-President

Philippe Crouzet
Senior Vice-President

Jérôme Fessard
Senior Vice-President

Claude Imauven
Senior Vice-President

Jean-François Phelizon
Senior Vice-President

Bernard Field
Corporate Secretary

Executive Committee

Jean-Louis Beffa
Christian Streiff
Philippe Crouzet
Bernard Field

Secretary to the Executive Committee
Isabel Marey-Semper

Functional Management(2)

Jean-Claude Lehmann
Vice-President, Research

Nicole Grisoni-Bachelier
Vice-President, External Relations

Isabel Marey-Semper
Vice-President, Corporate and Strategic Planning

Presidents of Sectors and Divisions(3)

Jacques Aschenbroich
President, Flat Glass Sector

Jean-Philippe Buisson
President, Reinforcements Division

Roberto Caliari
President, High-Performance Materials Sector

Pierre-André de Chalendar
President, Building Distribution Sector

Peter Dachowski
Vice-President, Construction Products Sector (Pipe, Insulation and Building Materials), North America

Américo Dènes
President, Abrasives Division

Jérôme Fessard
President, Packaging Sector

Claude Imauven
President, Construction Products Sector

General Delegates

Olivier du Boucheron
General Delegate to Benelux

Benoît Carpentier
General Delegate to Spain, Portugal and Morocco

Gilles Colas
General Delegate to the Asia-Pacific region

Jean-Pierre Floris
General Delegate to Brazil and Argentina

Jean Laronze
General Delegate to Poland, Russia and Ukraine

Anand Mahajan
General Delegate to India

Paul Neeteson
General Delegate to Germany and Central Europe

Jean-François Phelizon
General Delegate to the United States and Canada

Guy Rolli
General Delegate to Mexico, Venezuela and Colombia

Patrick Roux-Vaillard
General Delegate to the United Kingdom and the Republic of Ireland

Gianni Scotti (4)
General Delegate to Italy and Greece

Jorma Toivonen
General Delegate to the Nordic Countries and the Baltic States

(1) Émile François was Senior Vice-President up to July 31, 2004.
(2) Sonia Sikorav was Vice-President of Purchasing up to March 31, 2005.
(3) Martin Ellis was President of the Building Materials Division up to May 31, 2004.
(4) As from January 1, 2005.

Group Management

Following the appointment of Pierre-André de Chalendar as Chief Operating Officer of Compagnie de Saint-Gobain to replace Christian Streiff, the members of the Group's management were as follows at May 4, 2005:

Executive Management

Jean-Louis Beffa
Chairman and Chief Executive Officer

Pierre-André de Chalendar
Chief Operating Officer

Jacques Aschenbroich
Senior Vice-President

Jean-Claude Breffort
Senior Vice-President

Roberto Caliari
Senior Vice-President

Philippe Crouzet
Senior Vice-President

Jérôme Fessard
Senior Vice-President

Claude Imauven
Senior Vice-President

Jean-François Phelizon
Senior Vice-President

Bernard Field
Corporate Secretary

Executive Committee

Jean-Louis Beffa

Pierre-André de Chalendar

Benoît Bazin

Bernard Field

Functional Management

Benoît Bazin
Chief Financial Officer

Didier Roux (5)
Vice-President, Research

Nicole Grisoni-Bachelier
Vice-President, External Relations

Presidents of Sectors and Divisions

Jacques Aschenbroich
President, Flat Glass Sector

Jean-Philippe Buisson
President, Reinforcements Division

Roberto Caliari
President, High-Performance Materials Sector

Philippe Crouzet
President, Building Distribution Sector

Peter Dachowski
Vice-President, Construction Products Sector (Pipe, Insulation and Building Materials), North America

Américo Dènes
President, Abrasives Division

Jérôme Fessard
President, Packaging Sector

Claude Imauven
President, Construction Products Sector

General Delegates

Olivier du Boucheron
General Delegate to Benelux

Benoît Carpentier
General Delegate to Spain, Portugal and Morocco

Gilles Colas
General Delegate to the Asia-Pacific region

Jean-Pierre Floris
General Delegate to Brazil and Argentina

Jean Laronze
General Delegate to Poland, Russia and Ukraine

Roland Lazard
General Delegate to the United Kingdom and the Republic of Ireland

Anand Mahajan
General Delegate to India

Paul Neeteson
General Delegate to Germany and Central Europe

Jean-François Phelizon
General Delegate to the United States and Canada

Guy Rolli
General Delegate to Mexico, Venezuela and Colombia

Gianni Scotti
General Delegate to Italy and Greece(4)

Jorma Toivonen
General Delegate to the Nordic Countries and the Baltic States

(5) As from June 1, 2005.

Report of the Chairman of the Board of Directors

on the organization and preparation of the work of the Board, the internal control procedures implemented by Compagnie de Saint-Gobain and possible limitations on the powers of the Chief Executive Officer

This report has been prepared in accordance with Article 117 of the Financial Security Act *(Loi de sécurité financière)* of August 1, 2003.

I - Organization and preparation of the work of the Board of Directors

All of the information required by law concerning the organization and preparation of the work of the Board of Directors is presented above in the sections dealing with the membership, renewal, operational structure and committees of the Board of Directors (pages 24 to 28), referred to herein.

II - Internal control procedures implemented by Compagnie de Saint-Gobain

The purpose of Compagnie de Saint-Gobain's internal control processes is to ensure that the transactions carried out by the Company are consistent with the Group's objectives in terms of performance, profitability the safeguarding of assets, reliability of financial disclosures and compliance with prevailing laws and regulations.

These processes rely on a dedicated *organization* and on *procedures*.

General organization of the internal control system of Compagnie de Saint-Gobain

1. Internal control structures

Compagnie de Saint-Gobain's internal control system is founded on the Group's matrix organization comprising Sectors and Divisions (business units) and General Delegations (geographic regions), and on functional departments that are directly or indirectly assigned to the internal control of risk management mechanisms. The principal functional departments are presented below.

a) Internal Audit Department

The role of the Internal Audit Department is to verify the existence and effective operation of risk management mechanisms at all Group companies. Internal Audit staff are partly assigned to the Company's head office and partly to the Group's principal General Delegations.

The Department carried out about 200 engagements in 2004, each giving rise to a summary report submitted to the Group's General Management and to the Financial Statements Committee of the Board of Directors.

There is close co-operation between the Internal Audit Department and the Statutory Auditors, based on sharing information while fully respecting the independence of each party. The aim of this approach, which is one of the cornerstones of Saint-Gobain's internal control system, is to enhance effectiveness and avoid duplicate checks. The Internal Audit Department's reports are therefore submitted in their entirety to the Group's Statutory Auditors, who in turn report to the Department following audits and assessments of internal control, environmental risks and information systems.

The Internal Audit Department's mandate includes general reviews and reviews of specific processes. Risk identification is conducted jointly by the Company's Internal Audit Department, the Sectors and Divisions, and the General Delegations. Each year, the internal audit plan is submitted for review to the Group's General Management and to the Financial Statements Committee of the Board of Directors.

The findings of each audit are recorded in a report that states the objectives and scope of the audit. In the case of general reviews, a graded evaluation of the level of internal control is performed. Observations made during the audit and the responses received from the audited company give rise to conclusions, recommendations and an action plan to which the audited company must adhere. A particular person is designated to follow up each recommendation and a deadline for implementation is established.

A progress report on the implementation of the action plan is submitted on a half-yearly basis to the Internal Audit Department and the Sectors and Divisions until all recommendations have been fully implemented.

After the implementation period, the Internal Audit Department performs a follow-up audit to assess the progress made by companies whose initial grade was unsatisfactory.

b) Environment, Health and Safety Department

The Environment, Health and Safety (EHS) Department formulates and coordinates the Group's policy in respect of the environment, and health and safety. The EHS Department has produced a Reference Manual, referred to below, that must be complied with by the management of the industrial units. The Department assesses the application of the recommended procedures by means of in-depth audits that take place at the discretion of the Sectors, Divisions and operating units or following a decision from the parent company. The evaluation grid spans 20 stages. Audits are conducted by auditors from the Group who for the most part also play an operational role in environmental, health and safety compliance and who have received appropriate training in audit techniques. The process is doubly rigorous in that sites are assessed by auditors from a different Division of the Group.

During 2004, a total of 159 EHS audits were performed within the Group, in 13 countries.

Adherence to EHS procedures is also verified by the Internal Audit Department during general reviews. The communication of the findings of these audits within a formal framework helps the EHS Department and the Internal Audit Department to coordinate their actions.

In addition, the EHS Department reviewed the self-diagnostic software tool launched in the fourth quarter of 2004 which will be rolled out to all Group companies. Each company will be required to run it annually.

New industrial health standards were also adopted in 2004. They will gradually be deployed throughout the Group.

c) Information Systems Department

In addition to its general functions concerning information systems, the Information Systems Department is tasked with formulating the Group's policy in respect of the security of information systems and computer networks.

A body of rules and best practices concerning information systems and networks has been assembled in the form of general principles and technical standards, which are regularly updated in parallel with technological advances.

The Information Systems Department formulates and coordinates an annual self-diagnostic plan based on ISO 17799. Through its associated reporting process, the plan aids the evaluation of progress made by Group companies and triggers corrective measures, as needed. A total of 581 sites performed self-diagnostic tests during 2004.

d) Risks and Insurance Department

The Risks and Insurance Department defines the Group's industrial risk management policy. The Department issues guidelines on cover, referred to below, and organizes visits to key sites (about 370 in 2004) by external audit engineers. Upon completion of each assignment, a report is issued with recommendations that enable site management to craft an action plan.

In addition to helping to reduce exposure to accident risks, these audits are used to design insurance coverage that matches potential risks, adjusting coverage limits as required.

On January 1, 2004, the Group created a captive property and casualty insurance subsidiary, which covers Saint-Gobain industrial and commercial sites outside the United States, Canada and Brazil, up to €12.5 million per claim. This mechanism facilitates decision-making with regard to providing suitable coverage.

As a general rule, subsidiaries' coverage for property damage and third-party liability is either managed directly by the Risks and Insurance Department or handled by the Delegations for the United States, Canada and Brazil, under the Department's supervision.

e) Treasury and Financing Department

The Treasury and Financing Department defines the financing policy for the entire Group (Company, General Delegations and subsidiaries).

Treasury operations are monitored regularly:

- The Company's Treasury and Financing Department is audited on an annual basis. This audit reviews treasury transactions carried out during the year, even those completed at December 31, and looks at content and the related risks incurred, where appropriate. The Statutory Auditors also examine treasury transaction records as part of their annual audit.

New information systems are audited upon entry into service or subsequently. The Statutory Auditors may also review systems in place to assess the level of internal security.

- Each year, the Internal Audit Department reviews the treasury transactions of the General Delegations on a rotating basis to assess compliance with the Treasury and Financing Department's policy and the quality of internal controls.

- In the case of subsidiaries, the internal control of treasury transactions is an integral part of the general reviews performed by the Internal Audit Department. It is also included in the examinations performed by the subsidiaries' Statutory Auditors.

At Group level, the treasury position is monitored monthly based on the calculation of gross and net debt. A detailed analysis is performed by currency, interest rate and maturity, before and after the impact of any derivative financial instruments used. Issues of commercial paper or *billets de trésorerie*, which raise funds to meet the Group's short-term financing needs, are also reported on a monthly basis. Given the special role played by Compagnie de Saint-Gobain in the Group's financing, the structure of its debt, broken down between active and passive positions, is likewise analyzed monthly. Each month, the Treasury and Financing Department also reports to the Finance Department on the treasury transactions performed during the month, with a particular emphasis on those involving derivative financial instruments.

f) Financial Control

The Financial Control function performs in-depth analyses of the financial impact of investments, acquisitions, divestments, mergers and corporate actions proposed by the Sectors and Divisions, irrespective of the amounts involved. Financial Control staff also consult the departments and the General Delegation concerned on related legal, tax and social issues. Their findings are then forwarded through the Company's Finance Department to the Group's General Management for decision-making.

2. Internal control procedures at Compagnie de Saint-Gobain

Compagnie de Saint-Gobain has developed a large body of internal control procedures governing its own organization and that of its subsidiaries. Key procedures are presented below.

a) Group Doctrine

The financial, administrative and management procedures applicable to Group companies are the responsibility of Compagnie de Saint-Gobain's Doctrine Department. They together compose a body of rules, methods and procedures enshrined in roughly 600 texts that can be accessed on the Group's intranet.

These rules, methods and procedures are organized into broad sections:

- Organization, management and administration;
- Financial information system;
- Group consolidation;
- Accounting and tax;
- Financial reporting;
- Management aids;
- International Financial Reporting Standards.

The Doctrine Department establishes rules for the entire Group that serve as the basis for Group companies' own internal procedures.

The formulation and validation of Doctrine briefs are subject to a procedure that brings together the functional departments concerned.

The next stage is initial validation by the Doctrine Committee, composed of Finance Directors at the Sector, Division and Delegation levels, as well as the Company's functional managers. The final validation is performed by the Finance Committee, composed of the Company's Finance Director, the principal Finance Directors at the Sector, Division and Delegation levels, and the Company's functional managers.

Throughout 2004, the Doctrine Department continued to draft IFRS briefs to ensure that the Group's internal reporting guidelines would be ready by the end of the year. More than 1,500 employees attended a two-day training session in their native language in the course of the year. Then in January 2005, a specific course was given to Group non-financial executives. Its aim was to alert leaders to the operating and organizational changes to be expected from the application of IFRS.

Lastly, two practical guides were issued in five languages. The first, sent to over 2,000 employees, summarized the key changes in relation to French GAAP and highlighted the key challenges of IFRS implementation. The second guide provided detailed instructions on the accounting treatment of foreign currency hedging operations.

b) Environment, Health and Safety Reference Manual

The EHS Reference Manual explains the action to be taken to meet the Group's general objectives in terms of respect for the environment and the prevention of accidents and occupational illnesses. The approach is based on key risk identification stages, the implementation of preventive measures, and effectiveness monitoring and evaluation.

The EHS guidelines are available on the Group's intranet and are circulated to all Group establishments.

c) General rules and procedures governing the security of information systems

In conjunction with the Company's Doctrine Department, the Information Systems Department keeps an up-to-date record of general and detailed rules and procedures that prescribe best practices in the field of information system management and communication.

The self-diagnostic plan includes references to Doctrine rules.

d) Industrial risk prevention manual

The risk prevention manual developed by the Risks and Insurance Department provides guidance for site managers and their teams concerning the necessary preventive measures to be taken to mitigate industrial risks. The manual prescribes the rules to be applied, instructions for the conduct of site visits by insurance engineers, preventive and protective measures, post-incident feedback, safety mechanisms to be incorporated into future projects, and operating procedures and methods.

This methodical approach enables sites to progress towards the implementation of procedures and the deployment of the appropriate preventive measures.

e) Internal operating procedures of the Company, Sectors and Divisions, and General Delegations

The activities of the Company's departments – in particular, the Treasury and Financing Department, the Accounting and Securities Department and the Consolidation Department – are governed by internal operating procedures. Thus, for each member of staff at the central Treasury and Financing Department or within the Group's other treasury-related services, the field of competence, duties, obligations and authorized financial instruments are set out in a Doctrine brief. Other Doctrine briefs deal with, for example, responsibilities, powers and control, the treatment of comfort or guarantee letters and the management of bank accounts.

The Sectors, Divisions and Delegations have developed internal procedures to meet their specific needs, alongside the principles prescribed by the Group Doctrine.

Organization of internal control for the preparation and processing of the financial and accounting information made available to shareholders

1. Parent company accounts

Financial information must be provided to shareholders, partners and third parties in accordance with French legal requirements. This process is underpinned by specific accounting standards and principles, including the generally accepted principles of going concern, consistent application of accounting methods, equality between opening shareholders' equity and closing shareholders' equity at the previous period-end, matching of costs with revenues, segregation of accounting periods and substance over form.

a) Organization of the accounting function

The organization of the accounting function is based on the rules, methods and procedures prescribed in Group Doctrine briefs.

It is intended to facilitate the monthly reconciliation and evidencing of accounts, with the related events reconstructed to form an audit trail. The occurrence of significant events should be anticipated and the most suitable accounting entry recorded for each case. Early error detection and prevention are also central concerns.

The chart of accounts is linked to the Group's financial information system and is adapted in line with transaction classification requirements. The principle of materiality is observed.

Each item of data is entered once in a specific, integrated module of the SAP software.

b) Internal control

In addition to control of compliance with payment procedures and the dual signature requirement for secure payment methods, the Accounting Department's role in internal control includes guaranteeing the fulfillment of the responsibilities defined by General Management and enshrined in responsibility centers called "cost centers".

To this end, the Department sends monthly schedules to the heads of the cost centers to enable them to verify that costs incurred pursuant to payment orders signed by them have duly been dealt with and to compare actual monthly and aggregate expenditure with the initial budget.

A summary version of these documents is sent to the Finance Department and General Management each month.

Any misstatements are identified and corrected in the following month.

2. Group consolidated financial statements

The consolidated financial statements are prepared by the Group Consolidation and Reporting Department. This Department is also responsible for the updating of consolidation procedures, the consolidation of subsidiaries, the processing of reporting data and the maintenance of consolidation tools.

a) Group accounting standards

The consolidated financial statements for the year ended December 31, 2004 are still prepared in accordance with French generally accepted accounting principles. The Consolidation Department provides information and periodic training for the subsidiaries, in consultation with the Sectors, Divisions and Delegations. For this purpose, the Department draws on a consolidation manual, an intranet site and training software in French and English.

In light of the Group's adoption of IFRS effective January 1, 2005, a large amount of resources was devoted to meeting the greater need for training and information system adaptations in 2004. In the course of 2004, the Group carried out periodic reporting tests under the new standards to ensure a reliable transition to IFRS and to be able to disclose these data to the public by the end of the first quarter of 2005.

b) Organization of the Group consolidation process

The Group consolidation process involves consolidation groups and sub-groups that are hierarchically accountable to the Sectors and Divisions and functionally accountable to the Group Consolidation and Reporting Department. This process, which mirrors the Group's organization based on Sectors (business units) and General Delegations (geographic regions), is intended to ensure the reliability of accounting data through the monitoring and processing of information close to operational staff.

c) Processing of information and control of accounting data

Each subsidiary submits its reporting package in accordance with a schedule fixed by the Company. The data are checked and processed at the level of each Division, reviewed by the appropriate General Delegation and then passed up to the Consolidation Department, which examines all packages and makes the necessary consolidation adjustments.

The consolidated financial statements are subsequently examined by the Statutory Auditors in accordance with professional auditing standards. Subsidiaries' accounts are examined by their local auditors, who adapt procedures in keeping with local legal requirements and the size of the companies concerned.

d) Consolidation tools

The software used for the preparation of the accounts is equipped with a powerful and efficient database that is matrix-based like Saint-Gobain itself.

The software can handle database information at the various consolidation levels and centralizes all data contained in the Group database in a transparent manner.

The consolidation software also feeds into a communication tool that transmits information to General Management, Divisional Management and the General Delegations, thereby providing internal control of information output.

e) Reliability of accounting data underpinned by the reporting process

The reporting process ensures the reliability of the information contained in the Group's interim and annual financial statements.

Pre-closing procedures are applied ahead of the June 30 and December 31 period-ends. Pre-closing meetings are held, at which the principal financial and tax managers of the Company, Sectors, Divisions and General Delegations perform a thorough examination of each consolidated company's estimated income statement and balance sheet, in the presence of the Finance Manager and Tax Manager concerned. Companies' accounts are thus analyzed in detail from an accounting and tax standpoint, prior to final closing. This procedure enables the early detection of errors and the adoption of corrective measures during the actual closing phases.

This cross-checking between the Company, Sectors, Divisions and General Delegations is a key element of the Group's internal control system governing the financial and accounting information provided to shareholders.

A detailed, consolidated report is sent to the Company's General Management on a monthly basis. These monthly results are supplemented by comments and analyses submitted by the Consolidation Department.

III – Possible limitations on the powers of the Chief Executive Officer

As the Chairman of the Board of Directors continues to be responsible for the general management of Compagnie de Saint-Gobain, there are no limitations on the powers associated with the role of Chief Executive Officer.

Statutory auditors of the company

As of December 31, 2004, the Statutory Auditors of the Company were:

- PricewaterhouseCoopers Audit, 32 rue Guersant, 75017 Paris, France, represented by Pierre Coll and Christian Marcellin, reappointed on June 10, 2004 for a term of six years expiring at the 2010 General Meeting;
- KPMG Audit, a department of KPMG SA, 1 Cours Valmy 92923 Paris-La-Défense, France, represented by Jean Gatinaud and Gilles Salignon, appointed on June 10, 2004, for the remainder of the term of its predecessor SECEF, up to the 2006 General Meeting.

The Substitute Statutory Auditors, appointed on June 10, 2004, are:

- Yves Nicolas, 32 rue Guersant, 75017 Paris, France, whose term of office will expire at the 2010 General Meeting;
- Jean-Paul Vellutini, 1 Cours Valmy, 92923 Paris-La-Défense, France, whose term of office will expire at the 2006 General Meeting.

In accordance with Articles L. 225-228 and L. 820-3 of the French Commercial Code, the above-mentioned auditors have provided the following information:

PricewaterhouseCoopers Audit

The fees paid by Compagnie de Saint-Gobain and its subsidiaries to PricewaterhouseCoopers Audit and members of its network are presented in the table below:

	2004		2003	
(in € millions)	Amount	%	Amount	%
Audit				
• Statutory audit and contractual audits				
France	3.0	27%	2.8	20%
Outside France	5.7	51%	7.7	55%
TOTAL	8.7	78%	10.5	75%
• Other engagements	1.8	16%	1.7	12%
SUB-TOTAL	10.5	94%	12.2	87%
Other services				
• Legal and tax advisory services				
France	–	–	–	–
Outside France	0.6	6%	1.7	12%
TOTAL	0.6	6%	1.7	12%
• Other engagements	–	–	0.1	1%
SUB-TOTAL	0.6	6%	1.8	13%
TOTAL	11.1	100%	14.0	100%

In the past two years, PricewaterhouseCoopers Audit has not examined the merger or transfer transactions carried out by Compagnie de Saint-Gobain or companies controlled by it within the meaning of paragraphs I and II of Article L. 233-16 of the French Commercial Code.

KPMG SA

The fees paid by Compagnie de Saint-Gobain and its subsidiaries to the member firms of KPMG International are presented in the table below:

	2004		2003	
(in € millions)	Amount	%	Amount	%
Audit				
• Statutory audit and contractual audits				
France	2.5	35%	0.3	10%
Outside France	4.3	59%	1.8	62%
TOTAL	6.8	94%	2.1	72%
• Other engagements	0.3	5%	0.1	3%
SUB-TOTAL	7.1	99%	2.2	76%
Other services				
• Legal and tax advisory services	0.1	1%	0.4	14%
• Other	–	–	0.3	10%
SUB-TOTAL	0.1	1%	0.7	24%
TOTAL	7.2	100%	2.9	100

In the past two years, KPMG Audit has not examined the merger or transfer transactions carried out by Compagnie de Saint-Gobain or companies controlled by it within the meaning of paragraphs I and II of Article L. 233-16 of the French Commercial Code.

Bylaws

Saint-Gobain is a French public company regulated by Articles L. 210-1 *et seq.* of the French Commercial Code, with its head office at Les Miroirs, 18, avenue d'Alsace, 92400 Courbevoie, France. It is registered with the Nanterre corporate register under reference 542039532 (activity code APE 741J), Siret number 54203953200040.

The Company's corporate purpose may be summarized as the performance and management in France and elsewhere of all industrial, business, financial, plant, equipment and property operations related to industrial and commercial activities, notably through its French and foreign subsidiaries and affiliated companies (Article 3 of the bylaws). The financial year of the Company is from January 1 to December 31. The Company's legal term will expire on December 31, 2040 unless the Company is dissolved prior to that date or an extension is obtained.

The official documents concerning the Company may be consulted at its head office, Les Miroirs, 18, avenue d'Alsace, 92400 Courbevoie, France, Investor Relations Department.

Special clauses in the bylaws

These are summarized below.

Capital stock

The bylaws require the disclosure to the Company, within five trading days, of each fractional direct or indirect holding of 0.50% of the capital or voting rights or any multiple of this percentage. The same obligation exists when a direct or indirect holding falls below one of these thresholds. Violation of this obligation can be sanctioned by the withdrawal of voting rights exceeding the undeclared fraction, for a period of two years from the date of disclosure of the undeclared holding, if one or more shareholders holding at least 3% of capital stock or voting rights so request, and this is included in the minutes of the General Meetings (decisions of the General Meetings of June 23, 1988, June 15, 1990 and June 10, 2004).

Furthermore, the Company can request information relating to the composition of shareholdings and the owners of its shares in accordance with legislation and regulations in force.

Board of Directors

The Company has a Board of Directors made up of at least three members and not more than fifteen, including one Director representing employee shareholders (General Meeting of June 6, 2002).

The duration of Directors' terms of office has been set at four years, subject to an age limit of 70. The age limit for the Chairman of the Board is 68. The Chairman of the Board of Directors may also be responsible for the general management of the Company, at the discretion of Board members. In this case, the Chairman is also Chief Executive Officer and the applicable age limit is 65; the same as applies to a Chief Executive Officer who is not the Chairman and to Chief Operating Officers (General Meetings of June 6, 2002 and June 5, 2003).

The terms of office of members of the Board of Directors and of the Chairman of the Board (whether or not the function is combined with that of Chief Executive Officer) expire at the close of the General Meeting held to approve the financial statements of the year in which they reached the age limit.

The Board of Directors determines and monitors the implementation of the overall business strategy of the Company (General Meeting of June 6, 2002).

The Chairman of the Board of Directors organizes and manages the work of the Board (General Meeting of June 10, 2004).

Board meetings may be held by means of videoconferencing technology to the extent authorized by law (General Meeting of June 28, 2001).

Each Director must own at least eight hundred Company shares (General Meetings of June 24, 1999, June 28, 2001 and June 5, 2003).

General Meetings

Any shareholder may attend a General Meeting in person or be represented by proxy, subject to providing proof of identity and evidence of ownership of shares as indicated in the notice of meeting, at least five days before the date of the General Meeting and in accordance with legal requirements concerning the attendance of shareholders at a General Meeting. However, the Board of Directors may decide to shorten or waive this mandatory lead time provided the change is applied to all shareholders equally.

A shareholder may be represented only by his/her spouse or by another shareholder. Legal entities that hold shares may be represented at Meetings by their legal representatives or by any other person so designated by the legal representative.

The voting rights attached to each share belong to the beneficial owner at all Shareholders' General Meetings. Each shareholder has the right, without any limitation, to the number of votes attached to or represented by the shares held.

However, double voting rights are granted in respect of all fully paid-up shares registered for two years in the name of the same shareholder. In addition, when the capital is increased by the capitalization of reserves, profits or issue premiums, a right to a double vote is granted on issue to each bonus share distributed free of charge to a shareholder owning shares giving rise to this right (decision of the General Meeting of February 27, 1987).

Any share converted into bearer form or whose ownership is transferred loses the right to a double vote. Nevertheless, transfers resulting from an inheritance or from the liquidation of the joint estate of a husband and wife, or donations inter vivos in respect of a husband, wife or parent entitled to share in the estate of an intestate do not result in the loss of the right and do not interrupt the two-year period referred to in the previous paragraph.

Voting by mail is subject to the conditions and restrictions laid down in legal and regulatory provisions.

Appropriation of net income

An amount of at least 5% of net income, less losses of prior years if applicable, will be appropriated so as to set up the legal reserve required by law. This appropriation ceases to be obligatory when the legal reserve is equal to 10% of the capital. Further appropriations must be made if the reserve falls below 10% of the capital.

Distributable income is comprised of the net income for the year, less losses brought forward from prior years and any amount to be appropriated to reserves as a result of legal or statutory requirements, plus any retained earnings.

Out of distributable income, the General Meeting appropriates successively:

1. Amounts judged appropriate by the Board of Directors to set up contingency or extraordinary reserves, or to be carried forward to the following year.

2. From any remaining balance, the amount necessary to pay shareholders a preliminary dividend of 5% on their fully paid-up and non-redeemed shares, without, however, conferring a right, if the profit of a year does not permit such a distribution, to claim any such unpaid amounts in future years.

3. Amounts available after such appropriations to be distributed to shareholders.

The General Meeting which approves the financial statements for the year has the power to grant to each shareholder, in respect of all or part of a dividend or an interim dividend to be distributed, the choice of payment in cash or in shares.

Regulated agreements entered into during the year

No new regulated agreements were entered into in 2004.

Subsequent to year-end, the Board of Directors' meeting of March 24, 2005 authorized agreements between Sofiag, a wholly-owned subsidiary of Compagnie de Saint-Gobain and Camaleo Investments, of which Sehoon Lee, a Director of Compagnie de Saint-Gobain, is a shareholder. The purpose of these agreements is to coordinate the Saint-Gobain's Group's acquisition of a controlling interest in Hankuk Glass Industries, 46%-owned by the Group at end-2004. The Statutory Auditors' special report provided on page 40 describes the main terms and conditions of these agreements. The agreements will be submitted to the Ordinary and Extraordinary General Meeting for approval on June 9, 2005.

Statutory Auditors' report

prepared in accordance with the final paragraph of Article L. 225-235 of the French Commercial Code, on the report of the Chairman of the Board of Directors of Compagnie de Saint-Gobain on the internal control procedures relating to the preparation and processing of financial and accounting information

To the shareholders,

In our capacity as the Statutory Auditors of Compagnie de Saint-Gobain and in accordance with the final paragraph of Article L. 225-235 of the French Commercial Code, we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-37 of the French Commercial Code, for the year ended December 31, 2004.

The Chairman is required to report on the conditions governing the preparation and organization of the work of the Board of Directors and the internal control procedures implemented within the Company. Our responsibility is to provide you with our observations on the information and disclosures contained in the Chairman's report concerning the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with the professional guidelines applicable in France. Those guidelines require that we carry out the necessary procedures to assess the fairness of the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures included:

• acquiring an understanding of the objectives and general organization of the internal control system, as well as of the internal control procedures applicable to the preparation and processing of financial and accounting information, as set out in the Chairman's report;

• acquiring an understanding of the work underlying the information presented in the Chairman's report.

Based on these procedures, we have no matters to report in respect of the information provided concerning the Company's internal control procedures relating to the preparation and processing of financial and accounting information, as presented in the report of the Chairman of the Board of Directors, prepared in accordance with the final paragraph of Article L. 225-37 of the French Commercial Code.

Paris and Paris-La Défense, March 24, 2005

The Statutory Auditors

PricewaterhouseCoopers Audit

Pierre Coll

Christian Marcellin

KPMG Audit
Department of KPMG SA

Jean Gatinaud

Gilles Salignon

This is a free translation into English of the Statutory Auditors' 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.

Statutory Auditors' special report on regulated agreements

To the shareholders,

In our capacity as Statutory Auditors of Compagnie de Saint-Gobain, we hereby present our report on the regulated agreements relating to the year ended December 31, 2004 on the one hand, and on an agreement approved subsequently to the December 31, 2004 year-end on the other hand.

Regulated agreements relating to the year ended December 31, 2004

In our capacity as Statutory Auditors of Compagnie de Saint-Gobain, we are required to report on the regulated agreements of which we have been advised. Our responsibility does not include identifying any undisclosed agreements.

We have not been advised of any new agreements governed by Article L. 225-38 of the French Commercial Code.

Agreements authorized by the Board of Directors subsequent to the December 31, 2004 year-end

In accordance with Article L. 225-40 of the French Commercial Code, we have been advised of the following preliminary agreement which was authorized by the Board of Directors subsequent to the December 31, 2004 year-end.

Our responsibility does not include identifying any undisclosed agreements. We are required to report to shareholders, based on the information provided, about the main terms and conditions of the agreements that have been disclosed to us, without commenting on their relevance or substance. Under the provisions of Article 92 of the March 23, 1967 decree, it is the responsibility of shareholders to determine whether the agreements are appropriate and should be approved.

We carried out our work in accordance with the professional standards applicable in France. These standards require that we perform procedures to verify that the information given to us agrees with the underlying documents.

Acquisition of additional interests in Hankuk Glass Industries (HGI) by the Saint-Gobain Group in April 2005

Director concerned: Sehoon Lee

In its meeting of March 24, 2005, the Board of Directors authorized Sofiag – a wholly-owned subsidiary of Compagnie de Saint-Gobain – to acquire 50% plus one share of the holding company NAI from Cameleo Investments, a company held by Messrs. Sehoon and Seheon Lee. The price of the transaction was set at EUR 78 million. Nai Holding holds a 34.5% interest in HGI.

Furthermore, the Board of Directors has approved a call option in favor of Sofiag and a put option in favor of the vendor – Cameleo Investments – on the remaining share capital of Nai Holding. The options are exercisable in April of each year of the period running from 2007 to 2012, and the exercise price is calculated on the basis of HGI's future earnings, within a range of between EUR 78million and EUR 95million. Additional earn-out may be payable under certain conditions on any capital gains realized by HGI on the sale of identifiable, non-operating assets. In the event that neither the call option nor the put option has been exercised at the close of the exercise period on April 30, 2012, the parties are invited to revise the terms of this agreement.

Finally, Nai shareholders have been authorized to draw up a shareholders' pact relating to the management of this company.

Paris and Paris-La Défense, April 6, 2005

The Statutory Auditors

PricewaterhouseCoopers Audit

KPMG Audit
Department of KPMG SA

Pierre Coll

Christian Marcellin

Jean Gatinaud

Gilles Salignon

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2 2004 MANAGEMENT REPORT

Unexpected, if uneven, growth worldwide

In 2004, GDP grew by 5.0% worldwide, its highest rate since 1988. Growth was boosted by the economic upturn that began towards the end of 2003 and by development in emerging countries, though it slackened off in the second half of 2004, with China adopting a series of cool-off measures to prevent economic burn-out. Over the year as a whole, world trade increased by 10%, the third-highest rate since 1987, with emerging markets accounting for almost half of this figure.

US imports followed the trend, spurred by vigorous household consumption (up by 3.1%) and buoyant productive investment (up by 10.3%). Residential real-estate investment remained at peak levels, as homebuyers continued to take advantage of low mortgage rates. The US economy was carried along by strong domestic demand throughout the year, to achieve overall growth of 4.4%, and company profits continued their upswing to approach best-ever levels. On the downside, it became increasingly difficult to finance this high domestic growth. Household savings shrank further still, to an average 1% of gross disposable income across the year. Though exports climbed 8.5%, this was not enough to improve the balance of trade, since imports rose even faster, at 10%. As the current deficit worsened with each quarter, dependence on incoming foreign capital became more acute. This weakened the dollar, and though the public spending deficit (over 4% of GDP) leveled out, it did not improve.

Emerging economies followed in the wake of China's economic boom, the driving force behind the rebound in exports from Asian countries. This situation shored up steady or rising prices for raw materials, from which South American countries derive a large proportion of their resources. High domestic demand enabled Eastern European countries to turn in a solid performance, despite a lukewarm situation in the European Union, which absorbs 80% of exports from Eastern Europe.

Against the global economic picture, the **European Union** again stood out for its lackluster domestic performance. Domestic demand excluding stocks (over 1% in 2004) was hit by stagnation in two factors affecting purchasing power: employment and unit remuneration, as well as by companies' financial streamlining efforts and government budgetary discipline constraints. Furthermore, export demand was hampered by a strong euro.

As in 2003, the overall European picture conceals widely uneven showings across individual countries.

Exports alone kept the **German economy** afloat. Growth remained low, at 1.0%, as a result of persistently low domestic demand, held back by rising unemployment, low salaries and a slump in the construction industry. Full benefits from reforms undertaken to revitalize German competitiveness have not yet filtered through, with the measures actually tending to stifle short-term performance.

The Italian economy again suffered the dual handicap of dwindling export competitiveness, under attack from emerging economies, and domestic demand penalized by sluggish growth in purchasing power and low household morale.

Stimulated by effective interest rates even more negative than in other countries, **the Spanish economy** was again the top performer in the euro zone with 2.7% growth, stimulated by a booming real-estate sector.

The "wealth effect" associated with rising real-estate prices also goes a long way to explaining strong growth in the **UK,** driven primarily by high household demand in consumer goods and real estate, along with a marked increase in public spending. However, foreign trade – hard hit by a strong pound against the dollar – did nothing to boost UK growth.

Household spending was also the main driver of growth in the **French economy** (2.3%). Consumer real-estate investment once again hit record levels, and productive investment picked up during the fourth quarter, after a lull during the third. But French export competitiveness continued to dwindle, as borne out by the high trade deficit.

Though **Japan** continued to suffer from structural problems, such as a fragile banking system and public finance deficit, it nevertheless showed signs of recovery, with 2004 growth of 2.7%. Exports held firm, productive investment stayed on track, and retail sales picked up. Though employment and effective salaries showed little sign of taking off, the specter of deflation seemed to have retreated by the end of the year.

Construction industry

The situation continued to improve in the construction industry worldwide, driven largely by the recovery in non-residential construction and public works. Encouraged by record-low mortgage rates, the residential real-estate market continued its strong upswing in 2004. This led to sharp price rises, but the industry staved off the threat of bubble-burst associated with excessive household debt.

♦ In the **United States,** households eager to benefit from low mortgage rates continued to flock to the real-estate market. The number of new housing starts dipped slightly in November, but was back over the two-million mark in December, slightly above the year's average. The number of residential building permits stayed fairly steady throughout most of the year, at around two million. The market for existing properties also proved vibrant. Under the most probable hypothesis for 2005, activity in the new-homes market should fall off, as the proportion of home-owners reaches a record high, and the grip of monetary pressure continues to tighten. However, business across the construction industry should continue to rise, on the back of a solid upward trend in the renovation of existing properties, and signs of an upturn in non-residential construction, which became visible towards the end of the year.

♦ As in 2003, residential property investment remained very high in most **European countries** (the most notable exception being Germany), owing to low mortgage rates, a growing trend toward home ownership, attractive tax conditions (as in France and Spain), and an increase in second-home ownership. Although activity in the new-homes market is expected to run out of steam, this should be offset by growth in non-residential construction and renovation.

♦ In **Germany,** the construction and public works industry posted a further decline of 1.5% in 2004. Encouragingly, though, the residential sector grew by 1.5%, and the number of building permits stopped falling, to show a slight rise. Furthermore, the most promising signs are in the light-work sector, which is the sector primarily addressed by Saint-Gobain. However, any excess optimism regarding 2005 should be held at bay by high unemployment across the country, which is holding back households' residential investment decisions, and by the surplus of empty accommodation in the eastern Länder, which has not been absorbed. While non-residential construction can be expected to benefit from the recovery in German industry, there is also a large build-up of vacant office space.

♦ In **France,** the number of new construction starts rose sharply again in 2004, by 23%, as did the number of building permits (up by 17%). The number of building permits held firm through to the end of 2004, providing a promising early indication of business for the first half of 2005. Aside from the reasons outlined above, short supply on the property rental market is also a powerful stimulus in this case. And though property prices are high, they appear consistent with fundamentals. The renovation sector, which continues to benefit from a preferential VAT rate of 5.5% for work carried out by building-trade professionals, grew by 5% in value in 2004, with the trend expected to continue in 2005.

♦ With 687,000 new construction starts, 2004 was another record year for the **Spanish** construction industry. Pricing pressure on the Spanish market remains the strongest in Europe.

♦ In the **United Kingdom,** the number of construction starts and transactions peaked in the third quarter of 2004, as, most spectacularly, did property prices. However, the trend appears to be waning, as the central bank's gradual monetary squeeze strategy begins to take effect.

Automotive industry

In 2004, worldwide production of cars and light commercial vehicles grew by 5% to reach 61.7 million units, with the strongest performances notched up in emerging markets.

In **Asia-Pacific,** the boom in **Chinese** domestic vehicle sales – which had surged 80% in 2003 – was cut back to 15% in 2004 due to Chinese government restrictions on consumer credit. **Japanese** sales and production rose slightly in 2004, with local manufacturers benefiting chiefly from export performance in the rest of Asia, the United States and Europe.

Auto manufacturing output in **Latin America** climbed 16% in 2004. Sales continued on an upward trend in the Southern Cone, especially in Brazil. European and US auto makers with local plants have been able to benefit from this trend, even if their margins are slightly squeezed by pressure on domestic prices.

In the **United States,** automotive production contracted slightly by 1.3%, though sales steadied out at a high level with a fresh advance by Asian auto makers and sustained promotional efforts from the US "big three", who managed to stem the decline in their market shares. For European auto makers, on the other hand, the downward trend continued.

Growth in **European** production (up by 3.3%) was driven essentially by **Eastern Europe** (up by 19.0%), which saw the start of production at several new facilities. In **Western Europe,** market and production conditions remained flat, as sales were hit by the growing stream of Asian imports. Conditions varied substantially from country to country, with significant market growth in Denmark, Spain, Greece, Ireland and Norway, contrasting with stagnation or decline on markets that had already matured or which ran out of steam after years of high sales (Germany, France, Italy, the Netherlands, Switzerland, the UK).

Electronics industry

World deliveries of semiconductor components grew by 25% (in current dollars) in 2004. The global semiconductors market steadied out at a very high level (above the peak reached during the previous cycle in 2002). However, the slight dip in deliveries during the second half of the year is reason for caution in 2005.

Capital expenditure in the global semiconductor market peaked in 2004, at USD 46.2 billion (according to the latest estimate in December 2004[1]). This represents an average growth in value of 61.3% for 2004, compared to 10.3% in 2003. Growth by application breaks down as 65.8% in wafers, 46.6% in assembly and packaging, and 51.7% in automation.

Excess capacities arising from these fresh investments are lower than during the two previous cycles, which is likely to result in a relatively short readjustment period. Total capital expenditure growth in the industry should ease back to 15.3% in 2005, then level out in 2006 (–0.2%) prior to taking off again in 2007, with forecast growth of 21.4%.

Sharp rise in sales and income

In 2004, Saint-Gobain once again demonstrated the efficiency of its business model and the robustness of its industrial and financial strategy. Targets were exceeded thanks to a strong operating performance, leading to an increase in operating margin during the second half of the year, with respect to both the first half of 2004 and the second half of 2003.

On a like-for-like basis (constant Group structure and exchange rates), sales rose by 4.6% and operating income by 8.1%, with operating margin coming in at 8.2% (10.1% excluding Distribution). Excluding capital gains and losses on disposals of assets, consolidated net income rose by 10%. Given the total number of shares issued at December 31, 2004, this represents net earnings per share of €3.29, up by 12.3% from 2.93 in 2003.

Total consolidated net income stood at €1,083 million, up by 4.2% on 2003, giving total net earnings per share of €3.18, up by 6.4% from €2.99 in 2003. Excluding treasury stock, total net earnings per share rose by 4.5% to €3.23.

These results also reflect the Group's stronger financial structure, with a further 1.6% reduction in net debt, to €5.6 billion, despite a sustained program of acquisitions in Distribution and emerging countries, and a 13.8% increase in capital expenditure. Free cash flow levels (cash flow from operations less capital expenditure) were high, with each Sector making a positive contribution. Excluding capital gains tax, free cash flow stood at €1,071 million, or 3.3% of sales.

These results were achieved in a tough, tense economic environment, marked by continually unfavorable exchange rates – particularly with respect to the dollar – and a hike in the cost of energy and certain raw materials. Some of the Group's sensitive markets remained depressed (Construction in Germany) or affected by low prices (Reinforcements). However, by pursuing productivity gains and the rollout of its business model, the Group managed to deliver a solid performance consistent with its three strategic priorities: strong sales and profitability gains for Building Distribution; recovery in High-Performance Materials; accelerated sales growth and enhanced profitability in emerging countries and Asia.

Except for the Pipe business, all of the Group's Divisions reported like-for-like sales growth over 2004. New businesses and emerging countries proved to be the Group's main growth and profitability drivers.

Sales rose by 8.2% on an actual structure basis, by 10.3% at constant currencies, and by 4.6% like-for-like (constant structure and exchange rates). Like-for-like growth indicates actual organic growth over the year. In 2004, organic growth outpaced GDP growth in OECD countries (3.9%) and industrial production (3.8%), on the back of an increase in sales volumes (2.9%) and prices (1.7%).

Changes in Group structure were the most keenly felt in the Building Distribution Sector, with the acquisition of Dahl in Scandinavia, and various other bolt-on acquisitions. On a current structure and exchange rate basis, this Sector makes the biggest contribution to Group sales growth.

The High-Performance Materials Sector (including the Reinforcements Division) reported the Group's highest like-for-like growth, at 8.9%, on the back of a sharp rise of 11% in sales volumes across all operations. The recovery in manufacturing and capital expenditure took hold over the year, especially in the United States.

Among Saint-Gobain's historic businesses, the Flat Glass Sector posted sustained sales growth of 2.9% on a like-for-like basis, despite the difficulties facing the building industry in Europe. However, slack business in European construction was partly offset by progress on the automotive market in Europe and emerging countries.

The Packaging Sector posted a slight increase in like-for-like sales, with price rises implemented throughout the Sector offsetting a dip in sales volumes on the European wine market.

The Construction Products Sector achieved organic sales growth of 4.3% on a like-for-like basis, consistent with the average across the Group, despite a substantial drop in sales reported by the Pipe Division, since the last deliveries were made under the historic Abu Dhabi contract at the end of the

(1) Source: Gartner Dataquest

first quarter of 2004. The Insulation and Building Materials Divisions enjoyed sustained organic growth of 8.1% and 9.6% respectively, owing to the buoyant residential construction market in the United States. These like-for-like figures are adjusted to allow for the second disposal of Terreal and CertainTeed Ventilation, reducing the size of the Sector accordingly.

A geographical breakdown of like-for-like data shows consistently robust sales in France (despite the fall-off in Pipe exports, which are included in this category) and, above all, in North America (up by 10.1%). Growth in other Western European countries - also affected by the decline in the Pipe business – was subdued. Delivering sales growth of 13.9%, emerging countries remain the Group's biggest growth driver.

By major geographic area, France accounts for 31.7% of total sales, with other Western European countries contributing 40.8%, North America 17%, and Asia and emerging countries 10.5%.

Operating income rose by 7.8% and by 10.3% at constant exchange rates and based on an actual structure (7.2% excluding Dahl), ahead of the 7% target. On a like-for-like basis, operating income climbed 8.1%. On an actual structure basis, operating income accounted for 8.2% of sales, compared to 8.3% in 2003. This dip is explained by the increase in Building Distribution sales as a proportion of total sales. Though the operating margin for this business is structurally lower than for industrial operations, it nonetheless increased sharply in 2004, to 5.4% of sales, compared with 5% in 2003, thanks to a favorable contribution from recent acquisitions.

The operating margin for the High-Performance Materials Sector came in at an improved 9.9%, compared with 8.3% in 2003, owing to an upturn in the market and the benefits from cost reduction programs undertaken in recent years.

In contrast, the Flat Glass Sector saw a slight sag in profitability from 11% in 2003 to 10% in 2004, mainly due to falling prices on the European building market, though this trend appeared to reverse towards the end of the year.

The Packaging Sector succeeded in lifting its operating margin from 11.4% in 2003 to 11.6% in 2004, despite rising energy costs.

The Construction Products Sector reported a steady operating margin in like-for-like terms, allowing for the exit of Terreal from the consolidated group and the strong impact of rising raw material costs on profitability in the Building Materials Division (asphalt, resins) and particularly the Pipe Division (iron, castings, coke).

Overall profitability improved across all geographic areas except France, which was affected by the decline in the Pipe division. Emerging countries reported the highest rise in operating income (up by 28.4%) and the highest operating margin, which climbed from 10.5% to 11.8%.

The Group's resilience regarding operating income was rooted in rising sale prices and volumes, as well as ongoing cost-cutting efforts. Productivity increased by 3.6% in 2004, on the back of a 4% rise in 2003.

A number of other factors contributed to the improved results. Net interest expense and other financial charges contracted by 3.5%, chiefly as a result of exchange gains on the conversion into euros of interest on loans in other currencies. The interest cover ratio came in at 6. Net debt was scaled back for the fifth year in a row, to stand at €5.6 billon at year-end. The Group's gearing ratio also improved for the fifth consecutive year, coming in at 46% at December 31, 2004, despite the negative currency effect on shareholders' equity.

The debt paydown is attributable to two main factors. First, ongoing efforts to generate high free cash flow. Cash flow from operations before capital gains tax reached €2,608 million, an increase of 2.7% on 2003. Capital expenditure advanced by 13.8% to reach €1,537 million, representing 4.8% of sales compared to 4.6% in 2003. Free cash flow thus comes out at €1,071 million, excluding capital gains tax.

The second explanatory factor is the continued headway made in reducing working capital, which remained well under control despite the substantial increase in business over the year.

Investments in securities rose to €899 million (including net acquired debt) from €789 million in 2003. Of this total, €696 million related to Dahl and €128 million to other bolt-on acquisitions made by the Building Distribution Sector.

The results achieved in 2004 confirm the efficiency of the Group's business model, which is based on three strategic priorities:

• expansion of the Building Distribution Sector;

• growth dynamics for High-Performance Materials;

• accelerated development across all businesses in emerging countries.

Based on the same dynamics and against a backdrop of moderate economic growth, the Group targets a 6% increase in operating income for 2005 based on constant exchange rates and comparable accounting standards, and also aims to maintain a high level of free cash flow.

Cockpit windows by Saint-Gobain Sully on the world's most modern and spacious aircraft, the Airbus A380.

Flat Glass

The Flat Glass Sector makes, processes and markets glass and glazing products for two main markets: the building and automotive industries. Its four main business lines are flat glass manufacturing; processing and distribution of glass for the building industry; production of automotive glass; and production of specialty glass, which includes products for home appliances, fireproof glass, nuclear safety glass and glass for electronics.

Flat glass is manufactured in large industrial units known as float-glass lines, which produce everything from basic grades (in clear and colored varieties) through to more sophisticated types with metallic oxide or other special coatings, for use in a wide range of applications, such as thermal insulation and sunlight control.

Saint-Gobain Flat Glass operates in 36 countries and boasts 30 float-glass lines, of which 11 are jointly owned. One float-line is also currently under construction in India.

Two-thirds of the glass produced by Saint-Gobain's Flat Glass plants is further processed before being sold, notably for the building industry. This market is served by a network of downstream processing and distribution businesses covering a huge spectrum of applications, from structural glazing and wall facings for major construction projects and urban amenities through to glazing products for industrial carpentry, furniture, bathroom fixtures and interior decoration. All of these applications have proven ripe for major innovations, such as low-emission, electrochrome, electrically-controlled and shatterproof glass.

The Flat Glass Sector is also a manufacturer of automobile parts, supplying major European and global car manufacturers with windshields, rear windows, side windows, glass sunroofs and other ready-to-assemble modules. Automotive glazing parts are complex, sophisticated products, featuring advanced technologies in toughening, lamination, tinting, and special high-performance coatings. The pace of change in this field is fast-moving, to keep up with consumer expectations of ever-greater safety and comfort through increased visibility, insulation and soundproofing. In addition to automotive markets, the aeronautics and mass transit industries are another significant end-use market for the Sector's product expertise.

FLAT GLASS

SGG Nemo: new glass for interior fitting applications, from Saint-Gobain Glass.

In-process testing at Saint-Gobain Glass.

Contribution to the Group

	2004	2003	2002
% of net sales	**14%**	14%	15%
% of operating income	**17%**	19%	19%
% of cash flow from operations	**19%**	22%	23%

Key consolidated data

(in € millions)	2004	2003	2002
Net sales	**4,394**	4,298	4,423
Operating income	**440**	471	495
Cash flow from operations	**508**	548	622
Capital expenditure	**448**	364	377

Internal sales are deducted from sales data by Sector and by Division.

The Sector includes under the heading of Specialty Glass a number of companies fielding specific capabilities in markets such as home appliances (Euroveder, Eurokera), fireproof glass (Saint-Gobain Vetrotech International), industrial optics, and industrial refrigeration. Another specialist subsidiary, Saint-Gobain Display Glass, produces and markets flat glass products for electronic displays.
To meet the needs of its various markets, the Sector has adopted a customer-focused organization, as follows:

♦ Saint-Gobain Glass for basic products;
♦ Les Vitrages de Saint-Gobain for processing and distributing flat glass for the building industry;
♦ Saint-Gobain Sekurit for the automotive and mass transit markets;
♦ Saint-Gobain Specialty Glass.

International expansion is a constant priority for the Flat Glass Sector. Adding to its longstanding presence in all of the major glazing markets in Western Europe, it has also made inroads into South America (Brazil, Argentina, Chile), as well as Eastern Europe, Mexico, Korea, and, more recently, China and India. Sales offices have been set up in a number of countries, including Japan and the United States, in order to boost sales of flat glass products in these markets.

Operations in 2004

Flat Glass sales advanced 2.2% year-on-year, to €4.4 billion in 2004. Stripping out the currency effects, sales growth was 3.8%. The negative currency effect (caused by a rising euro against US and Asian currencies), along with falling prices for float glass and processed products in Europe, were offset by rising volumes in automotive glass and float glass outside Europe, and an enhanced product mix.

In Europe, float glass sales were up 0.8%, in step with market growth. Overcapacity significantly drove down prices throughout most of the year, but this situation ended in early November with the introduction of an energy surcharge linked to oil prices. Outside Europe, Saint-Gobain Glass sales rose sharply. Robust volume and price levels were maintained in South America, while volumes held steady in Mexico despite intensifying competition, and expanded in India and Korea. A fourth float-line was started up at the Cebrace plant in Brazil, and construction work has started on a new line in India.

The network of subsidiaries specializing in processing for the building industry (Les Vitrages de Saint-Gobain) reported a drop in sales, chiefly as a result of falling sale prices, a phenomenon that nevertheless abated towards the end of the year.

In Europe, the growth in sales on the automotive glazing market stemmed from rising volumes on the back of continued efforts to enhance the product mix with lines such as laminated side windows, heat-reflective windshields and heated windows. Volumes also advanced outside Europe, especially in Asia, with sales growth in Japan and the launch of a new plant in China (Shanghai), which will be exporting throughout the Asia-Pacific region as well as supplying vehicle assembly plants in China.

The Transport business (glazing for planes, trains, buses, coaches, etc.) reported a rise in sales in windshields for heavy vehicles, as well as toughened-glass products in Poland, and armored glass products in the United States.

The Autover line, which specializes in spare parts for the auto industry, also achieved a significant increase in sales.

Sales climbed across the whole of the Specialty Glass business (glass for home appliances, electronics, and industrial refrigeration), with demand particularly robust in ceramic glass, glass for home appliances, and fireproof glass.

Operating income for the Flat Glass Sector came in lower than in 2003, chiefly owing to falling prices for float glass and processed products in Europe, which dampened profitability at Saint-Gobain Glass Europe and Les Vitrages de Saint-Gobain, and to a negative currency effect of €11 million. However, Saint-Gobain Glass notched up a substantial rise in operating income outside Europe.

Outlook for 2005

Many industrial and technological projects are planned for 2005:

♦ Product range enhancements will be made across all Flat Glass business lines.

♦ Following the launch of a repaired float-line in Qingdao (China) in January 2005, construction work on two new float-lines will continue in Romania and Poland, with production scheduled to start in the second half of 2006.

♦ A new float-line and a new coated glass line will be starting up in India, along with an automotive glass plant, to meet increasing demand in the Indian market.

♦ Increased volumes are expected in all Flat Glass business lines (float glass, coated glass, processed products, automotive glass and other markets).

SGG Thermovit Elégance: transparent glass radiator, available in various models (wall-mounted towel dryers for the bathroom, and floor-mounted units for the office, living room or veranda).

Packaging

The Packaging Sector is a front-ranking international player in all three of its business lines. These comprise:

♦ Glass bottles and jars for foodstuffs and beverages;

♦ Glass flasks for perfume and pharmaceutical products;

♦ High-performance plastic pump dispensers for beauty, personal care and cleaning products.

To meet the diverse needs of both global and locally-based clients, the Packaging Sector operates bottle and jar manufacturing units in Europe (France, Germany, Italy, Spain, Portugal), the United States, South America (Brazil, Argentina), and China.

In the food and beverages industry, Saint-Gobain Packaging is present in all market segments. These include still wines, champagnes and sparkling wines, beer, liquor, aperitifs, fruit juices, soft drinks, mineral waters, oils, baby food, instant food and drinks, yoghurts, desserts, etc. The Sector's expertise has enabled it to become joint leader on the European market and capture the number two position in the United States.

The Flasks business serves worldwide perfume and pharmaceutical makers from locations in Europe and the Americas. As the world's foremost manufacturer of flasks, its design flair, wide array of glass finishes, and the excellence of its process controls and quality assurance methods, which are used as benchmarks for all its operations, are widely recognized within the industry.

The Plastic Pump dispensers business line manufactures a core catalogue of products for global markets and has production facilities in Europe, the United States, Latin America and China. As in its other core businesses, the Sector enjoys a strong reputation for the quality and performance of its products, as well as for its process controls and quality assurance standards.

Across all businesses, the strategic focus is on ever-enhancing product and service quality to respond swiftly to customer needs and expectations.

PACKAGING

Flask for the new 212 *On Ice* fragrance by Carolina Herrera (Puig group), with a brand-new Mélodie pump by Saint-Gobain Calmar. This tiny device with its almost invisible dip tube is a high-tech jewel in itself, combining the virtues of transparency, miniaturization, customizability, smooth action and excellent seal.

Evian's special-event bottle, baptized Origine, was dreamed up by the Landor design agency and made at the Saint-Gobain Emballage plant in Cognac (France). The unique asymmetrical design, evoking a sculpture in ice, is breathtakingly original.

Contribution to the Group

	2004	2003	2002
% of net sales	**12%**	13%	13%
% of operating income	**17%**	18%	19%
% of cash flow from operations	**19%**	20%	21%

Key consolidated data

(in € millions)	2004	2003	2002
Net sales	**3,779**	3,869	4,076
Operating income	**440**	442	479
Cash flow from operations	**490**	504	556
Capital expenditure	**302**	265	297

Internal sales are deducted from sales data by Sector and by Division.

Operations in 2004

Sales across the Packaging Sector contracted by 2.3% compared to 2003. There was no material change in Group structure, but unfavorable currency effects had a strong impact, mainly attributable to the drop in the dollar and, to a lesser extent, in the Brazilian real and the Argentinean peso. Stripping out the currency effects, sales increased by 1.3% year-on-year.

In Bottles and Jars, European sales rose slightly – despite lackluster markets in France and Germany – driven by the robust results reported in Southern Europe, especially in Italy and Portugal. On a sagging US market, sales of bottles and jars dipped, hurt by a falling dollar. In contrast, emerging economies (Latin America and China) posted sustained growth, rooted in economic recovery and renewed vigor on target markets such as Argentinean wines. Though growth in these areas was attenuated by currency effects, it remained high.

In Flasks, growth proved satisfactory despite negative currency effects weighing on sales, with performance attributed chiefly to design flair and vigorous sales efforts in the perfumes market.

Lastly, Plastic Pump sales rose slightly despite a highly negative currency effect.

Though market conditions remained difficult by and large, especially in France, Germany and the United States, the Sector's sales growth (based on constant exchange rates) reflects a robust performance built on a strong focus on quality and customer satisfaction, with comprehensive sales offerings that are constantly being expanded and leading-edge production capabilities.

Bottle by Saint-Gobain Emballage for Marnier Lapostolle's new Navan liquor. An elegant interplay of glass thicknesses highlighting a harmonious round body topped by a graceful facetted neck. The extra-white color is an ideal medium of expression for this intriguing cognac infused with natural black vanilla from Madagascar.

Some examples from the Saint-Gobain Desjonquères collection.

Although operating income for the Sector was again hit hard by rising energy costs in 2004 (especially natural gas in the United States), at constant currencies it rose a further 2.2% on the record high achieved in 2003. Operating margin also climbed to 11.6%. This solid performance was the result of continuing productivity drives across all companies in the Sector, and the benefits from the streamlining measures undertaken in the Bottles and Jars business in the United States and Germany.

Cash flow remains at the high level of €490 million, the decrease from the €504 million recorded in 2003 being essentially due to unfavorable currency effects.

Further efforts to cut working capital requirements enabled the Sector to finance a large proportion of capital expenditure under an ambitious plan to step up industrial productivity and competitive performance.

Outlook for 2005

Despite the expected upward pressure on energy and raw materials prices in 2005, the Sector is aiming – barring any major incident, particularly concerning exchange rates – to keep up moderate growth and high-level performance. To pursue this goal, it has set ambitious targets as regards optimizing its production capabilities and further improving on the high performance levels delivered in 2004.

Saint-Gobain Desjonquères flask for the *Love in Paris* fragrance by Nina Ricci. An elegant outline with a distinctive thick-walled rectangular base and slightly tapered upturned shoulders. Frosted brown signature on both sides.

Construction Products

The Construction Products Sector is made up of the Building Materials, Insulation and Pipe Divisions, derived from Saint-Gobain's historic businesses, Pont-à-Mousson and Poliet. The new-look Sector offers a comprehensive range of materials for applications in civil engineering and public works (pipe, roadworks, utilities) and in construction, for new buildings and renovations (Building Materials and Insulation). As well as catering to regional demand in Europe and the United States through its various business lines, the Construction Products Sector also operates on traditional global markets, led by Saint-Gobain PAM, the world's leading supplier of ductile cast-iron pipes for water supply networks.

Contribution to the Group

	2004	2003	2002
% of net sales	**18%**	20%	21%
% of operating income	**19%**	24%	25%
% of cash flow from operations	**21%**	21%	24%

Key consolidated data

(in € millions)	2004	2003	2002
Net sales	**6,004**	6,233	6,374
Operating income	**507**	584	654
Cash flow	**538**	526	631
Capital expenditure	**294**	257	252

Internal sales are deducted from sales data by Sector and by Division.

BUILDING MATERIALS

The Building Materials Division is one of the world leaders in its market, with top-ranking positions in the United States, Europe and Latin America. The Division provides complete offerings for the outside of the home, in both construction and renovation segments: vinyl and cement wall facings and exterior fittings for individual homes in the United States; roofing materials; concrete products for roadworks and utilities; mortars for wall facings and glues for tiles.

CONSTRUCTION PRODUCTS

Wall facings,
by Saint-Gobain Weber.

Key consolidated data

(in € millions)	2004	2003	2002
Net sales	**2,625**	2,824	3,074
Operating income	**195**	265	335
Cash flow from operations	**203**	172	247*
Capital expenditure	**102**	117	135

** After a pre-tax charge of €100 million for asbestos-related litigation.*
Internal sales are deducted from sales data by Sector and by Division.

The Division's global footprint does not preclude a strong local dimension in products and solutions that cater to local preferences while servicing the traditional needs of the construction industry. In each market and region, homes have specific architectural features – for example, wall facings and coatings vary from country to country across Europe, while weatherboarding options are different in many regions of the United States. More than half of the Division's sales are generated in the Americas, yet its vast product offerings are available in 27 countries.

CertainTeed spearheads the mainly US-based operations of products for wall facings and exterior home fittings (weatherboarding, windows, guttering, railings and deck equipment), and roofing materials (asphalt shingles).

Saint-Gobain Weber, the world leader in tiling adhesives and grouting, heads the Division's global mortars business and is actively expanding its geographic reach, for example into China, India and Central Europe. It is the European leader in wall facings and holds the top spot in Europe and Brazil for industrial mortars[(1)].

The Group's subsidiary, Brasilit, ranks number one in Brazil's asbestos-free roofing market. Fiber-cement roofing products, reinforced by plastic threads, are primarily a Brazilian business, as this material is particularly suited to the country's traditional rustic-style housing market.

Industrial concrete, a France-based business operated by Saint-Gobain Stradal, manufactures a range of products used in roadworks and utilities, as well as in civil engineering applications (railway ties, arch stones, supports). Over the year, this business line has continued to actively branch out into urban furniture, floor slabs, paving stones and garden and landscaping items.

The Division's main strategic goals are bolstering its positioning on core market segments and sub-segments, such as the United States, Central Europe and Brazil, while speeding up expansion into new markets in China, India and Central Europe.

Operations in 2004

On an actual structure basis, sales for the Building Materials Division fell back 7% on 2003, owing to the euro's rise against the US dollar and the Brazilian real, and to the disposal of CertainTeed Ventilation in the United States and of the Terreal group in France, at the end of March 2003 and the end of October 2003, respectively.

Based on a comparable structure and excluding exchange rate impacts, sales rose by 9.6%, doubling the growth of 2003. This upward trend stems mainly from US operations, with rising volumes, larger market shares and higher sale prices. The Mortars business also advanced, mostly in Southern and Central Europe, the UK, France, Romania and Turkey.

(1) Source: Saint-Gobain

Centennial Slate™, a new asphalt roof shingle that very effectively imitates the natural color variation in traditional slate.

Operating income, based on constant exchange rates and a comparable structure, remained steady with respect to 2003, despite escalating costs of asphalt, resin and natural gas in the United States, which could only partly be recouped through sale prices. Based on an actual structure, operating income fell 26% compared to 2003, when the Division still included – for part of the year – the tiling business of Terreal and CertainTeed Ventilation in the United States.

Throughout 2004, the Building Materials Division pursued productivity drives at its US plants and continued to expand its Mortars business into Central Europe, China and India.

Large-scale investments were made in the United States to increase production capacity for roof shingles with higher added value and durability.

Outlook for 2005

Business should hold firm in the US construction industry during the first half of 2005, and fall off slightly in the second half. While volume growth on Western European construction markets might prove constrained, this prospect is offset by promising development opportunities in Central Europe and possibly Russia. Unlike volumes, average sale prices should see an upswing as a result of substantial rises in the cost of raw materials, energy and transport.

All told, because of the types of products it makes and its regional market coverage, the Building Materials Division should not be overly threatened by low-cost imports from Asia. On the contrary, it is likely to benefit from openings for gradual expansion into emerging countries, attracted by the leading-edge construction technologies and high product quality associated with European and US production.

Insulation

The operations of the Insulation Division, born of the development of glass technologies, include glass wool (TEL process), rock wool, soundproof ceilings and insulating foams, which are developed in partnership with major chemical companies.

The Division's corporate mission is to deliver effective and environmentally sound insulation solutions combining both comfort and safety under the Isover brand.

Insulation products are sold as rolls, panels, loose-wool and shell formats. They are mainly designed for the new construction and renovation markets, for fitting on roofs and walls and under flooring, to reduce heating costs or noise with a view to providing maximum comfort. Thermal insulation and soundproofing standards in the construction industry have been introduced in a large number of countries, providing a solid basis for developing this kind of application.

In addition to these uses in the building industry, a portion of sales derives from technical insulation for some of the most complex industrial facilities, or niche markets such as soil-less (hydroponic) cultivation.

One house in three is insulated with the Division's products in Europe, and one house in five in the United States. The Division ranks number one in mineral-fiber insulation products, and has operations across the globe, either as a direct producer or via its licensees[1].

Vario climatic membrane, for effective protection of timber roofs.

(1) Source: Saint-Gobain

The Division increasingly focuses on supplying sophisticated systems that meet ever-higher performance standards, drawing on its recognized expertise in thermal insulation, fire-proofing and soundproofing. The development of sound-proof ceilings is delivering on its promises, thanks to the Ecophon, Eurocoustic, API and Gabelex brands.

The Division is structured based on the world's major regions, aimed at fostering manufacturing and marketing synergies between countries and enabling it to respond promptly to market needs. The aim is to maintain a steady growth rate across all markets.

In industrialized countries where it enjoys long-standing leadership, the Division is developing new high added-value systems. Isover has gained a strong foothold in emerging economies for all applications, successfully tapping the growth opportunities generated by the climate itself and a growing demand for comfort. The extension to the Yegorievsk facility in Russia is a prime example of this.

The overall strategy adopted by the Division hinges around its global brand, Isover, and is underpinned by the following goals:

- to bolster its leadership in mineral-fiber insulation products through technological innovation and the development of cutting-edge products;
- to step up development in emerging countries, with special emphasis on Central Europe, Russia and China;
- to consolidate European leadership for the new Ceilings business, by leveraging product synergies (glass-wool and rock-wool soft ceilings, metal ceilings, profiles) and to expand geographic reach;
- to make an active contribution to the Group's sustainable development efforts, by improving the environmental performance of its plants and products, and by promoting the environmental benefits of mineral-fiber insulation products.

Operations in 2004

In 2004, the Insulation Division turned in an excellent performance, posting a sharp rise in net sales (up by 5.7% based on an actual structure and 8.1% like-for-like) and in operating income (up by 44% based on actual structure and 48.2% like-for-like).

Key consolidated data

(in € millions)	2004	2003	2002
Net sales	**2,018**	1,909	1,971
Operating income	**242**	168	184
Cash flow from operations	**267**	210	213
Capital expenditure	**245**	90	78

Internal sales are deducted from sales by Sector and by Division.

Except in Germany, where the building industry remained sluggish, growth in most European insulation markets held firm in 2004. Thanks to its new plant at Yegorievsk in the Moscow region, the Insulation Division felt the full benefits of strong growth in Eastern European markets (Russia, Poland, Ukraine). In the United States, demand ran very high, especially during the second half of the year, and sales were boosted by a rise in sale prices.

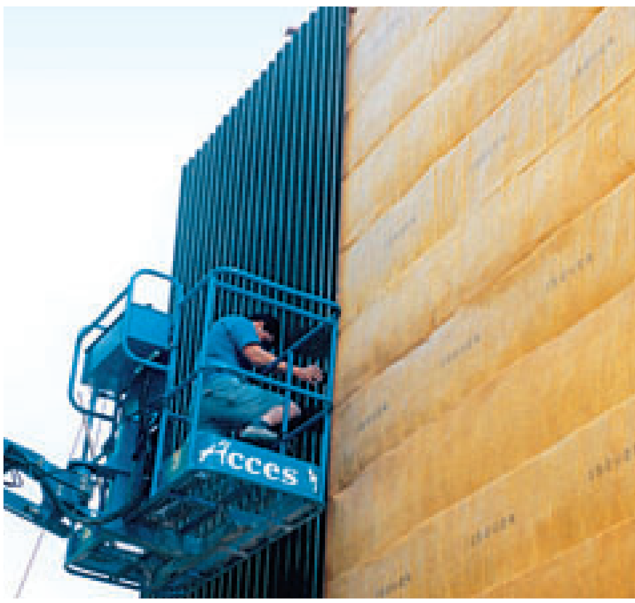
The significant improvement in operating income reflects the combined effect of rising sale prices and volumes in Europe and the United States. Productivity gains in the Division's plants offset the hike in the cost of raw materials, energy and transport.

Capital expenditure surged in 2004 with respect to previous years, owing to capacity increases completed in the United States and begun in Russia, with a second line at Yegorievsk scheduled to start up in summer 2005.

Outlook for 2005

The outlook for the Insulation market in 2005 remains promising in Europe, though growth in residential housing starts in the United States appears more uncertain. Overall, sales for the Insulation Division are set to continue on an upward trend, as new capacities come on stream in Russia and the US. Sales are poised to advance further, with the consolidation of the metal ceilings businesses acquired in 2004 (Plafométal and Gabelex).

As in 2004, the Insulation Division plans further improvements in plant performance, to offset part of the expected rises in energy and transport costs in 2005.



PIPE

The Pipe Division has operated in the water-supply industry for over a century, providing comprehensive expert solutions that meet the highest possible demands.

It focuses on designing and selling:

♦ complete systems of ductile cast-iron pipes for drinking water, irrigation, purification and rainwater drainage;

♦ pipe systems for industrial general circuits;

♦ pipe systems for fire prevention;

♦ full ranges of valves, sprinklers and connectors for water and purification systems, drainage, as well as fire prevention and irrigation devices;

♦ complete cast-iron pipe systems for the building industry (wastewater and rainwater drainage);

♦ roadworks components made of ductile cast iron and steel for accessing pipe systems (water supply, wastewater drainage and telecommunications).

With a view to ensuring a local footprint, the Pipe Division is structured internationally into three business lines: Water and Purification, Roadworks and Utilities, and Construction.

Key consolidated data

(in € millions)	2004	2003	2002
Net sales	**1,381**	1,516	1,344
Operating income	**70**	151	135
Cash flow from operations	**68**	144	153
Capital expenditure	**47**	50	39

Internal sales are deducted from sales by Sector and by Division.

The Pipe Division is the world's leading producer and exporter of ductile cast-iron pipe systems and supplies for roadworks and utilities. It also holds the top slot in Europe for cast-iron wastewater drainage systems.

The Division has operations in around one hundred countries, representing all of the world's major markets. Its historic bases in France, Germany, Spain, the UK, Italy and Brazil have been extended to include new capacities in Colombia, China, South Africa and the Czech Republic.

Sales and marketing efforts are carried out within each of the Division's manufacturing companies as well as through sales subsidiaries.

Operations in 2004

Following on from the excellent results of 2003, boosted by major Distant Export contracts (project to link the Shuweihat desalination plant with Abu Dhabi and the delivery of a water pipeline in the north-western region of the Dominican Republic), 2004 saw a return to normal business levels, marked particularly by the hike in raw materials and energy costs. Sales for the Division dropped 8.9% and operating income fell 53.6%.

In Europe, the Division's markets held up well on the whole. Domestic construction and public works markets in the UK, Germany and Italy began to run out of steam in summer 2004, although markets remained vigorous in France, Spain, Portugal, Belgium and Eastern Europe. The Division reaped full benefits from its efforts in innovation and sales differentiation, to offer products even better matched to customers' needs. Encouraging sales results were achieved by the Division's new range of gravity drainage pipes, and new product lines for irrigation and rainwater drainage in Spain. The Division also pushed ahead with geographical extension in its market coverage, making

Linea Paralela contract to supply drinking water to Panama City: 6 km of pipeline in ductile cast iron.

Shuweihat contract to supply drinking water to the city of Abu Dhabi: 468 km of pipeline in ductile cast iron, in two parallel runs of 234 km.

inroads, for example, on upmarket ductile cast-iron roadway fittings in Germany.

To offset the steep rise in costs (iron, foundry coke and maritime transport) stemming from the hike in raw materials and energy prices, the Division raised its prices on its main European markets. These measures came into effect during the second half of 2004, and benefits should begin to filter through in early 2005. Despite the upward cost spiral, ductile cast iron should remain competitive against plastic alternatives (with price rises announced for resins) and become more competitive with respect to steel.

Outside Europe, the Division turned in a disappointing performance in Brazil, especially during the first half of 2004, and in China, where government measures to prevent economic burn-out took their toll from the second quarter of 2004. On both these markets, business nevertheless picked up during the second half of the year. In Distant Export markets, a lack of major contracts prevented the Division from matching its exceptional 2003 results, but significant projects were nevertheless delivered in locations including Panama, Africa (Algeria and Senegal) and the Middle East.

Capital expenditure efforts were stepped up once again in 2004, in a bid to provide the Division with a highly competitive network of foundries in emerging countries, capable of rounding out the existing pipe supply base. Modernization and extension work continued on the Czech foundry to build up capacity, while the foundry in China was completed.

Following shutdown of the centrifuge unit for building industry products at Liverdun (France) in late 2003, further exceptional measures to reduce European capacity followed in 2004: the centrifuge foundry units at Gelsenkirchen (Germany) were closed, along with a UK foundry unit making roadworks fittings. In late 2004, a decision was taken to close down the Italian centrifuge unit at Cogoleto. These streamlining operations improve the Division's competitive performance. All other sites pursued ongoing productivity efforts in step with the economic reality of rising raw materials and energy costs.

Outlook for 2005

On its domestic markets, Pipe Division order books for 2005 are similar to early 2004 levels. In addition, 2004 volumes on Distant Export markets could be exceeded if promise is fulfilled over the coming months. The main conditions governing fulfillment of the Division's performance targets concern trends in purchasing costs and sale prices. The significant price efforts demanded of the Division's markets in early 2005 should offset the impact of the unabated rise in raw material costs throughout 2004.

However, factors such as the weak US dollar and intensifying competition from China call for the development of efficient new capacities in emerging economies. In this vein, new capacity-building and productivity investments are planned in Brazil and China for 2005 and 2006. Productivity efforts will be stepped up in Europe, with a particular focus on raw materials and energy. Lastly, the Division will continue its innovation drive, to provide customers with fine-tuned solutions, even more closely matched to actual needs, driven by evolving economic and regulatory requirements.

Building Distribution

The Building Distribution Sector is Europe's leading distributor of building materials and the top-ranking distributor of ceramic tiles worldwide(1). It serves the homebuilding, renovation and interior decoration markets. Customers include building contractors, tradespeople and architects, as well as home owners.

Ever since it was founded in 1996, Building Distribution has enjoyed strong growth, combining organic and external expansion. It first began to develop in France through the Point.P and Lapeyre chains, then in the United Kingdom through Jewson and Graham, and subsequently in Germany, the Netherlands and Eastern Europe, through Raab Karcher. In 2004, Saint-Gobain Building Distribution acquired Dahl, the leading Scandinavian distributor of plumbing and heating systems, which has enabled it to extend its European leadership into Scandinavia and Poland. The Sector's business development is being pursued through specialist subsidiaries, driven by efforts to consolidate its position on the European market for plumbing and heating systems. The acquisition of Dahl marks a significant step forward in the growth of Saint-Gobain Building Distribution, providing a solid base in Scandinavia for developing its various business lines.

An unrivalled sales network in Europe

With over 3,300 outlets in 19 countries, the Building Distribution Sector boasts an unrivalled distribution network within Europe. Its success is rooted in the diversity and strategic fit of its brands. Each of these has its own specific features and market position – whether geared to trade specialists or the domestic consumer market – contributing to the sales strength of the network as a whole while meeting the needs of local markets. This vigorous organization means that customers are offered a full array of tailored solutions meeting their diverse needs in terms of products, services, and style trends.

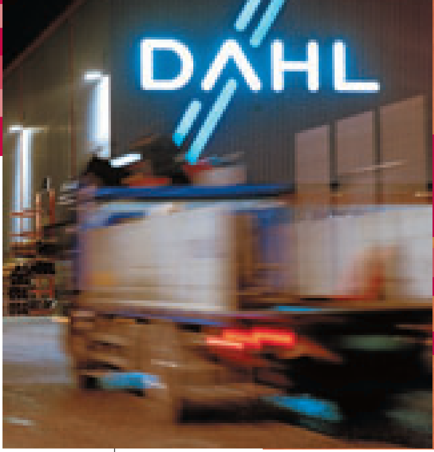
Dahl, the leading distributor of heating and plumbing systems in Sweden, Norway, Poland and Denmark, joined the Saint-Gobain Group in May 2004.

Strong brands with an excellent strategic fit

French market leader Point.P primarily targets building professionals which it serves through a highly decentralized structure. It has a network of over 1,500 outlets structured around brands for the general public and for trade specialists. For example, Point.P Matériaux de Construction is geared to domestic consumers, whereas Cedeo, Dupont Sanitaire Chauffage and Sem Angles are targeted at plumbing, heating and air conditioning specialists, SFIC is focused on insulation professionals, Asturienne is intended for roofing specialists, and Point P. Travaux Publics is channeled to the public works market. In addition, there are the recent acquisitions Dubois Matériaux (timber, panels and insulation materials) and Pum Plastiques (plastic products for water supply and drainage). Point.P and its various brands cover the whole of France, meeting the full spectrum of customer needs in the construction and renovation markets. This brand has now been rolled out to Spain.

Lapeyre specializes in home decoration, covering four main product "destinations": fitted kitchens; fitted bathrooms; interior fittings; and exterior carpentry. Products are closely tailored to the consumer market. Lapeyre has an extensive presence in France, and also has operations in Belgium and Switzerland. The company's operating presence under the Telhanorte banner in São Paulo, Brazil, has given an additional boost to its international development. Lapeyre and its associated brands display their tailored offerings to local customers through a network of 330 stores, with showroom areas ranging from 50 sq.m. to 4,000 sq.m.

In the United Kingdom, Building Distribution operates through a network of over 770 outlets, split between general and specialized retailers. Its two main banners are Jewson, Britain's biggest building materials merchant, and Graham, a specialist in plumbing and heating. Both are firmly focused on providing proactive local service to small contractors and tradespeople. They are currently strengthening their market



Building Distribution

Dahl, the leading distributor of heating and plumbing systems in Sweden, Norway, Poland and Denmark, joined the Saint-Gobain group in May 2004.

Jewson leads the UK building materials distribution market.

Contribution to the Group

	2004	2003	2002
% of net sales	**42%**	38%	36%
% of operating income	**28%**	23%	21%
% of cash flow from operations	**20%**	16%	15%

Key consolidated data

(in € millions)	2004	2003	2002
Net sales	**13,679**	11,305	10,953
Operating income	**737**	560	534
Cash flow from operations	**515**	398	414
Capital expenditure	**249**	213	227

Internal sales are deducted from sales data by Sector and by Division.

position through bolt-on acquisitions and by honing their sales and marketing techniques. In 2004, Jewson launched a new brand (Minster Insulation and Dry Lining) addressing the UK specialist insulation market.

Raab Karcher is the leading building materials distributor for trade customers in Germany, Hungary and the Czech Republic. The brand has also been rolled out to the Netherlands and Poland. Raab Karcher manages over 400 sales outlets, and is Germany's biggest distributor of ceramic tiles.

Dahl is Scandinavia's foremost distributor of heating and plumbing products and serves three markets: heating and plumbing; water supply and drainage systems for public works; and industrial plumbing. It has operations in Sweden, Denmark, Norway, Finland, Estonia and Poland, supported by a network of over 270 sales outlets primarily targeting trade customers.

La Plateforme du Bâtiment, an innovative distribution concept launched by the Building Distribution Sector in France in 1998, is geared to helping small contractors and tradespeople based in major cities "save time and money", thus enabling them to meet even tighter deadlines. La Plateforme du Bâtiment is a sales outlet dedicated exclusively to all trade specialists, with permanent stocks and steady prices year-round. Building on its success in major French cities, the concept was gradually rolled out to Poland, the UK, Hungary, Spain, Mexico, Brazil and the Netherlands. Today, the brand can be seen in eight different countries through 50 sales outlets, and expansion is set to continue.

Sharing know-how to strengthen each banner

The Building Distribution Sector seeks to promote synergies across its banners through knowledge sharing, while ensuring that it preserves the distinctive character of each particular brand. The Sector has set up cross-functional departments, harmonized product ranges, rolled out innovative sales concepts and new services to the entire network, generated synergies in logistics, forged partnerships with the best suppliers, set up a common information technology platform and encouraged staff mobility. Leveraging the power of its network and nimbleness of its teams within each banner, the Building Distribution Sector intends to push ahead with expansion in Europe and beyond.

Operations in 2004

Business for Saint-Gobain Building Distribution grew considerably in 2004 on the back of buoyant markets in France and the UK, despite difficult and sometime adverse market conditions in the Netherlands, Germany and Poland. Sales climbed 21% on an actual structure basis, and by 5% like-for-like.

The Sector continued to pursue vigorous external growth, with 31 acquisitions, including one major banner (consolidated from May 1, 2004): Dahl, the leading Scandinavian heating and plumbing distributor. Dahl brings the Building Distribution Sector full-year sales of €1,503 million, and a total of 260 sales outlets. Full-year sales from other acquisitions in 2004 totaled €317 million.

Sterling's rise against the euro comfortably offset the fall in other currencies. The Sector reported a positive overall currency effect on 2004 sales generated by companies based outside the euro zone. Total Building Distribution sales jumped 21% to €13,679 million in 2004, from €11,305 million in 2003.

On the French market, which accounts for close to half of the Sector's business, the downward trend apparent since 2001 on the home improvement and renovation market finally reversed, leading to higher year-on-year sales volumes in the first three quarters of 2004. Similarly, the number of new individual housing starts climbed 12%. These two markets are mostly served by tradespeople and small- and medium-sized companies, the key clientele for Point.P and La Plateforme. The number of new apartments being built also rose by 19.6% between end-2003 and end-2004.

On a buoyant market, sales reported by the Sector's French-based businesses again rose significantly based on a comparable structure. As well as a favorable economic climate, this growth was driven by an enhanced product and service offering for all customer categories, as well as the opening of new outlets (seven for Plateforme, eleven for Point.P, six for Cedeo, three for Decoceram, and five – one center, one store and three counters – for Lapeyre – la maison).

La Plateforme du Bâtiment is a trade-only chain covering seven product categories: building, joinery, paintwork, tiling, plumbing, electrical wiring, and tools and hardware.

On top of this organic growth, external growth brought in additional sales of €53 million from 18 acquisitions, contributing 61 new sales outlets and representing full-year sales of €135 million. The major acquisition of Boch Frères, with 18 outlets specializing in bathrooms and tiles, was completed at the end of 2004, and did not therefore contribute to 2004 results.

In the United Kingdom, where its market remains buoyant, Saint-Gobain Building Distribution consolidated its positions and achieved further growth in sales based on a comparable structure and constant exchange rates, partly thanks to the opening of new outlets: two for Plateforme, 31 for Graham (plumbing and heating), and 22 for other businesses. Small bolt-on acquisitions also took place, in a bid to strengthen Jewson's general building materials merchant network and develop specialized distribution operations, in plumbing and heating, wood and tiling. In all, ten companies were acquired

Raab Karcher, the leading trade supplier of building materials in Germany, Hungary, the Netherlands and the Czech Republic.

in 2004, representing full-year sales of €79 million and 24 additional sales outlets.

In Germany, where the building industry remains sluggish, the Sector further streamlined its network by bringing specialized distribution operations in tiling and piping under the Raab Karcher banner. It also strengthened its position with two new acquisitions bringing in sales of €103 million through 19 outlets.

In the Netherlands, the construction market showed initial signs of recovery during the first half of 2004, after the abrupt downturn in 2003, only to resume the downward trend during the second half of the year, with construction starts worst hit. As well as riding these tough economic conditions, Raab Karcher, the principal Building Distribution company in this market, went ahead to open two new Plateforme outlets, at Rotterdam and Nimègue.

In Spain, Point.P further extended the customer base of its 19 outlets in Catalonia with a third Plateforme outlet in Barcelona. Three more Plateforme outlets were also opened in Madrid, in addition to the first, opened in 2002.

In Eastern Europe, sales were satisfactory in the Czech Republic and Hungary, where a second Plateforme outlet was opened. In Poland, a change in the VAT rate had a negative impact on subsidiaries' business.

Outside Europe, Lapeyre pushed ahead with its vigorous development of Telhanorte in Brazil, opening three new outlets on the outskirts of São-Paulo, bringing to 19 the number of stores in its regional network. It also continued to develop the Plateforme concept, opening a second Telhanorte Pro outlet.

In a generally favorable economic environment, operating income for the Building Distribution Sector increased from €560 million to €737 million, despite the cost of accelerated geographic expansion. Operating margin for 2004 came in at 5.4% of net sales, versus 5% in 2003.

Outlook for 2005

Assuming continued buoyancy in the European building industry (barring Germany and the Netherlands), Saint-Gobain Building Distribution is aiming for further like-for-like sales growth. Growth will be driven by the momentum generated by the banner networks, the implementation of best practices across the Sector, and the fast-paced opening of new outlets. Growth will also be boosted by the full impact of the acquisitions carried out in 2004. The Sector's foothold on Europe will be further strengthened by the acquisition in early 2005 of the Swiss company Sanitas Troesch, Switzerland's leading distributor of fitted bathrooms and number two in the distribution of fitted kitchens, with sales of around €300 million in 2004 and a network of 26 outlets.

Point.P, France's leading building supplies chain, with over 1,500 outlets.

Lapeyre's new-generation chain "la maison". covers a broad array of products in four main categories: fitted kitchens, fitted bathrooms, interior home fittings, and doors and windows.

High-Performance Materials

Contribution to the Group

	2004	2003	2002
% of net sales	**14%**	15%	15%
% of operating income	**18%**	15%	16%
% of cash flow from operations	**19%**	18%	17%

On April 1, 2004, the High-Performance Materials Sector expanded to take in the Reinforcements Division, alongside the Ceramics & Plastics and Abrasives Divisions. Building on its strong foothold on industrial markets, the new-look Sector will be able to leverage technological synergies and harness the benefits of shared structures in R&D, human resources, sales and acquisitions, and legal and financial support services.

Key consolidated data

(in € millions)	2004	2003	2002
Net sales	**4,717**	4,452	4,992
Operating income	**466**	370	411
Cash flow from operations	**490**	435	451
Capital expenditure	**239**	251	280

Internal sales are deducted from sales data by Sector and by Division.

Saint-Gobain silicon nitride balls, designed to withstand the most hostile environments. Applications include gearboxes and bearings.

Operations in 2004

♦ The **Ceramics & Plastics Division** pushed ahead with development in all four businesses: Ceramic Pellets and Powders; Ceramic Products; High-Performance Plastics; and Crystals. This Division is built on Saint-Gobain's historic Ceramics and Refractories core businesses, and on the core businesses of Norton (acquired in 1990), Furon (acquired in 1999) and Chemfab, Holz and Magic (acquired in 2000).

Following the restructuring measures of the previous two years, the Division reported high growth in 2004. Manufacturing and capital expenditure picked up, especially in the United States, and international development in emerging countries advanced across all the Division's businesses.

The Division generates 30% of its sales for Europe, 46% for North America, 4% for South America and 20% for the Asia-Pacific region.

Ceramic Pellets and Powders are used for abrasives, refractories, ceramics and catalyst substrates for the petrochemicals industry. In 2004, this business line increased sales volumes on industrial markets, on the back of an excellent performance in catalyst substrates and proppants. The Division also extended its geographic reach, especially in China.

Ceramic Products are materials and parts with special thermal and mechanical properties characteristic of both traditional and advanced ceramics (resistance to very high temperatures, abrasion and corrosion. This business line – especially fused-cast refractories for electronic glass manufacture – made a major contribution to the Division's growth.

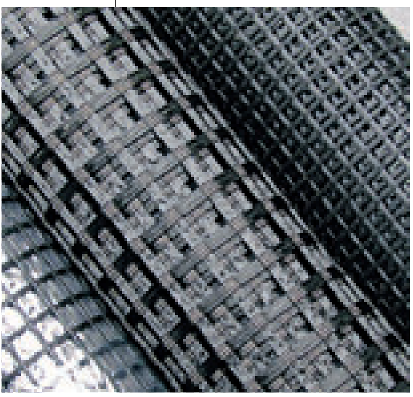
The ***High-Performance Plastics*** business line processes engineered polymers and elastomers, particularly fluoropolymers, silicones and thermoset plastics that meet stringent requirements of purity, precision-forming, and resistance to corrosion or high temperatures. The business is structured around four areas:

• Composites, including advanced Films and Fabrics (films, adhesive tapes and special fabrics for aeronautic, electrical, architectural and safety applications) and specialty Elastomers (flexible foams for sealing and vibration-proofing in automotive, construction, and other industrial applications);

HIGH-PERFORMANCE MATERIALS

Saint-Gobain is no.1 worldwide in the development, growth and finishing of high-purity monocrystals.

Asphalt reinforcing mesh in glass/polyester, made by Saint-Gobain Technical Fabrics HongFa Co. Ltd



• Fluid Systems (pipes, fittings and tubes for automotive, food processing, pharmaceuticals, chemicals, semiconductors and other industrial applications);
• Precision Components, covering self-lubricating bearings and gaskets for automotive, home appliance, machine tool and aeronautic applications, along with composite parts for the aeronautics industry, and other specialty polymers.

High-Performance Plastics lifted earnings in 2004, reflecting a stronger showing in Asia, the upturn in the US market, and the continuation of its operational excellence program.

Crystals are produced for medical, nuclear, safety, oil and petrochemical applications. In 2004, this business line benefited from the recovery in the semiconductor manufacturing market, especially pronounced during the first half of the year. Restructuring programs also continued in a bid to meet the challenge of changing competitive conditions on its various markets.

Organic growth, driven by joint development, innovation and international expansion, is a common feature across all of the Division's businesses.

While pushing ahead, as in previous years, with restructuring measures designed to sharpen its competitive edge, the Division also strengthened its sales and manufacturing capabilities in low-cost countries. In addition, it harnessed research and development efforts and pursued increasingly selective investments targeting high growth potential consistent with the nature of its businesses.

Overall, the Division's strategy is rooted in speeding up organic growth through innovative projects; capturing a number one or two position in most of its businesses; and strengthening its foothold in Asia (especially China and Japan), primarily through partnering major customers and developing into local markets

♦ The **Abrasives Division,** which was originally acquired as part of Norton in 1990, has steadily built up a world leadership position[1], thanks to organic and external expansion in Europe and the United States.

The Division's unparalleled product portfolio makes it the only supplier capable of offering customers a comprehensive range of finishing system solutions, from roughing and surface finishing through to polishing, cutting and precision grinding. Its extensive experience enables it to provide solutions for each stage in the process in terms of both products and technical know-how.

The Division is also the only global manufacturer with capabilities in all types of abrasives using mineral granules in aluminum oxide, silicon carbide or diamonds.

– ***Grinding wheels*** incorporate natural or synthetic abrasives bonded with a vitrified or organic binder. Their size can vary from the miniature wheels used by lapidaries through to 12-tonne wheels for wood pulping in the paper industry. Most of the products in this business segment are made to measure.

Saint-Gobain is the world's leading manufacturer of bonded abrasives, making grinding tools for sharpening and forming applications in the automotive and aeronautics industries.

(1) Source: Saint-Gobain

– ***Thin grinding wheels*** are formed from bonded abrasives reinforced with fiberglass mesh. These products are standardized, and their production is the most heavily automated. End-use markets include building and home improvement and industrial applications

– ***Coated abrasives*** are made of abrasive granules which are coated with a layer of adhesive and affixed to paper, cloth fiber or synthetic backing. They are sold in strips, discs, rolls or sheets and are used for a wide range of applications, such as polishing reactor turbine rotor blades or in surface finishing for industry and the home. Coated abrasives range in size from pads a couple of millimeters in diameter up to sheets several meters wide.

– ***Superabrasive*** grinding wheels and tools combine a grinding surface made from diamond or cubic boron nitride with a resin or metal bonding system. Their performance in demanding, high-precision grinding jobs and their long-lasting reliability make them indispensable for a wide array of sectors, such as auto manufacturing and aeronautics, as well as construction. In certain electronic applications, they can approach nanometer-level precision.

The Division operates manufacturing facilities in some thirty countries, and has built up an extensive presence in Asia and South America alongside its established operations throughout Europe and the United States. To meet demand in its various markets and satisfy a broad spectrum of customer requirements, it markets custom solutions directly to industrial clients and supplies large-run products to distributors serving the trade and mass market. The Division has also made significant investments in e-business tools in order to deliver optimal levels of customer service.

Saint-Gobain self-adhesive films, used for making printed-circuit boards and measuring instruments.

In 2004, the **Abrasives Division** once again reported strong performances in terms of both sales and operating income.

Sales growth was partly due to a definite upturn on the North American market, following on from three years of sluggish activity, and strong sales in emerging countries (Brazil, Asia and Eastern Europe).

In North America, a pronounced upswing in manufacturing activity helped boost the Division's sales in industrial and retail sectors (mass consumer products and auto repairs) across all its business lines. In addition, improved competitive ranking reflects the benefits of the reorganization of sales structures over the last two years, new product launches, and the delivery of specific solutions for the diverse needs of its customers.

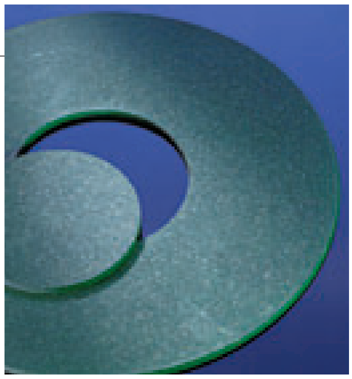
Business remained steady with respect to 2003 on Western European markets. Trends proved upbeat on retail markets, chiefly those related to the construction industry. Throughout 2004, the Division continued its program of launching new products ever more closely in tune with customer demand, and embarked on major initiatives targeting improved organization for logistics and customer service. Sales continued on their upward trend in Eastern Europe, aided by the Division's local production facilities in Poland, and a new processing unit for coated abrasives in Romania. However, European exports were hurt by the euro's rise against the dollar.

In South America, local production facilities covering all business lines enabled the Division to meet rising demand, mainly driven by exports. Performance in Asia was highly satisfactory, with sustained growth in sales, especially in India and China, where the Division made capacity-building investments to support strong domestic growth. The Division also raised its commercial profile in high-growth areas.

As in previous years, capital expenditure was split between investments in low-labor-cost countries, to increase capacity and extend the ranges of locally-made products, and investments in automation and technical performance improvements in countries with high labor costs. The roll-out of a fully-integrated worldwide information system was expanded to North America, China and France. This program is set to continue through 2005, and contribute to the ongoing integration of the Division's operations and efforts to improve its cost base.

♦ The **Reinforcements Division** has manufacturing operations in 20 countries, and is dedicated to serving customers throughout the world with a wide range of reinforcement products. The Division groups two core activities: *Glass threads* (the historic business of glass-fiber production) and *Processing*, which it began in 1998. This downstream activity has strong growth potential, with current sales representing close to 40% of total sales generated by the Division. The processing business is the main customer for the glass threads business, so growth in the former drives growth in the latter. Major synergies can also be leveraged in the form of integrated production platforms, joint R&D operations, and a joint sales portfolio.

The glass threads business, carried out under the Saint-Gobain Vetrotex trade name, groups a Plastics line specialized in products for reinforcing thermoset and thermoplastic composites, and a Textiles line specializing in manufacturing threads for weaving then coating. The key markets served are the automotive



Applications for Saint-Gobain silicon carbide materials include exhaust gas particulate filters, armor plating, and furnace charging accessories.

and mass transit industries for vehicle bodywork, interior or engine parts; as well as the construction industry, leisure equipment (sports goods, boats, etc.), the electrical and electronics industries, and the civil and military aeronautics industries.

Textile-processing operations are grouped under Saint-Gobain Technical Fabrics, focused on weaving, coating and manufacturing finished and semi-finished products intended for highly diversified markets. Operations are structured around three world markets: the construction industry (glass mat, building facings and roofing reinforcements, mosquito shields), industrial materials (reinforcing mesh for grinding wheels, geotextiles, turbined mesh, etc.) and technical composites (engineered composite textiles for wind power, naval and transport industries, etc.).

The Reinforcements Division currently generates 47% of sales in Western and Eastern Europe, 34% in North and South America, and 19% in Asia, with the latter region offering the highest growth potential.

In 2004, the Reinforcements Division's Plastics business continued to suffer from the downward pressure on prices, as in 2003, mainly as a result of rising Chinese exports to Europe and the United States. This situation was only partly offset by strong demand, which produced a rise in sales volumes (mainly in thermoplastic fibers) and higher prices, the effects of which started to be felt in the second half of the year. The Division continued to invest in capacity renewal in Europe and capacity-building in Asia and the Americas, with the launch in late 2004 of Violet, a joint-venture with Owens-Corning in Mexico. This policy led to specialization of its Japanese unit, supported by growing imports from other Asian plants. The Division also continued to develop specialty products (Twintex, Unifilo, and Cem-Fil Alkali-resistant glass), and rounded out its production capabilities with the acquisition of SG Steklovolokno, thanks to which it captured the number one spot on the Russian market.

Signs of an upturn in prices were confirmed across all Textile markets early on in the year, especially in the electronics appliances sector. This spearheaded recovery of the business, which also pushed ahead with moves to transfer production to low-cost sites, in South Korea, Mexico and the Czech Republic.

The glass threads business posted improved results in the fourth quarter of the year, ahead of results for the same period in 2003.

Saint-Gobain Technical Fabrics reported sustained growth, with all three business lines meeting targets, despite the negative currency effect caused by the weak dollar. It also focused on developing production facilities in low-cost locations in Asia – with production stepped up at Chinese plants – and the Czech Republic.

In an increasingly competitive environment, the Reinforcements Division maintained its major strategic focuses:

- generating higher added value, through:
  – leading positions in specialized markets;
  – greater impetus in R&D;
  – fuller integration of downstream operations and distribution;
- maintaining a tight rein on costs, with ongoing development of production platforms in low-labor-cost countries, and further industrial synergies between upstream and downstream processes;
- strengthening a multicultural global organization, in a bid to build key personnel talent.

Outlook for 2005

For 2005, Saint-Gobain High-Performance Materials expects a sustained rise in volumes for its Ceramics & Plastics Division, driven by market recovery, and moderate but steady sales growth for its Abrasives Division. In response to rising costs, it will continue to lift prices across all Divisions, targeting in particular wider margins in the Abrasives and Reinforcements Divisions. For several years now, all Divisions have been actively pursuing enhanced competitive performance, and these efforts are set to continue in 2005. Any acquisition opportunities arising on relevant niche markets will be seized.

Being at the cutting edge of technological change has taken on new meaning today, owing to the constantly growing demand for new and more efficient products and the need to meet more demanding environmental, health and safety requirements.

In many of its plants, Saint-Gobain uses complex industrial processes to manufacture glass products, cast-iron pipes or ceramics. The first task for Group research is therefore to constantly seek to raise the performance of these processes.

Digital simulation has become an essential tool for gaining a better understanding of their workings, towards enhancing them and reducing energy consumption and greenhouse gas emissions.

In addition to upgrading existing processes, Group research also develops a wealth of new products, designed for currently served markets and for future channels. Examples include flat glass that provides better thermal insulation or that can be electrically controlled, or glass that is self-cleaning or rainproof; glass substrates for solar cells or flat-screen monitors; glass threads for reinforcing wind turbine blades; highly resistant insulating glass wool that can withstand high temperatures; new polymer threads for reinforcing cement; ceramic fibers that eliminate particulate emissions from diesel engines; to name but a few.

For these innovations, Saint-Gobain leverages the extensive expertise of its Research Department, encompassing both

The table below summarizes the Group's R&D centers and their capabilities.

Saint-Gobain Recherche (SGR)	All Flat Glass and Building Materials divisions	Aubervilliers (France)
European Research & Engineering Center	Ceramics	Cavaillon (France)
Northboro R&D Center	Ceramics, Plastics and Abrasives	Northboro (United States)
R&D Center	Abrasives	Worcester (United States)
Solon Development Center	Crystals and Detectors	Solon (United States)
Centre de Développement Industriel	Flat Glass	Thourotte (France)
Sekurit Saint-Gobain (ZAF)	Flat Glass	Herzogenrath (Germany)
Centro de Investigación y Desarrollo	Flat Glass	Avilés (Spain)
Centre Recherche/Développement (CRIR)	Insulation	Rantigny (France)
Technology Center	Insulation/Building Materials	Blue Bell (United States)
Vetrotex R&D Center	Reinforcements	Chambéry (France)
Development Center of Wichita Falls	Reinforcements	Wichita Falls (United States)
Process & Product Development	Pipe	Pont-à-Mousson (France)
Chalon Technical Center	Packaging	Chalon-sur-Saône (France)
Vinyl Siding & Windows	Building Materials	Jackson (United States)
Bayex Development Center	Reinforcements (Technical Fabrics)	Saint Catharines (Canada)

RESEARCH

Light-diffusing glass for LCD screen backlighting.

Chemical tests using ICP-OES (inductively coupled plasma optical emission spectrometer).

mineral materials – such as glass, ceramics or cast iron – and organics such as high-performance plastics. The combination of these complementary skills allows the emergence of unique products.

To make the best use of potential synergies, a major segment of Saint-Gobain's research teams have been brought together in three sites: Aubervilliers, near Paris, the Group's largest research center on glass; Cavaillon, in France, where most European research on ceramics is concentrated; and lastly, Northboro and Worcester near Boston, Massachusetts, which bring together major research teams on ceramics, polymers, abrasives and certain applications for reinforcement threads.

Some ten other R&D sites in Europe and the United States round out these capabilities, with work that is closely tied in with the industrial operations of the Divisions. Lastly, about sixty smaller-sized development units are spread worldwide to provide assistance to Group manufacturing sites.

In 2005, a new large-scale research center will be commissioned in China, with the aim of advancing the Group's operations in the country, as well as drawing on the resources of nearby Chinese universities and research centers.

In France, a joint research unit with the CNRS, France's National Research Council, seeks to deepen our fundamental knowledge of glass, a material that still holds many mysteries and offers vast possibilities for improvements. A second joint Saint-Gobain/CNRS laboratory, focusing on ceramics, is currently being set up in Cavaillon. Saint-Gobain also continues to draw on some of the most advanced university laboratories worldwide, whose up-to-the-minute advances in fundamental research are taken up and transformed in our laboratories, to produce new and better products.

Even within the Saint-Gobain research community, frequent exchanges and knowledge sharing are an ongoing fact of working life. Whether it is through Intranet, meetings of specialists working in different Divisions or at the Group's annual research seminar, researchers are constantly benefiting from the synergies released by the diverse technologies which the Group masters.

Further, thanks to their constant interfacing with marketing, manufacturing and development teams, researchers, who are familiar faces to many throughout the Group, have numerous opportunities to explore new functions, either within the research department or in other areas. Such mobility energizes all of Saint-Gobain's operations, by bringing in high-level staff who have in-depth knowledge of the technologies used by the Group and are naturally inclined to innovate.

Research operations play a central role in the Group's performance, its growth and its focus on safety and environmental compliance. Working in close coordination with the full range of Group operations and enjoying many strong ties with the academic world, Saint-Gobain's research organization is a world-class player, responsible for filing 250 new patent applications each year, as well as more than 2,500 applications for international extension.

Thin-film depositation on glass substrate in cleanroom.

Saint-Gobain has for many years taken the position that sustainable development is a powerful lever for the enhancement of its operations and results. Its proactive policy places sustainable development challenges – translated into economic, environmental and social requirements – at the heart of Company strategy. The Group thus pursues ***a policy of responsible development*** that applies equally to business transactions, in-house management or relations with outside partners such as customers, suppliers or local authorities.

The Principles of Conduct and Action have been rolled out and implemented worldwide to guide the day-to-day behavior of all employees, and the Group is actively involved in its social environment, providing support to communities and organizations in the countries that host its operations.

Human resources policies also aim at creating ***a human community in motion,*** in which each person can find an efficient working environment and the conditions for personal fulfillment.

These policies aim to promote the emergence of new skillsets that will best support changes in the Group's businesses. They focus on recruitment, mobility and training, paying particular attention to feedback from employees and seeking to create a level playing field in which all enjoy equal opportunity.

Saint-Gobain's commitment to responsible stewardship then translates into ***caring for the environment and for the health and safety of employees.*** Over the past several years, the Group has monitored and guided subsidiaries' implementation of procedures designed to provide a safe and healthy work environment for all employees, to prevent industrial risks and to track and minimize the impact of manufacturing operations.

Finally, a growing number of Saint-Gobain's products and services help ***provide answers to environmental challenges with a direct bearing on sustainable development.*** The Group is working hard to produce the most effective solutions to issues related to air quality (minimizing emissions of greenhouse gases), renewable energy, water management (drinking water supply and wastewater networks), solid waste disposal and recycling, and clean technology.

I – Saint-Gobain's policy of responsible development

The Saint-Gobain Group is keenly aware of its responsibilities to its shareholders, employees, customers and suppliers, as well as to the communities within which its businesses conduct their operations. Reaffirming the values that have guided its choices throughout its long history, Saint-Gobain adopted its Principles of Conduct and Action in 2003, to set a clear framework for each employee's decision-making on behalf of the Group. In the same spirit, the Group embraced its responsibilities as a player within a global economy by joining the United Nations Global Compact, also in 2003.

1. The Saint-Gobain Group's Principles of Conduct and Action

a) The Principles in brief

By adopting the Saint-Gobain Group's Principles of Conduct and Action in January 2003, the Board of Directors of Compagnie de Saint-Gobain gave form to the values by which the Group has constantly steered its development, in order to strengthen their application into the future, in an international and multicultural context.

SUSTAINABLE DEVELOPMENT

The Principles are universal in scope, and represent the foundation and reference point for all local or function-specific charters in force within the Group. Thus, the Code of Ethics and Business Control Guidelines issued by the Saint-Gobain Corporation in the United States explicitly refer to the Principles, as do the Purchasing Charter and the Environment, Health and Safety Charter adopted in 2004.

They can be summarized as including the following five Principles of individual conduct:

- Professional commitment
- Respect for others
- Integrity
- Loyalty
- Solidarity

and four Principles of professional conduct:

- Respect for the law
- Caring for the environment
- Worker health and safety
- Employee rights

The application of these Principles is a requirement for belonging to the Saint-Gobain Group.

The full text of the Principles can be found on the Group's website, www.saint-gobain.com.

b) Implementation

The Principles were widely distributed to all Group managers worldwide in 2003 and have since been included in welcome booklets given to new managers joining a Group subsidiary.

The General Delegations have been charged with taking up further communications on the subject, to ensure that all employees buy into these Principles. Each Delegation has put the Principles online on its Intranet, and the Group training department has added a specific presentation on the subject to the agenda of all international management development seminars, in order to promote discussion concerning the Company's values between senior executives and the managers reporting to them.

The Principles have been specifically adapted to meet the needs of certain functions. The Purchasing Charter thus provides employees with guidelines on how to apply the Principles in their dealings with suppliers. Similarly, the Environment, Health and Safety Charter and the Information Technology Charter are essential tools to help all Saint-Gobain employees respond to issues in these two areas in accordance with the Principles.

Finally, the Group decided in early 2005 to give further weight to the Principles by creating a position of Responsible Development Leader. This executive is in charge of facilitating communications and training initiatives on the Principles, and of ensuring, through ad hoc audits, that the Principles are duly circulated among all Group employees, implemented and complied with.

The Internal Auditing guidebook also includes twelve review points on the implementation of the Principles. The General Delegation for the United Kingdom began to conduct specific audits in 2004.

Further, compliance with the Principles is one of the review points in managers' annual performance evaluations in a growing number of countries.

2. The Group's involvement in its social environment

Saint-Gobain believes that the success of its business strategy depends on its subsidiaries' long-term integration into their local regions as dynamic drivers of economic and social growth.

a) Active involvement in local communities

Companies of the Saint-Gobain Group have close links, on a site-by-site basis, with professional organizations and local government authorities, while their General Delegations take an active part in the work of chambers of commerce or industry associations, and are in contact with national government agencies.

In France, the Group set up a dedicated structure, Saint-Gobain Développement, to handle its extensive involvement in local economic life. Strong relations with professional organizations and institutional stakeholders are also a fact of life in other countries. As an example, the General Delegate to Germany is also a member of the Management Board of BDI, the Federation of German Industry, which allows him to act as an interface between the world of manufacturing and other economic agents and government representatives in the country. In Italy, the Delegation plays an active role in the professional organizations relevant to the Group's operations.

b) Initiatives to promote economic development at the local level

Going beyond this first form of involvement in local economic life, Group companies contribute to the development of the regions in which they are based, thereby promoting the establishment of an economic environment conducive to business and the building of high-quality infrastructure.

In France, where the Group has its densest presence, Saint-Gobain Développement has been charged with the key tasks of assisting local development and helping to revitalize the job market around Group sites. Comprehensive assistance is offered to start-ups that create jobs, including providing low-interest loans without requiring collateral, as part of a long-term partnership between industrial corporation and entrepreneur.

In 2004, Saint-Gobain Développement supported the creation of 533 jobs outside the Group, by signing 94 loan agreements with companies.

More generally, Saint-Gobain Développement pursues an ongoing open dialogue with all actors in local job markets – companies, economic development bureaus, local economic agents and institutions, local government representatives – to try to find appropriate solutions to the needs of the region. In addition to providing direct help to companies, Saint-Gobain takes part in several local development schemes, such as the Alizé projects in which large corporations, local authorities and national government agencies pool their technical and financial resources to support the growth and job creation of small businesses in a given region. Saint-Gobain Développement backed six such schemes in 2004, and continued to take part in the Plato project in the region of Béziers in southern France, where a transfer of know-how is being organized between some fifteen large groups and about a hundred small- and medium-sized companies, based in seven workshops.

Lastly, also with the aim of meeting the specific job creation needs of regions where the Group has facilities, Saint-Gobain Développement has taken steps to build partnerships with several neighborhood-level organizations that help the unemployed find their place in economic life.

The ambit of Saint-Gobain Développement's work remains essentially centered on France, but is expanding internationally. Its bylaws were amended at the end of 2004 to include the setting up of relationships with General Delegations, with a view towards sharing best practices in the field of social responsibility.

Each Delegation manages, in its country, its own initiatives for providing economic and social support at the local level. In 2004, the General Delegation for Benelux continued to run a spinoff program as part of an initiative organized by the Economic Bureau of Namur Province, receiving a number of applications that will then be analyzed in feasibility studies.

In other countries, subsidiaries' contributions to local economic life can take the form of helping build infrastructure, such as bus shelters, public lighting, water piping and more.

c) Initiatives in support of education

The Group actively supports education and training in all the countries where it is based. Group efforts to help provide education for young children are particularly intensive in India and Brazil, where local subsidiaries help build primary schools or provide them with supplies and equipment.

In Brazil, the training of adults is also a priority, and some 280 employees were able to benefit from evening-school instruction in 2004.

In the United States, helping the underprivileged gain access to education is one of the two prime objectives of the Saint-Gobain Corporation Foundation (see below). The Skills for Life program, launched in 1989, gives struggling students access to tutoring with Group employees in major subjects, particularly Math and English.

In France, the Pipe Division's PAM Foundation provides young people experiencing social or financial difficulties with both financial assistance and the support of a mentor from the Saint-Gobain PAM staff. Since its establishment in 1999, this foundation has invested some €55,000 in such mentoring operations.

Other companies, especially in Spain, are also involved in training young disabled persons and helping them enter the workforce.

Lastly, some Group subsidiaries are directly involved in educational initiatives. Over the past two years, Saint-Gobain Glass UK has run a project that taught 1,500 primary-school students about the fundamentals of glass manufacturing.

Many partnerships have also been created with universities and other institutions of higher learning. Universities and vocational schools often ask Group specialists to teach certain technical subjects or to mentor a class. Many students receive partial financing of their studies – in Brazil especially, Group subsidiaries take on part of the cost of training some of their young executives. In Italy for example, Saint-Gobain Glass Italia sponsors a two-year scholarship at Pisa's *Scuola Normale Superiore*, a prestigious university and research institution.

Such initiatives allow companies to help tailor the training of young people to the technical needs of their future jobs.

In Germany, the Pipe Division launched a vocational training association in conjunction with other companies and with the backing of both the Chamber of Commerce and Industry and the Saarland employers' union. Saint-Gobain Gussrohr therefore transferred its training capabilities to this association, so that they may be put to an ever-wider use, and 136 young workers are currently being trained in the workshops of Saint-Gobain Gussrohr.

As part of partnerships between subsidiaries and institutions of higher learning, many internships are offered to students, and Group employees sometimes mentor students writing a master's thesis.

In addition to supporting academic training, outreach programs for young people who are finishing their studies are a major focus of the Group's employment policy. Many subsidiaries bring in young workers each year as part of work/study or vocational training programs. In the countries where such "youth contracts" exist, the beneficiaries accounted for 2% of employees[1]. In Germany, the country which traditionally has the largest proportion of work-study programs, 905 young people benefited from this type of work experience. In France, there were 821 participants, 7% more than in 2003. The vast majority of these young people had apprenticeship or vocational training contracts, which are the two most valuable types of work-study programs. Such pre-professional support was also provided to 329 young workers in Brazil and 135 in the United Kingdom.

(1) The figure concerning youth contracts is based on 74% of total Group staff.

d) Grants to charities and cultural organizations

Group companies often support the charitable work of non-governmental organizations, either through financial contributions or through donations of building materials or information technology equipment.

The causes for which support is provided are mainly medical or related to helping the most needy. The amounts involved vary greatly from one company to the next. In Brazil, Saint-Gobain subsidiaries take part in a broad range of projects, from financing day-care centers, to donating materials and funds to local governments or associations, organizing conferences on medical education for employees' families or providing assistance to the elderly. As an example, in 2004 Saint-Gobain Embalagens, a Packaging Sector company, launched a project designed to promote both recycling and social integration: funds collected from employees' glass recycling efforts were paid into a local organization running projects to help the destitute recover social standing. Outreach programs in Brazil represented total expenditure of €412,000.

All subsidiaries and Delegations are also frequently involved in supporting health-related projects. In India, the Delegation launched a health awareness program for its employees on the subject of HIV/AIDS prevention. The participants were very grateful for the information they received, as it is often not readily available in India.

The Italian Delegation has been a financial supporter of the Genoa children's hospital for several years. Lastly, the "Together" project, an initiative widely taken up by Jewson and Graham employees in the United Kingdom, collected over €762,000 for a charity helping ill children. The program will continue in 2005, shifting its focus to cancer research.

The US Delegation has set up the Saint-Gobain Corporation Foundation, which donated USD 1.8 million in 2004 through its three programs, Corporate Direct, Matching Gifts and Plant Community. Through Corporate Direct, the Foundation provides grants to charities and cultural organizations, as a first priority in the regions where Group sites are based. Matching Gifts allows employees or retired former employees to support organizations they care about, and to have the Foundation double the amount of their contribution. In 2004, over 3,300 employee donations were recorded as part of this program. Lastly, those facilities taking part in the Plant Community Program are granted an annual charitable contributions budget based on their number of employees, and they are free to make donations to the organizations of their choice.

Support for charitable causes by European companies tends to be less institutionalized, and it often results from employee initiatives that build cohesion among the staff, such as the idea to donate to UNICEF the amount that would have gone into a year-end gift (in Italy), or annually sponsoring the training of seeing-eye dogs in Belgium.

Among the many cultural and intellectual initiatives taking place at the local level, the following are particularly significant.

For the past six years, Compagnie de Saint-Gobain has provided support, as part of a multi-year agreement, for the Louvre museum's acquisition of paintings of the Northern European School, in recognition of the Group's long-standing presence in Germany and Scandinavia. The Group also supports the Friends of the Georges Pompidou Center association and often takes part in renovation projects, mainly by providing glass products.

Several General Delegations take an active part in promoting economic and cultural exchanges between their countries and France, through extensive work with French Chambers of Commerce or associations of French companies.

Finally, most of Saint-Gobain's research centers work closely with university institutes and government research agencies, such as CNRS in France. Thanks to exchanges with scientists outside the Group and to the funding of thesis work, Saint-Gobain is able to maintain and develop its knowledge of areas that can be strategic both for the Group and for the technological development of the countries where it is based. Since 1995 the Group has sponsored the Saint-Gobain Young Researcher's Award granted by the French Physics Society.

In the same spirit of intellectual exchange, the Group created the Cournot Center for Economic Research – a corporate foundation co-chaired by Robert Solow, winner of the Nobel Prize in Economics, and Jean-Louis Beffa – whose mission is to support research in this field.

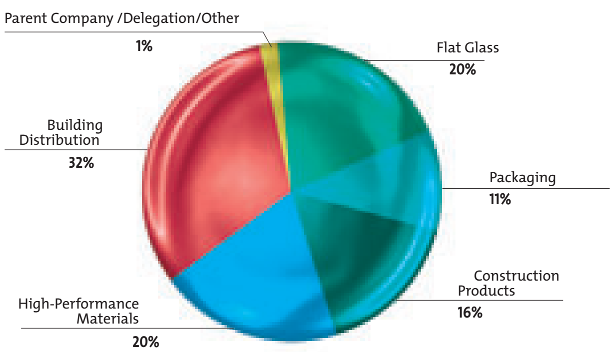
In sponsoring charities and cultural organizations, as with all its outreach activities, the Group focuses primarily on local projects and on initiatives that tie in with its operations, in order to make its involvement in society an extension of its corporate culture and strategy.

II – A human community in motion

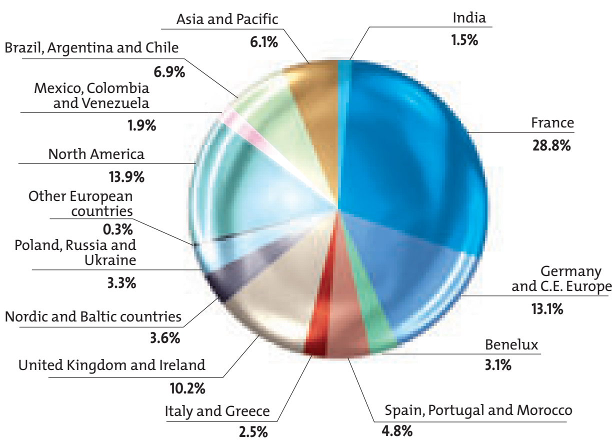
Saint-Gobain's human resources policy is a key component of Group strategy. Its aims are to support the Group's development by providing the skill-sets it needs and creating the conditions that cause employees to support company objectives. It also seeks to meet the expectations of the men and women who make up Saint-Gobain's human community.

In order to provide human resources management with the means of fulfilling its strategic role, the Group designed a specific action plan geared towards enhancing its business potential. The plan invests in the whole range of talent among Saint-Gobain employees, in accordance with the Principles of Conduct and Action.

Breakdown by Sector



Breakdown by Delegation



1. Human resources: a constantly evolving picture

At December 31, 2004, the Group had 181,228 employees in 50 countries. One third of them (32%) worked in building materials distribution and 68% in the industrial businesses.

The breakdown by Sector and by country reflects the Group's business model, which focuses on profitable long-term growth. The historic businesses of Flat Glass, Packaging and Construction Products are steadily automating their processes to raise productivity and generate free cash flow that is then invested in the new businesses (High-Performance Materials and Building Distribution Sectors), and in emerging countries, where growth is higher.

a) Employment trends

Group headcount at December 31, 2004 was 5% higher than a year earlier, with 8,417 additional employees. The acquisition of Dahl by the Building Distribution Sector brought a direct addition of more than 3,000 employees. On a comparable basis, the Group added 976 persons to its workforce, a significant 0.5% increase on 2003 that reflects job creation as a result of the Group's expansion into pinpointed areas, markets and regions.

The Group's historic businesses, which include the Flat Glass, Packaging and Construction Products Sectors, generally experienced either a contraction or stability in headcount. Subject to intense competitive pressure, they have had to make constant efforts to reduce costs and raise performance, and growth in emerging countries only partly offsets this trend.

Following a slight shrinkage in 2003, the Flat Glass Sector stepped up its development in fast-growing economies, which led to a 0.9% increase in headcount on a comparable basis. A new float-line was inaugurated in 2004 in Qingdao, China, and construction work began on new lines in Romania, Poland and India.

The Packaging Sector remains committed to constantly streamlining production. Its number of employees again declined in 2004, by 2.4%.

The Construction Products Sector also reduced headcount in 2004, with a 1.5% contraction. The Building Materials Division recorded a 1.5% decrease and the Pipe Division 3.2%. The latter has undertaken to specialize its European sites and optimize their manufacturing capacity, which has led to the closure of two plants in Germany and the United Kingdom.

The Insulation Division, however, buoyed by strong market demand and new developments in Eastern European countries, kept stable staff levels, with employee numbers even rising 0.4%.

The new businesses are on an upward employment trend, carried by expanding markets, particularly in emerging countries.

The High-Performance Materials Sector recorded 1% growth in headcount. The Ceramics & Plastics and Abrasives Divisions, recovering from two difficult years, added 1.3% and 0.2%, respectively, to their staff numbers in 2004. This trend is expected to continue in the coming years, given the upturn in North America and Europe as well as expansion in emerging markets.

The Reinforcements Division increased its workforce by 1.5%, mainly due to development in Mexico, despite a slight slowdown in sales in early 2004.

Building Distribution outpaced all other Group operations by gaining 2.1% more staff on a comparable basis. Most of the Sector's subsidiaries experienced organic growth, but "La Plateforme du Bâtiment" deserves a particular mention. France, which accounts for half of total staff, kept up its expansion trend of previous years, driven by the opening of new Plateforme du Bâtiment outlets, which brought in 328 new employees in 2004.

The Sector's external growth policy is also a major factor in integrating new employees. The acquisition of Dahl allowed the Sector to gain a foothold in the Nordic countries.

In 2004, Western European countries, with the exception of France where staff levels remained stable, reduced their numbers of employees, due to the persistent building industry slowdown and to the Group's determination to automate manufacturing processes. The largest downsizing operations in 2004 concerned Germany, the United Kingdom and the Benelux countries, but these were less severe than in 2003.

In North America, employee numbers remained generally unchanged, except in the Abrasives Division.

Spain and Portugal, for their part, saw extensive hiring thanks to the development of Building Distribution operations.

In emerging countries, where favorable market trends gave a further lift to the Group's expansion, subsidiaries were able to bolster their teams even more vigorously than in 2003, with Latin America gaining 19.6%, the Asia-Pacific region 10.8% and Poland and Ukraine 8.5%.

b) Hires and departures(2)

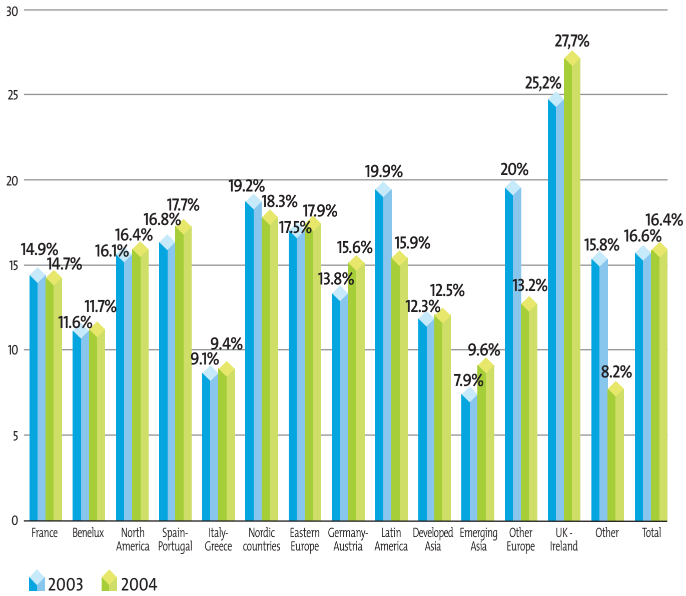
The hiring rate rose by 1.2 points to 16.7%, while the departure rate leveled off, with a slight 0.2% increase to 16.4%. This strong increase in recruitments compared to departures is in line with the Group's growth policy.

The High-Performance Materials Sector has a rising hiring rate and a slightly falling departure rate, which allows it to meet the needs of its rapidly developing emerging-country markets, particularly for Ceramics & Plastics and Abrasives. The Group's recruitment policy in these markets focuses as a first priority on high-responsibility positions. In China, where there is a particularly high turnover rate among executives – because high-potential individuals have no shortage of offers in a booming economy – the Delegation has devoted considerable efforts to career management and retention, designing an innovative compensation policy that includes attractive health insurance and pension benefits.

Employee retention efforts in Latin America have paid dividends across all Sectors, as the departure rate was 4 points lower in 2004 than in 2003.

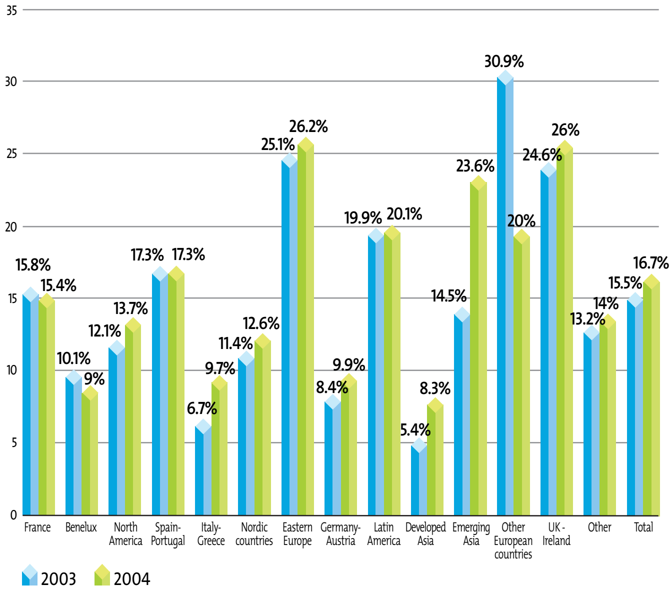
Departure Rate

based on a comparable Group structure 2003-2004



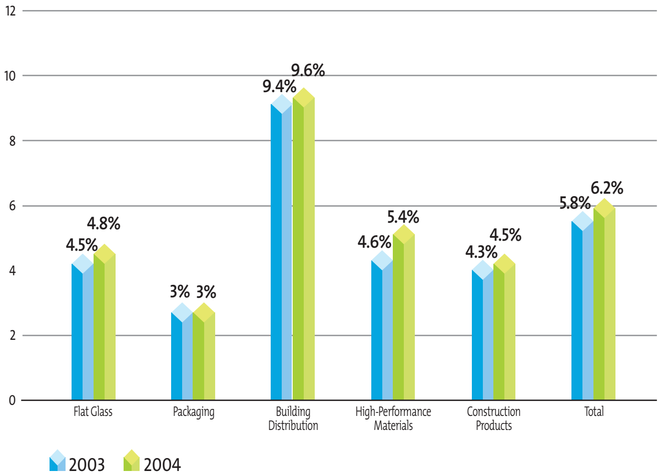
Recruitment Rate

based on a comparable Group structure 2003-2004



Resignation Rate

based on an actual Group structure



For the Group as a whole, the resignation rate rose by 0.4 percentage point, to 6.2%. It remains higher in Central and Eastern Europe as well as in emerging Asian countries, as the Group's operations started more recently in these regions and the employee turnover rate is structurally higher.

Building Distribution, where employees are on average younger than in other sectors, has a higher staff rotation than the historic businesses.

The layoff rate remained practically unchanged at 5.2%. The High-Performance Materials Sector, which had restructured its Ceramics & Plastics and Abrasives businesses in 2002 and 2003, saw its layoff rate decline by 1.7 percentage point in 2004.

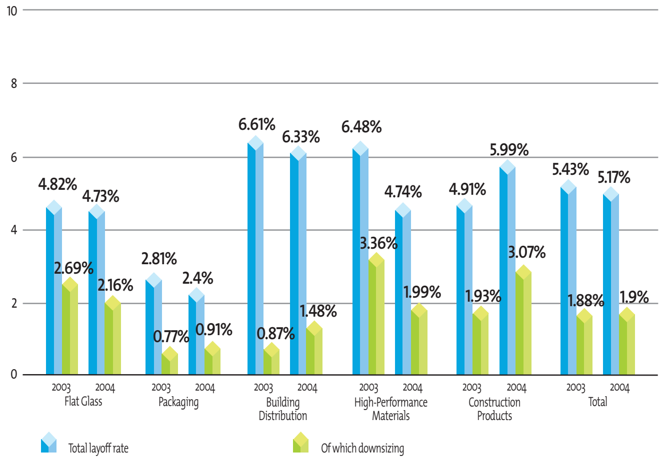
c) Reasons for departures(3)

The attrition rate for 2004 was 2.1%. There are more retirements in Europe and the United States than in Asia or Latin America, where Saint-Gobain's operations have started more recently and where the overall population is younger.

(2) Data concerning rates of recruitment and departure are based on 90% of total Group staff.
(3) Data concerning reasons for departures are based on 94% of total Group staff.

Layoff Rate (Downsizing and other)

based on an actual Group structure



Layoffs for economic reasons remained level, at 1.9% of staff, reflecting the Group's controlled response to its market environment.

d) Programs to preserve jobs

The Group carries out layoffs or restructuring programs only when these are unavoidably required for the economic health of the subsidiary or Sector concerned. In such cases the Group's size is undeniably an advantage, since it is often possible, in almost all countries where the Group is based, to offer employees a new position in another subsidiary, if they so wish. In Germany in particular, the companies concerned have taken innovative steps to offer outplacement help to employees affected by downsizing. In France, Saint-Gobain Développement draws upon extensive experience to constantly refine its offer of personal support to affected employees, taking into account, for each person, the professional, material, psychological and family consequences of the redundancy. This way all can benefit, according to their needs, from additional training, assistance for relocating and outplacement for the spouse, or support for implementing a personal project, and more.

In 2004, the outplacement rate was over 70%.

e) Recruitment[4]

To make up for these departures and to drive growth, 30,318 people joined the Group in 2004.

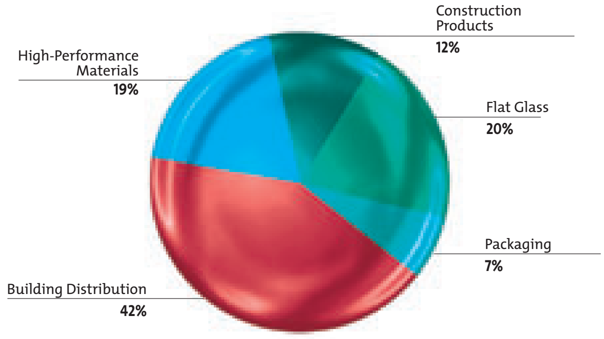
Building Distribution led the field with 12,931 recruitments, followed by Flat Glass with 5,976 and High-Performance Materials with 5,540.

(4) Data concerning recruitment cover 96% of total Group staff.

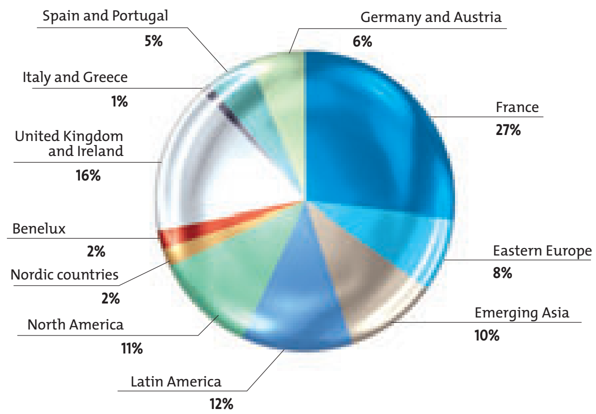
Latin America and the emerging nations of Asia account for extensive hiring, with 3,599 and 2,932 recruitments respectively, up sharply from 2003 in response to development in these regions.

However, Western nations remain at the forefront of recruitment, particularly thanks to Building Distribution. This illustrates that the Group's development in emerging nations is not incompatible with the strengthening of its human resources in the West.

Breakdown of Recruitment by Sector in 2004



Breakdown of Recruitment by Region in 2004



f) Use of temporary workers and contractors

• **Temporary work**

When future orders are hard to forecast, if recruitment is hampered by temporary difficulties, or if a missing employee needs to be replaced, Group subsidiaries may call upon temporary workers.

The absenteeism rate was down 0.6 percentage point in 2004, to 3.6%. Among European countries, absenteeism fell in Germany, Austria, the Nordic countries, the Benelux countries, Italy and Greece. The most common causes of absenteeism were illness, maternity and work accidents[5].

The services of temporary work agencies are particularly well suited when there is little advance notice and the duration of the need is unknown, therefore they are used to replace absent employees or to make a temporary transition. They also sometimes make it possible to meet a large need for staff with very little lead time.

The proportion of temporary worker hours within total hours worked was 6.1%[6] in 2004, up one percentage point on 2003. This increase mainly applied to Flat Glass, High-Performance Materials and Building Distribution. For the latter, the strong seasonal variations that are a hallmark of the business explain the use of this more flexible form of employment.

In the case of High-Performance Materials operations, the sharp turnaround experienced in 2004, particularly in the United States and Europe, explains the use of temporary workers, as an appropriate response to a temporary peak in business.

The Packaging Sector, for its part, reduced its use of temporary workers by 2.1 percentage points, returning to within the Group average.

Asia, the Nordic countries and, to a lesser degree, France, were the main markets where the increase in temporary work was felt. In Asia, and particularly in China, the commissioning of new plants primarily drove the increase, as temporary staff are often required during the start-up phase of a facility.

Fixed-term employment contracts are better suited for assignments spanning several months, such as replacements of workers on maternity leave or extended sick leave, or large-scale orders.

At December 31, 2004, 5.8%[7] of Group employees had fixed-term contracts, up 1.4 percentage point compared to 2003.

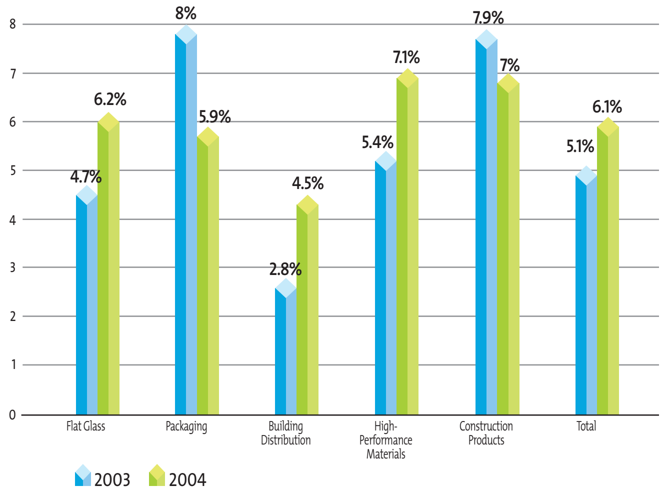
The proportion of fixed-term contracts rose in all businesses except Construction Products where it remained level.

• Use of contractors

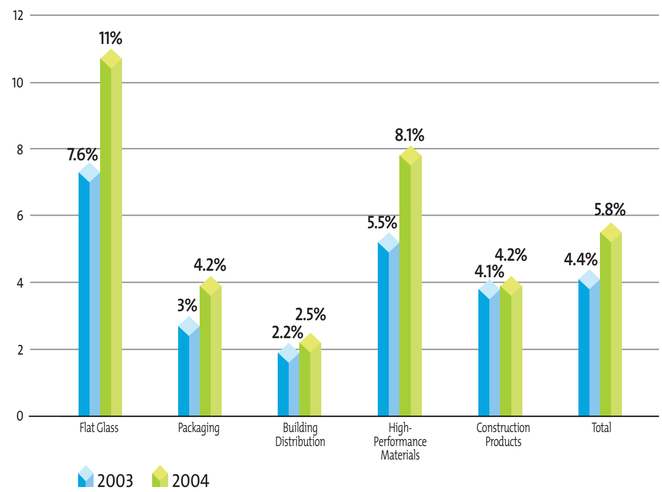
In all countries where the Group has operations, other companies are called upon to perform work that does not match the Group subsidiary's expertise. Two types of work can be outsourced in this way. The most common are ancillary tasks such as security, maintenance, cleaning, catering, medical services and, for smaller units, payroll services, information technology or accounting. Other tasks that are sometimes outsourced are

(5) Data concerning absenteeism are based on 81% of total Group staff.
(6) Data concerning temporary workers are based on 72% of total Group staff.
(7) Data concerning temporary employees are based on 91% of total Group staff.

Proportion of temporary workers



Proportion of Employees on Fixed-term Contracts at December 31



packaging, and handling or shipping of products. Although related to the manufacturing and distribution of products, such tasks remain outside the Group's core business.

Before signing an outsourcing contract, Saint-Gobain subsidiaries are required to verify that the partner company's operations and work contracts comply with all applicable regulations. The employees of vendors and contractors called upon to work at a Group site must, upon their arrival at the site, be informed of the Principles of Conduct and Action. Throughout their stay on-site, they are subject to the same health and safety rules and regulations as any Group employees working at the same facility. In a certain number of cases, they receive specific training in these areas.

2. Human resources policies that match Group strategy

Saint-Gobain employees can be divided into three broad categories: executives and managers; clerical staff, technicians and supervisors; and blue-collar workers. Numbers of employees within each category vary from year to year, but the overall proportion tends to remain unchanged.

a) Changes in employee categories[8]

• Executives and managers

The proportion of executives and managers within total staff rose slightly, to 11.6%, up 0.5 percentage point on 2003.

In Western countries where the Group has a long-standing presence and thus a greater number of head offices and research and development centers, there was a small increase to 12.6%, while the proportion remained stable at 7.6% in emerging countries.

• Clerical staff, technicians and supervisors

This category, which includes administrative staff, technicians, supervisors and sales personnel, accounted for 31.8% of Group employees at December 31, 2004, 3.4 percentage points less than a year earlier.

In the Nordic countries, the consolidation of Dahl brought a sharp increase in the proportion of clerical workers, technicians and supervisors in the Building Distribution Sector.

• Blue-collar workers

At December 31, 2004, blue-collar workers accounted for 56% of employees, up 2.3 percentage points compared to 2003.

The proportion of blue-collar workers is generally falling in Western countries, in line with productivity-boosting initiatives, while it tends to rise in Asia as the Group opens new facilities.

b) Working conditions, an evolving framework

• Organization of work

Working hours[9]

Work is organized in shifts in many manufacturing activities, to meet technical requirements. Distribution operations do not have this type of work. In industrial operations 40% of employees perform shift work, and the proportion rises to about two-thirds in Reinforcements and Packaging. These proportions are basically unchanged compared to 2003.

Each workstation can have two or three shifts, or even more in some cases, when work takes place 24/7, in uninterrupted production. Throughout the Group, any uninterrupted production is performed in cycles, in an alternation of working and rest and recuperation periods. In all countries, the number of hours worked annually by shift workers is lower than that of workers who have a daily schedule.

In Building Distribution, the specific conditions of some outlets do require that employees perform shift work. This is the case in Brazil where some stores are open 24 hours and in France at Lapeyre manufacturing plants.

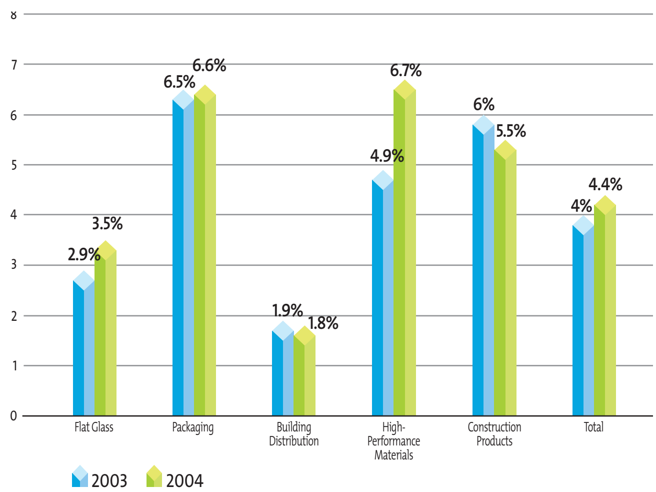
Overtime [10]

To meet a temporary increase in their workload, some Group companies occasionally need to ask their employees to work overtime.

On average, these overtime hours represented 4.4% of hours worked in 2004, a slight 0.4% percentage point more than in 2003.

In High-Performance Materials, the increase in overtime made it possible to provide an immediate and flexible response to surging demand in Asia and the United States.

Overtime Rate



• Part-time work[11]

Part-time work is not very well suited to industrial work patterns, and it concerns only 3% of Group employees.

Although part-time work is more common in Building Distribution, it concerns a fairly small proportion of French employees. It is traditionally more practiced in the Benelux

(8) Data concerning employee categories are based on 88% of total Group staff.
(9) Data concerning working hours are based on 91% of total Group staff.
(10) Data concerning overtime are based on 93% of total Group staff.
(11) Data concerning part-time work are based on 92% of total Group staff.

countries, with up to 17% of staff choosing this solution (at Raab Karcher Bouwstoffen).

For the Group as a whole, 15.2% of female employees worked part-time in 2004.

• Compensation policy

Wages

The Group's compensation policy aims to be fair, motivating and transparent. Basic wages are set in each country and each economic sector in relation to market conditions.

In Western countries, wages increase at least in line with the inflation rate, to at least maintain employees' purchasing power. In emerging countries, wages rise regularly as new skills are called upon, which leads to a higher standard of living.

Within this general framework, each subsidiary sets employees' wages based on conditions in its business line and its financial position and human resources situation. In all Group companies, the average wage for blue-collar workers is higher than the domestic minimum.

In France, the average annual wage of blue-collar workers rose 5% in relation to 2003[12]. Payroll taxes amounted to 50.3% of direct remuneration in the Building Distribution Sector and 51.7% in the industrial sectors[13].

Executives' wages include a variable portion for which rules are set at Group level and tailored to each region based on local conditions.

Also, to encourage teamwork and ensure that the fruits of success are shared by all, the Group encourages its subsidiaries to sign collective employee incentive profit-sharing agreements whenever possible.

In France, 84.2% of subsidiaries have signed these agreements, which cover nearly 90.1% of employees in the country. In 2004, these companies paid €59 million to their employees as profit-sharing bonuses, which represented 4.9% of total wages.

Employee benefits

The development, since 1988, of the Group Savings Plan (PEG) reflects Saint-Gobain's determination to involve its employees more closely in the future of the company, by offering them the opportunity of becoming shareholders under very favorable terms.

Thanks to this program, which is active in 27 countries, any employee with at least three months' seniority (six months in some countries) can purchase Saint-Gobain shares under favorable conditions with a discount on the stock market price (throughout the Group) and, in France, Spain and Portugal, employees are presented with a very attractive offer by which the Company supplements each employee's investment. The savings generated under this plan generally become available after a period of five to ten years. The Group Savings Plan mutual funds held 6.7% of Compagnie de Saint-Gobain capital stock at the end of 2004, and 11.6% of voting rights. Other information concerning the PEG is provided on page 17.

In most countries where the Group is based, whether in Europe, Asia or Latin America, Group subsidiaries give their employees supplementary benefits in addition to those provided by law (e.g. additional medical cover, pensions or life insurance), as well as grants for meals and sometimes for commuting. In France, in all companies with over 50 employees, up to 3% of the payroll is earmarked for activities to benefit employees, managed by the Works Councils[14].

c) The importance of dialogue with employee representatives

The Saint-Gobain Group attaches a great deal of importance to the quality of its dialogue with employee representatives. Because of the need to raise performance within a perpetually changing environment, the Group frequently has to make rapid changes in organization and working conditions, drawing upon consultations with employee representatives. In each region, therefore, General Delegations coordinate employee relations, to ensure that specific local features are adequately taken into account.

In 2004, 63.5% of employees had an employee representative body within their work establishment[15]. The Sectors in which the rate of representation is highest are Packaging (82.3%) and Flat Glass (68.8%), where facilities are largest, whereas Sectors where most facilities are small (Building Distribution and High-Performance Materials) have rates that are slightly below the Group average.

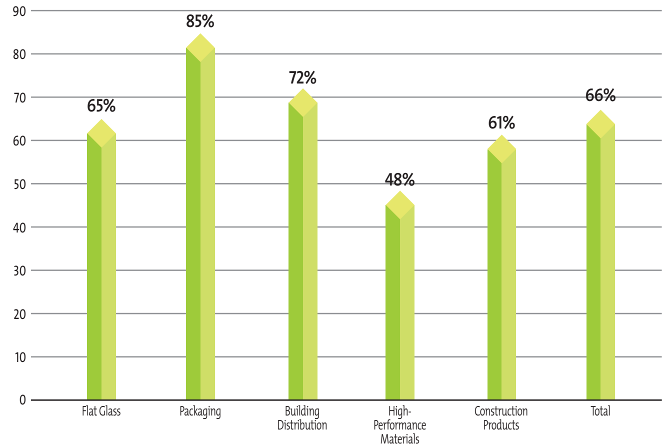
Whenever they have interlocutors within a legal framework, Saint-Gobain site managers endeavor to pursue a lively and respectful dialogue with the employee representatives that the staff have chosen.

A total of 1,120 agreements were signed with employee representatives in the Group in 2004. The change in this number compared to 2003 is not particularly significant, as in several countries agreements cover several years. These agreements mainly dealt with wages (27.4%), employment (25.2%), working conditions (21.8%) and vocational training (13.7%)[16].

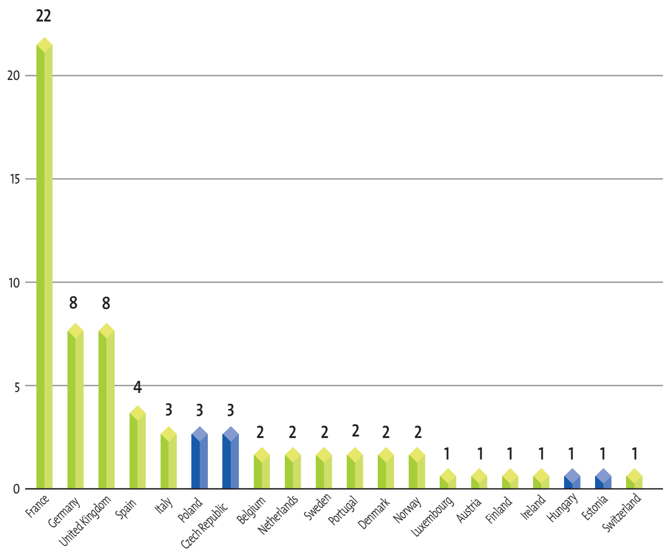
(12) Data concerning the average blue-collar wage in France are based on 96% of French staff, on a comparable basis.
(13) Data concerning payroll taxes are based on 72.7% of French staff.

(14) Data concerning employee benefit activities by Works Councils are based on 95% of French staff.
(15) Data concerning employee representatives are based on 92% of total Group staff.
(16) Data concerning the total number of agreements signed are based on 91% of total Group staff and the breakdown by subject is based on 90%.

Proportion of Staff Covered by a Collective-bargaining Agreement



Saint-Gobain Collective Agreement on European Employee Consultation. Breakdown of the 70 seats



Lastly, 66% of Group employees, and 100% in France, are covered by a collective-bargaining agreement[17].

In addition to a Group Works Committee and central employee representative coordinators for all of France, Saint-Gobain has since 1988 set up a European-level forum for employee relations, based on the recognition that Europe constitutes a zone of social convergence. A plenary meeting has been held each year since 1992 as part of the Collective Agreement on European Employee Consultation. It brings together 70 employee representatives from European Union countries, Switzerland and Norway. During this meeting the Chairman of Saint-Gobain and the General Management team exchange views with employee representatives concerning the Group's strategy and various economic, financial and social issues of interest to all European subsidiaries.

The enlargement of the European Union has led Saint-Gobain to integrate into the Collective Agreement the four new members Poland, Hungary, the Czech Republic and Estonia, and this has modified somewhat the allocation of votes.

A total of 20 countries are represented in this Agreement.

A permanent secretariat in charge of the year-long follow-up with European employee representatives keeps up regular exchanges with Human Resources management at Group and Delegation levels. This secretariat includes eight members of seven different nationalities – German, French, British, Spanish, Italian, Dutch and Norwegian. Their status was made official in a specific agreement, signed on March 4, 2004, that gives them technical resources and allots a specific number of hours for the performance of their duties, which are clearly defined. In addition, Group Executive Management has undertaken to keep the members of the permanent secretariat informed *"of changes in Group scope or structure whenever such changes have an impact on employment, and will affect, or may affect, the Group as a whole or at least two Group companies based in two European countries."*[18]

Following the admission into the Collective Agreement of the new EU member countries, the Group has been consulting with the permanent secretariat on how to ensure that the interests of these new participants are best looked after.

3. Human resources management with a view to the future

A Group as heavily invested in international development and innovation as Saint-Gobain must ensure that its human resources policy anticipates future competency needs and actively prepares for them. That is why in 2004 the Group took steps to refocus its approach around vigorous and proactive skills-building, with four avenues for progress:

- recruiting and integrating new talent, in order to bring in a new generation and welcome today the leaders of tomorrow;
- promoting and managing the mobility of management staff, to leverage the full strength of the Group's professional and geographic diversity;
- broadening training opportunities for employees, to build their skills and boost their employability;
- lastly, paying greater attention to feedback from all employees, so that the human resources policy can respond to their needs and aspirations.

(17) Data concerning collective-bargaining agreements are based on 93% of total Group staff.

(18) From the preamble to the agreement of March 4, 2004 granting official status to the permanent secretariat.

Far from having only a business focus, Saint-Gobain's human resources policy fits into the broader commitments to sustainable and responsible development. It represents a proving ground for the full integration of Group values, as enshrined in the Principles of Conduct and Action, into decision-making and strategy. Two key objectives are therefore to promote diversity within the human community of employees and ensure equal opportunity for all.

To support progress toward these multiple aims, the Group embarked on a major overhaul of its HR management information systems. The many databases used by the various subsidiaries will gradually be replaced by a single integrated application that will bring a new level of reliability to the management of employee data in all countries, making HR processes even more transparent and responsive to the needs of the Group and its employees.

a) Recruiting tomorrow's top talent

Bringing in a new generation

The average age of Group employees is around 40, unchanged from 2003. It has remained more or less level in all business Sectors, except in High-Performance Materials where it rose by one year. It is approximately 41 in Packaging and Construction Products, while Flat Glass and Building Distribution employees have an average age of 38, below the Group mean.

Age distribution data show that employees tend to be older and have more seniority in Europe and the United States, where the Group has a long-standing presence. The industrial subsidiaries pay particular attention to bringing in a new generation, as the baby-boomers are reaching retirement age. Several Latin American and Eastern European countries, as well as the United Kingdom, focused specifically on recruiting workers under 25 in 2004[19].

Such under-25 hires accounted for approximately one-third of total Group recruitments in 2004, in line with the trends of the past years.

Attracting and managing top talent

To sustain its profitable growth, Saint-Gobain needs to attract high-potential individuals. Because all Group operations are now global, these individuals need to have an international and multicultural outlook.

Building special relationships with universities and programs that teach the skills the Group needs is one of the best ways of introducing Saint-Gobain to students. Each year, the Company takes part in many university forums worldwide. It has also built extensive ties with business and engineering schools, that range from sponsoring a specialized program or class to providing personalized support for individual students.

The Group takes part in international programs for hosting students and engineers as a means of recruiting and training young people with high potential who are headed for top positions. Saint-Gobain has been a supporter since 1999 of the French Copernic program, which provides management training to young engineers from Central and Eastern Europe. In 2004, the Group also took part in the "n+i" (n plus i) exchange program and offered an internship with full room and board to a Chinese student.

In France, the French government's VIE program *(Volontariat International en Entreprise* – international volunteer services in companies) is a major avenue for recruiting managers, as it initially offers a 12- to 24-month assignment outside France to young French graduates. Most of the participants are then offered a position within the Group, more than half of them under a local contract. In 2004, Group subsidiaries welcomed more than twenty young students as part of the VIE program.

Because innovation plays such a central role in Group strategy, particular care is devoted to recruiting researchers. In France, the Group co-finances an average of 5 or 6 theses per year, as part of CIFRE agreements (industrial agreements on training through research). Since this joint financing system was set up with the French Ministry of Research in 1981, around 160 students have done thesis work at Saint-Gobain. Of those who were at Saint-Gobain Recherche, 75% subsequently began their careers within the Group.

The Group increasingly promotes international diversity among its innovators. In 2004, one of the CIFRE agreements allowed a Romanian student to pursue thesis work.

The Group receives an average of 60,000 job applications a year, 80% of them for executive-band positions. Half of these applications are received through the recruitment section of the Saint-Gobain website. The applications are pre-sorted, then passed on to all Group subsidiaries using a specific profiles management application.

The Group also uses the French job search engine "Keljob" to give its job offers maximum exposure and distribution.

Locally, the Delegations and companies set the recruitment strategy that is most appropriate for their environment, and mainly manage it through their own website. Based on their needs, they build relationships with national and regional schools and universities, welcome interns, sponsor programs and organize factory visits to introduce the company to students. In China as an example, the Delegation is more and more actively involved with the network of major universities and business and engineering schools. It takes part in on-campus recruitment forums and devotes particular

(19) Data concerning the hiring of employees under 25 are based on 82% of total Group staff and 95% of staff outside North America.

attention to multicultural content in training. Saint-Gobain has thus offered to sponsor classes in Chinese-French management programs.

b) Greater mobility of management staff

Mobility of management staff between regions and functions is one of the essential building-blocks of Saint-Gobain's development. The Group has made it a strategic focus and several measures to promote it have been included in action plans. The increasingly dense cross-functional links between Sectors stimulate the sharing of best practices and promote business development, making the most of the Group's rich and diverse capabilities. Companies based in countries where the Group has a long-standing presence often welcome young executives from emerging countries or recently acquired companies to gain the benefit of an external perspective and of fresh experience. As international mobility becomes increasingly common, it is also essential to provide expatriates with the best possible preparation for their return to the home country, to allow them to draw the maximum benefit from their experience.

Over the past ten years, mobility between functions has doubled and mobility between countries has increased three-fold.

The posting of job offers on the Intranet helps fuel sustained interest in mobility options. With the launch of the new HR management application that will centralize data for the entire Group, truly international career management will be within much easier reach.

c) Building skills through training

The Group's sustained competency-building efforts led to a sharp 25% increase in training hours in 2004, to 21.8 hours per employee[20], as training expenses rose 11.8%, to 1.9% of total payroll.

The Group is determined to expand access to training, so that all may share equally in its benefits. In 2004, 70.9% of executives and 67% of non-executives underwent training. This represents 67.5%[21] of the total employee population, up from 60.1% in 2003.

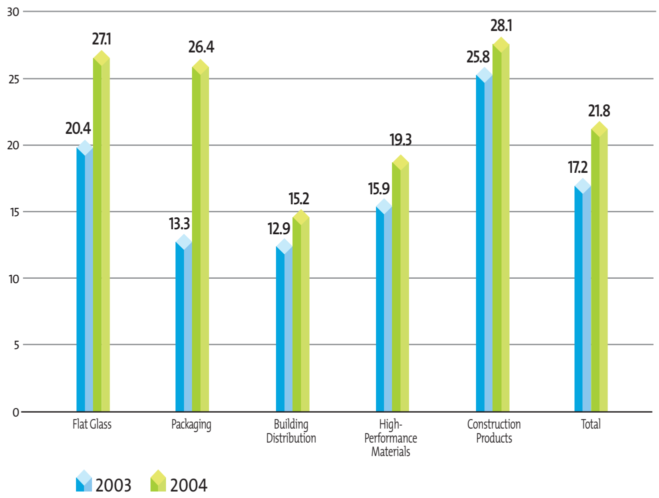
The Group's training policy follows five key goals:

• Enhancing Group competitiveness by bolstering technical skills and professional expertise

Technical training, which in 2004 accounted for slightly more than half of all training hours (50.5%) is mainly handled by the

(20) Data concerning the average number of training hours per employee cover 89% of total Group staff.
(21) Data concerning the breakdown by employee category of trained staff are based on 88% of total Group staff.

Average Number of Training Hours per Employee



Group's Sectors and operating units, which are in charge of maintaining, developing and enhancing the specific skills on which their business relies. As an example, Pont-à-Mousson's training center welcomed 900 trainees in 2004, deepening their knowledge of pipe manufacturing processes. Point.P's schools in Arles and Nantes took 7,690 employees through a total of 153,780 hours of training on building industry skills and salesmanship. Since its establishment in 1985, the University of Glass has provided training courses to 2,677 technicians and engineers from the entire world, who have honed their knowledge and command of glassmaking processes.

Administrative support staff also benefit from training. A specific session was organized for purchasing employees in the Group's main geographical locations. Accounting staff from the 1,200 companies that make up the Group were trained in the new IFRS standards through classroom seminars backed by a self-training module accessible on the Group's Intranet.

• Stepping up organic growth by developing innovation and marketing skills

The Group operates in increasingly competitive, complex and demanding markets where it has to demonstrate a technological edge and a mastery of customer relationship management.

Both global teams and operating units are involved in the drive to boost the Group's potential for innovation. The High-Performance Materials Sector has organized seminars on its CPA Gate Process for managing research and development projects stage by stage, from initial idea through to commercial launch. Some twenty training sessions have already been held in several sites, reaching nearly 400 of the Sector's employees.

Strengthening customer relations is another priority. To meet it, Group Management decided in the fall of 2004 to set up a Group Marketing School. This establishment, which will open its doors to students in 2005, has the dual aim of, on the one hand, making all managers aware of the need for a customer-focused approach and training them in the fundamentals of marketing; and on the other, enabling Group marketing specialists to deepen their knowledge and share best practices from within and outside Saint-Gobain. Debate and exchanges will play a large role in the Marketing School's seminars and training sessions, with help and support provided by Group practitioners as well as by outside academics and consultants.

• Preparing for, facilitating and supporting the Group's international development

Expanding into high-growth markets requires substantial training efforts, to build the skills that Group operations require. In the emerging countries of Asia, expenditure on training amounted to 6.2% of the total payroll in 2004. In Brazil, where Saint-Gobain has been established for many years, training remains a major focus, with an average of 58 training hours per employee in 2004. The Group also makes use of new technology to transfer know-how and skill-sets to the new fronts in its development. The Flat Glass Sector's MKT2 program teaches the fundamentals of glass manufacturing through a combination of tutoring and computer-based training. It has considerably shortened the learning curve for new workers, strengthened the technical skills of more experienced personnel and reduced the risks of accident and work stoppage. MKT2 has been deployed in Mexico, the United Kingdom, Spain and Portugal, and is currently being localized for use in India, China, France and the Benelux countries.

Finally, training in language skills, which accounted for 6.7% of training hours in 2004, rounds out the transfer of know-how and skills-building taking place in our new markets.

• Energizing Group teams around key challenges, through the development of leadership skills

Executive training has always played a prominent role in the Group's human resources strategy. The General Delegations are the key players in this area, either through standard classroom training (as in France, Germany or the United States), through the distribution of self-assessment tools (as in Spain), or through graduated development programs (as in Brazil).

Such training is not exclusively for executive-band personnel. In France, the training of supervisors has always been the focus of considerable attention. Since its inception in 1987, 758 supervisors have been through the supervisor training program, which involves seven weeks of work spread across the year and individually managing a project. The latest session began in October 2004. Executive training accounted for 8.2% of training time in 2004.

• Strengthening the Group's corporate culture and promoting the sharing of best practices

Training plays a fundamental role in strengthening the Group's corporate culture and in spreading and sharing its values. Training sessions and seminars provide opportunities to bring together employees from different operating units, businesses and cultures, so that they can share best practices, exchange views and each build their own informal network that will help them get ahead within the Group. This mixing is particularly effective at events organized by the central Training Department. Each year, the Department's flagship Management Development seminars bring together 250 executives from all types of backgrounds. These seminars allow crucial topics for the Group to be discussed in depth, and make meetings and discussions with Group management possible.

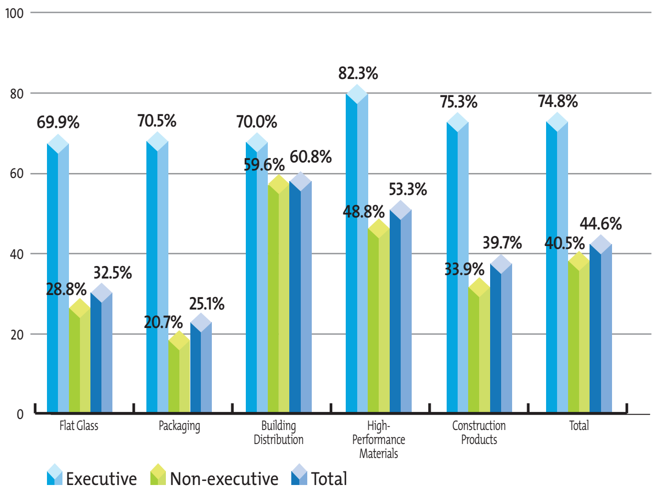
Of course important exchanges also take place throughout the training programs run by the Sectors, Divisions and Delegations. More broadly, the development of online training tools such as the EHS, Finance, 5S, or Integration applications promotes the spread and take-up of common practices which strengthen the Group's corporate culture, though without undercutting the specific nature of each Group entity.

d) Appraising and listening

To be truly effective, human resources management needs to be based on a dynamic exchange between the Group and its employees. By regularly evaluating employees and paying close attention to their feedback, it is possible to discern what

Annual Evaluations

based on an actual Group structure



their expectations are, what motivates them and what their development needs might be, so that HR policies can evolve accordingly and provide the most appropriate responses.

In 2004, 44.6% of employees and 74.8% of executives had an annual evaluation interview with their manager[22].

Information gathered during annual evaluations is centralized and managed in a dedicated information system.

The new HR information system, whose launch was decided in 2004, will make a truly global management of executive careers possible, by bringing together all annual evaluation data and merging them into an integrated and upgraded system. This more effective and reliable tool will provide a clear overview of resources available throughout the Group and will make it possible to anticipate future needs more accurately.

Particular attention is being paid to the career paths of managers and executives. In 2004 the Group surveyed a sample of managers to find out what motivates them and what their expectations are. The first findings and analyses from this survey allowed the Group to identify managers' key expectations and to tailor the HR action and review plans accordingly.

e) Promoting diversity and equal opportunity

Fighting discrimination in all its forms is one of the Group's priorities. Human resources policies seek to promote diversity and equal opportunity within our community of employees, as this is wholly in line with the values of respect for individuals and employee rights enshrined in the Group's Principles of Conduct and Action.

Promoting greater gender balance

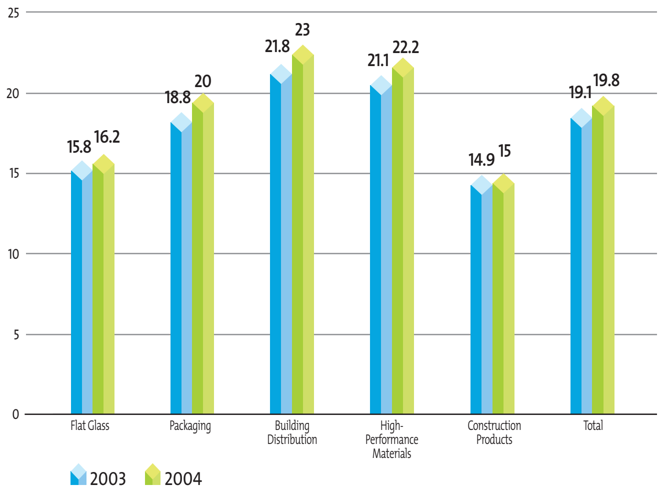
The proportion of women in total staff remained stable at 19.8%[23], on a par with 2003, but it rose in the new businesses. At December 31, 2004, women filled 29.9% of non-factory work positions and accounted for 20.5% of new hires, as they did a year earlier.

In High-Performance Materials and Building Distribution, the proportion of women within total staff rose by more than one percentage point. Their share of the employee population also rose in Flat Glass, Construction Products and Packaging.

There is a higher proportion of women within the staff in Nordic countries, in Eastern Europe and in the United States than in the rest of the Group. Emerging countries saw a definite increase in the proportion of women, particularly in

(22) *Data concerning annual evaluations are based on 79% of total Group staff.*
(23) *Data concerning the proportion of women within the staff are based on 88% of total Group staff.*

Proportion of Female Employees



Latin America and Asia, where the rise was between two and three percentage points.

Women receive 14.9%[24] of total wages. This is because they tend to be less present in executive functions, particularly in senior management, because more of them work part-time, and because they tend to have less seniority (their average seniority is 2 years lower than men's).

The Group is determined to achieve a better balance between men and women at the management level. The aim is to ensure, in recruitment and access to functions wielding responsibility, equal opportunity that is compatible with the nature of the work involved. Increasingly feminine leadership should promote a better awareness of different sensitivities, both in managing staff and in conducting relations with outside partners.

This change is happening slowly: 14%[25] of executives are women, as in 2003, up from 10% in 1997. Women are more numerous in finance, human resources and legal and tax functions.

Promoting the integration of disabled workers

Disabled employees represent 1.8% of all Saint-Gobain staff, and 2.4% in France[26].

When an employee is affected by a new disability, Group companies attempt, as far as possible, to keep the person at their job. In France, 105 workstations were adapted for disabled persons in 2004.

(24) *Data concerning the percentage of women on the payroll cover 69% of total Group staff.*
(25) *Data concerning women in management cover 92% of total Group staff.*
(26) *Data concerning employment of disabled persons are based on 78% of total Group staff.*

In addition, nearly one-third of Group companies outside the United States[27], in most European countries, lend their support to specialized institutions. By ordering from these specialized institutions, subsidiaries help bring disabled employees into professional life in a setting that is specifically tailored to their situation, in terms of the nature of tasks performed, the pace at which the work is carried out and especially the training received by management teams.

(27) Data concerning support for specialized institutions are based on 73% of total headcount and 70.5% of Group companies (86% of headcount outside the United States).

Going beyond compliance with legal requirements, Group subsidiaries endeavor to take concrete steps to help people with disabilities play a part in professional life. As an example, one of the Pipe Division's French companies has for many years provided specialized facilities to a Center for Aid through Work *(Centre d'Aide par le Travail* or CAT), which employs around 40 disabled people who perform assembly and packaging work for the company.

III – Development based on a proactive EHS policy

The industrial and technological operations fueling the Group's growth bring a great diversity of business processes, materials and methods into play. The parameters for these operations are set by Saint-Gobain's Environment, Health and Safety policy, which aims to ensure the Group's sustainable and profitable development through careful stewardship of the natural environment and protection of employees' health and safety.

1. An approach integrated into the Group's policies and corporate culture

a) Global objectives, tailored to local situations

Saint-Gobain's approach to environmental, health and safety matters is derived from three key documents, which together contribute to the building of a common EHS culture.

• The Principles of Conduct and Action

In its Principles of Conduct and Action (see page 66), the Group requests that its subsidiaries "actively promote the protection of the environment" and "take particular care to adopt all measures necessary to ensure the best possible protection against health and safety risks in the workplace", both for Group employees and for contractors working at Group sites.

Building on the foundation provided by the Principles, two other documents define and specify the Group's policy in these areas.

• EHS Policy

The Group's EHS policy is based on respect for the individual and for his or her environment. It invites each Saint-Gobain employee to commit towards reaching definite targets.

• EHS Charter

The EHS Charter, an offshoot of the EHS policy, spells out the three key objectives that all 180,000 of the Group's employees are expected to work towards, regardless of which business or country they belong to. It was initially presented during the Safety Diamonds Awards (see page 83) and is now displayed in all Saint-Gobain facilities.

The EHS Charter, launched in April 2004, is on display at Group sites:

Group Management has therefore set several priority EHS objectives and resource targets, in the following areas:

• employee health and safety,
• optimizing the use of materials,
• reducing atmospheric emissions of pollutants, for plants that use high-temperature processes.

Each facility must design an annual EHS policy with reference to these objectives, taking into account the specific constraints and circumstances it faces.

The integrated Environment, Health and Safety approach provides a comprehensive overview of these three inseparable subjects, leading to greater effectiveness.

b) Resources deployed

• A dedicated structure

The EHS structure is matrix-based, like Saint-Gobain itself, and coordinated by a central department reporting directly to General Management.

In each Sector one or more persons are in charge of designing and implementing an EHS policy tailored to the specific context of the Sector's operations. Similarly, within each General Delegation a coordinator, working with a team of correspondents within the various companies and facilities, is also responsible for overseeing the local implementation of Group, Sector and Division EHS initiatives, and for ensuring compliance with national regulations.

These Sector- and Delegation-level managers meet twice a year with the Group EHS Department as an EHS Committee, to review issues of interest to all Group companies and share feedback. In turn, these managers organize meetings with their own network of correspondents, which the Group EHS Director often attends. As in the operational sphere, this matrix-based organization structure makes it possible to be close to business operations and aware of specific national circumstances, while keeping a consistency with the overall objectives.

Once a year since 1990, on the "Health & Safety Diamonds" awards day, the sites obtaining the best results in health and safety are recognized and share their best practices with the rest of the Group. This event promotes a healthy rivalry for higher performance and provides an opportunity for fruitful exchanges among all participants.

Through the Group's dynamic and constantly evolving EHS Intranet portal, the entire EHS organization can exchange information and feedback. Among the steady stream of new tools, data and documents on offer at this one-stop source, users find all the in-house material related to the EHS policy, from the Reference Manual to the audit grids, as well as self-diagnostic tools, presentations on current topics, the list of training courses offered by the Company, and guidelines on Gaia, the new EHS application deployed in 2004 (see page 84).

• An active contribution from the Research & Development departments

Saint-Gobain has two organizations that contribute to raising the Group's environmental performance:
– Saint-Gobain Conceptions Verrières, whose brief includes improving the environmental performance of glass manufacturing processes, in working on furnace design. In particular, three issues are the subject of in-depth work: optimizing combustion to reduce nitrous oxides (NOx); developing energy-saving and carbon-dioxide (CO_2) abatement processes; and recycling of products and process waste.
– Research & Development teams in 13 research centers and around 100 development units, which work on many environment-related issues, including how to limit boron emissions and how to plan for the end of products' life-cycles.

In 2004, research expenditure directly related to environmental matters came to €13.1 million, up 10% on 2003. This sum represents the first step in the overall Research and Development investment. Each of the projects funded in this fashion is then followed by one or more development programs at Sector and Division level, which require at least three times the amount invested initially. This outlay does not include the research work on particulates filters.

The Rise in R&D Expenditure related to Environmental Protection

2002	€11 million
2003	€11.8 million
2004	€13.1 million

• Specific tools

Management tools

The Group EHS Department has designed a certain number of EHS management tools that it makes available to the various sites to help them implement their own actions in line with Group policy.

The brochure entitled "EHS Charter and Resolutions", published in the summer of 2004, expands upon the Principles of Conduct and Action, specifying how they apply to Environment, Health and Safety issues. This document is intended for all Group managers with operational responsibilities, particularly site managers to whom authority for EHS issues is delegated. It reminds them of the key obligations applicable throughout the Group to comply with the most demanding legislation. The actions covered include defining an EHS policy, assessing risks, implementing a management system, educating and informing employees, managing emergency situations, integrating outside contractors in EHS processes, controlling new products and capital expenditure projects, and, lastly, tracking and measuring performance.

Another fundamental document is the EHS Reference Manual. This guide to all Group EHS tools describes in detail the steps leading to a functional EHS management system, and provides tangible explanations for each one, from identification and planning, to implementing the action plan, to evaluations and controls, reactions and adjustments. A specific version of the Manual has been produced for the Building Distribution Sector, taking into account its particular features.

In 2004, the “5S” management method began to be deployed at all Group sites. Already in use for several years at some Group facilities, this method has proven very effective in raising standards of safety, quality and productivity. Its name comes from the five Japanese verbs *seiri* (clear out), *seiso* (clean), *seito* (organize), *seiketsu* (formalize) and *shitsuke* (maintain).

Evaluations and controls

Actual EHS audits, carried out by the Group’s EHS auditors, offer the most in-depth and reliable evaluations of the EHS management system. They are launched at the discretion of Sectors, Divisions and operating units, but also, in some cases, following a decision from the parent company or the Delegation.

The Group’s size enables it to perform cross-sector audits, with audit teams from outside the Sector that offer the necessary independence but also know Saint-Gobain’s EHS policy thoroughly. This principle seems to work well with Saint-Gobain’s corporate culture. Site managers take up the recommendations that are made to them, their results show improvements, and the auditors expand their own experience. These cross-sector audits are contributing very significantly to the spread of best practices within the Group.

Beginning in 2004, environmental issues have been fully integrated into the audit grids. Several training sessions for these new “integrated audits” took place in 2004, involving 96 trainees from the United Kingdom, the United States, Belgium, Poland, Switzerland, China, Thailand and France. Of the 159 EHS audits conducted worldwide in 2004, half were in France, meeting the objectives set for the audit plan up to 2005. The remainder, which took place in 12 other countries including Poland, Brazil, China, Thailand and India, were performed on a voluntary basis, since the formal scheduling of audit plans outside France will begin only in 2005. The aim will then be to audit each plant every three years.

The audit findings give rise to practical recommendations and action plans, the implementation of which is tracked by Sector and Division management in France, and by the Delegations outside France. The most common recommendations concern EHS management, technical solutions or the need for training. Beginning in 2005, specific tools for dealing with distribution operations will be used in the audits tailored to the needs of the Building Distribution Sector.

The second level of control is provided by Saint-Gobain’s Internal Audit Department. Internal auditing was previously exclusively financial but has now been expanded to include verification of risk management processes in various operational and functional areas; therefore, there is now an EHS section. About 200 such audits took place in 2004. They are centralized by the parent company and are performed by a dedicated team that also follows up on audit findings. If any flags are raised in the course of an internal audit, an EHS audit is then organized.

Finally, the Group uses a self-diagnostic software tool for purposes of internal control. It is made up of a detailed list of questions and an evaluation grid to allow plant managers to review, quickly and easily, their site’s EHS situation against a variety of indicators.

The program was upgraded in 2004 and tested at six of the Group’s industrial sites, in China, India, Brazil, Germany, the United States and France. Several risk factors were brought to the fore in the new release, based on probability of occurrence and potential impact on operations, to tie the self-diagnostic process more closely to a risk-management approach. The Group has made the new self-diagnostic software mandatory for all sites; they will be receiving it in the course of 2005 and will be required to run it at least annually, including in the Building Distribution Sector where a customized version is being deployed.

Reporting

For the first time in 2004, the Group used a new centralized reporting tool called Gaia, for both monthly safety data and annual health and environmental information. This powerful application replacing older systems not only brings efficiency gains through better sharing and communication but also considerably raises the bar in terms of data reliability. Data input is followed by a validation stage, generally handled by the plant manager or Division EHS leader, and consistency checks are run at every stage in the reporting process (entry, validation, consolidation). The program's communication features, such as the forum and expert consultant functions, make a previously unheard-of level of interaction among all of the Group's EHS stakeholders possible.

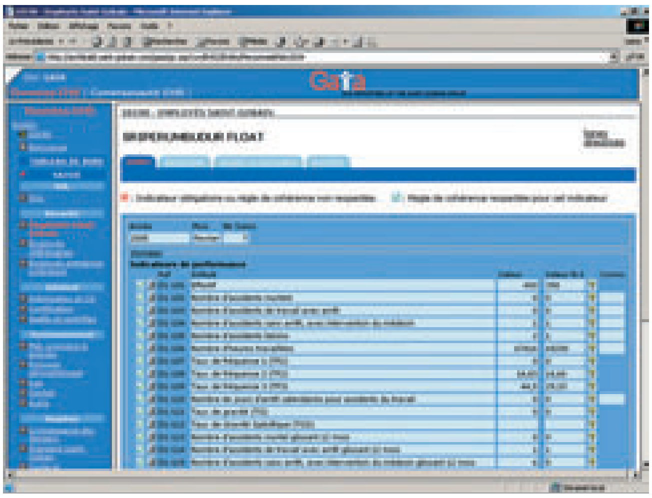
More importantly, it provides EHS leadership at parent company, Sector and Delegation levels with real-time access to facilities' results so that needs can be pinpointed and help delivered much more rapidly.

Concerning safety, Group facilities are required to provide two types of reporting:
– Monthly reporting of all injuries recorded during the month and their severity level has been implemented for approximately 90% of the hours worked within the Group.
– The "Safety On Line" system, integrated within Gaia and launched in 2004, is used for the immediate mandatory reporting of any injury resulting in lost workdays, along with a description of the circumstances of the accident. This allows Group EHS leadership to be very rapidly informed of such events and to follow up on the report with further questions, if need be.

Reporting on health and environmental issues takes place on an annual schedule.

The scope of environmental reporting covers the vast majority of Saint-Gobain's environmental impacts, as it includes all sites subject to permit requirements and virtually all facilities whose operations do not require a permit but consume significant amounts of energy.

Progress made in implementing the policy is thus easy to measure, with an overview of results at Group level.



***Gaïa**, the new centralized reporting tool launched in 2004, covers both monthly safety data and annual health and environmental information.*

*It also includes the "**Safety On Line**" module, which allows facilities to instantly report any injury resulting in lost workdays and explain the circumstances of the accident.*

• Certification

The Group's environmental, health and safety policies include the requirements for certification in these areas.

At December 31, 2004, 13.6% of the sites included in the safety reporting process had obtained ISO 14000, EMAS or other environmental certification (bearing in mind that some facilities included in safety reporting have little or no impact on the environment). 7.3% of them had health and safety certification such as BS 8800 or OSHA 18001, and 39.9% of them had ISO 900x, AS 9100 or other quality assurance certification (this does not include the Point.P and K par K sales outlets, which are certified on a collective basis).

Certification is not mandatory within the Saint-Gobain Group, as requirements only deal with implementing the policies outlined in the EHS Reference Manual discussed above. Subsidiaries that seek certification do so at their own discretion, generally because they see a common project involving the entire workforce as an opportunity to build team spirit, or because their market demands it.

• Financial resources

Capital expenditure on environmental protection rose very significantly in 2004, to €68 million, up from €52 million in 2003. This figure covers four types of investment to support the strengthening of the Group's environmental policy:
– Protective equipment, e.g. soundproofing, dust abatement, wastewater treatment plants, fireproof walls, waste storage areas, treatment of discharges of volatile organic compounds;
– Recycling, e.g. systems for recycling raw materials, production scrap, water, calories, etc;
– Economizing, e.g. equipment for reducing consumption of raw materials or energy, primary measures;
– R&D expenditure to optimize product life-cycles.

Environment-related expenditure rose 17% in 2004, to €154 million. This includes the salaries of all employees working in environmental protection, training costs, depreciation and amortization, insurance cover and guarantees, provisions for environmental risks and all other environment-related costs. Charges to provisions for environmental risks amounted to €4.4 million in 2004.

• Training and communication

Training

Training is one of the key levers for the Group's EHS policy. It offers a unique opportunity to spread the knowledge that promotes greater awareness and helps achieve the objectives of the EHS policy. It benefits all categories of employees, from senior executives to EHS managers and leaders, to operational managers and blue-collar workers. Matters related to the environment, health and safety accounted for 17.2%[28] of training hours provided in 2004.

Each year, the Group defines a core curriculum for EHS training, with different types of content for the various target audiences. The implementation of the training sessions is then entrusted to EHS representatives within the Sectors and Delegations, who are able to adapt the material to the technical and operational features of the local situation.

The training sessions offered deal both with management issues and with such operational questions as risk assessment, industrial health or environmental methods, audits and the resulting feedback. As an example, the High-Performance Materials Sector offered its operational managers sessions on managing risks from hazardous products, on ventilation and on noise mitigation.

Communication

Because EHS issues are a clear priority for Group Management, internal communications on the subject expanded considerably in 2004. Every month, at least three or four "newsflashes" on EHS matters are published in the Group's weekly or monthly newsletters, and on Archibald, the Group Intranet. The Delegations and Sectors also include EHS information in their own internal communications publications. The Benelux, Italian and Indian Delegations, among others, even publish specific EHS newsletters.

A new EHS category was added in 2004 to the Communications Stars awards, the in-house awards for communication initiatives that were established in 2002. A total of 20 projects were entered in this category. They reflected such a wealth of imagination and creativity on the part of the various sites and subsidiaries that the awards committee decided to distribute the submissions in the form of a catalogue, so that all could benefit from the sharing of ideas and best practices.

(28) Data concerning the breakdown of hours of training are based on 88% of total Group staff.

But communication is especially intense at the level of sites themselves because, like training, it is one of the keys for raising performance. For the first time in 2004, an international Safety and Health Day took place on October 28 in all Group facilities. Having all 180,000 employees worldwide meeting, site by site, for debates and exchanges around the issues of health and safety was certainly a momentous event. The activities organized on the day included workshops, practical security drills and presentations of methods and results.

In France, the Chief Executives of subsidiaries also met on September 22 for a day of briefings and exchanges on safety issues. Several Delegations, including China, India and Italy, also regularly hold this type of gathering.

c) Integrating outside contractors

The Principles of Conduct and Action emphasize that subsidiaries' health and safety policy applies *"to their employees and to employees of outside contractors when the latter are working on a Group site".*

As a result, EHS procedures also apply to accidents involving these outside workers, and several years ago Saint-Gobain issued a specific booklet of health and safety recommendations for the staff of outside companies, setting out the responsibilities and obligations of the client company (the Group subsidiaries) as well as the duties of the outside company.

2. Health and safety

The Group's health and safety policy and the EHS Charter are based on respect for the individual. They set ambitious targets for subsidiaries, namely aiming for a rate of zero accident and zero occupational illness.

The Group EHS management system, deployed within the various sites, has several levels. At the heart of the system lie risk-assessment processes that identify potential hazards and measure possible exposure. Then action plans are devised to eliminate these risks (e.g. by substituting a harmless product for a hazardous one or automating a handling operation) or minimize them as far as possible, using better operator training, specific procedures or protective gear.

The Group is currently working to design uniform industrial health standards that will be gradually applied to all sites.

a) Industrial health for employees: specifically-tailored answers

Because Group operations involve industrial processes using mineral and chemical substances, part of Saint-Gobain's employee population is exposed to risks, that industrial health initiatives and methods seek to eliminate or minimize. High-risk situations are mainly related to noise, to workstation ergonomics and to exposure to inorganic and organic compounds, therefore Saint-Gobain has decided to focus its efforts on these three types of situations. A new methodology based on common industrial health standards was developed at Group level in 2004. It will allow better risk assessment and monitoring, and make it easier to track the various sites' progress.

Noise

The Group's industrial processes bring into play multiple and varied sources of noise, from cooling systems, to machine tools or furnaces. Noise-related issues are of course managed locally. Site managers decide on investments in collective protection equipment that reduces exposure.

In 2004 the Group decided to pre-empt the effective date of the new European Union directive on noise, by designing its NOS noise standard that complies with the future requirements. The program for detecting, measuring and controlling potential sources of exposure to noise in the workplace will be rolled out to the entire Group in 2005 and will be applicable to all facilities. Its objective is to protect all employees and outside contractors. Based on the indicators derived from the standard, action plans and control and monitoring processes can be set up over the long term. The standard also includes a harmonized noise measurement method based on a statistical approach, to ensure consistent implementation at all sites.

Workstation ergonomics

The majority of known occupational health problems come from the handling of heavy weights, stressful motions or postures and repetitive movements of the upper limbs. Automation at Group plants, and in some cases the use of handling equipment, has gradually reduced the risks faced by employees.

Despite this significant progress, the Group remained concerned about this issue and selected a new risk-assessment method to study handling operations, the lifting of weights and posture issues at workstations. It is currently being distributed to EHS managers and to Delegation leaders. The method is available in the form of four manuals that can be downloaded from the EHS Intranet. The manuals help identify the various high-risk situations in the course of an interactive dialogue with operators. They are composed of two parts, one containing recommendations and the other providing workstation observation grids. They are currently being distributed in English and French but will soon be made available in other languages. A software application is also being developed to make it easier to apply this method.

To eliminate or reduce ergonomic risks, some sites, particularly in Flat Glass where handling operations and manual finishing are common, have also adopted workflow management processes that avoid overly repetitive gestures over time.

The first International Safety and Health Day on October 28, 2004 *allowed all 180,000 employees worldwide to meet, site by site, for debates and exchanges around the issues of health and safety (shown above, employees of a US subsidiary).*

Exposure to hazardous products

The Group's industrial businesses process basic materials which they transform into high-technology products. Exposure to mineral dust and to chemicals is a definite risk in these processes, one which the Group aggressively seeks to eliminate or minimize through appropriate solutions. In 2004 it implemented the Toxic Agent Standard (TAS) to identify, assess and eliminate or control potential sources of exposure to toxic agents at the workplace. Based on the indicators derived from the standard, action plans and control and monitoring processes can be set up over the long term.

The TAS is currently being tested, and will be gradually extended to all Group sites (including plants, laboratories and R&D centers), to be applied to all employees and outside contractors, with progress indicators that will be designed and tracked.

The Sectors and Divisions have already implemented a number of solutions that are appropriate for their operations. For more than two years the High-Performance Materials Sector has been working with an application that itemizes all products entering each site, regardless of their use, and lists all the substances that they contain. These substances are then classified into three categories, based on their degree of hazardousness. Exposures are analyzed and split into three levels: work in a closed environment (no exposure), presence of an effective pollutant trap (collective protection), or no collective protection system. Cross-referencing the level of hazardousness with the degree of exposure yields a measurement of risk, against which the necessary measures can be taken, such as product substitution or investing in collective protection equipment. All of the Sector's sites completed the phase devoted to analyzing the products and their toxicity in 2004, and the Sector will be launching training sessions in 2005 on operational use of this tool, in the United States and Europe.

For the implementation of the TAS, the Group decided to focus as a first priority on a dust abatement pilot project for crystalline silica, which will also allow the testing of a common methodology for measuring exposure in the workplace. With comparable exposure data from all sites, it will be considerably easier to implement action plans for risk reduction. Each facility where silica dust has been identified as a risk factor is therefore required to monitor its employees' exposure, even when local regulations do not demand it. A measurement guide has already been produced to help sites carry out the project.

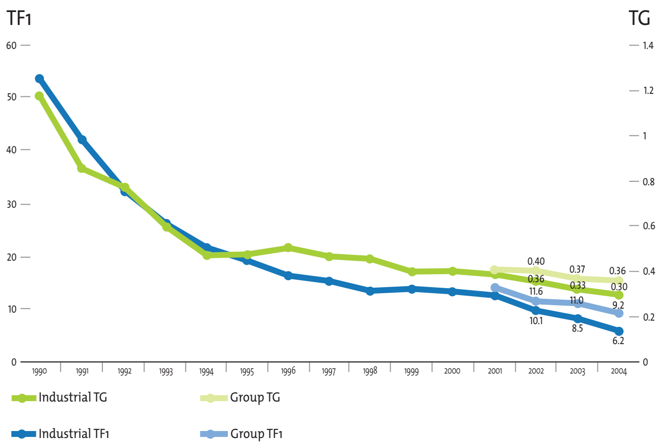
Biological risks

Following the outbreak of an epidemic of legionnaire's disease in France at the end of 2003, French sites took preventive steps by implementing proactive action plans, in coordination with local authorities where appropriate and in compliance with applicable regulations. All Sectors and Divisions concerned in France rapidly took the necessary measures to ensure compliance and most of them organized seminars on crisis management.

In response to the many questions that have been raised by the implementation of nanotechnology, a cross-functional watchgroup set up at the end of 2004 has been charged with monitoring developments in this area, collecting and distributing information and issuing recommendations to Research & Development centers.

b) Safety: encouraging progress that needs to be furthered and strengthened

Changes in LTI/D and SR – Group and Industrial Sites



As far as the Group average is concerned, the objectives for the incidence rate of injuries with lost workdays (number of lost time injury/days, or LTI/Ds, for every million hours worked) set for 2004 have been reached. This encouraging result is a sign that the drive to raise performance launched several years ago must be sustained, in order to meet the objective of "Zero work-related accidents" set out in the EHS Charter.

For 2004, the LTI/D came to 9.2 for the Group, 25% lower than in 2003. The severity rate (SR) was slightly down on the 2003 figure, to 0.36.

These results include all Group sites involved in the safety data reporting process, including those of the Building Distribution Sector. The latter considerably improved its results, with an LTI/D that dropped to 16.2 in 2004 from 17.6 in 2003, and a SR that declined to 0.48 from 0.5 in 2003. Safety management systems were rolled out throughout the various Building Distribution subsidiaries in 2004. For example, several Lapeyre sites have implemented the 5S method and all Raab Karcher outlets in Germany launched an integrated EHS management system. An EHS leader was appointed for the Building Distribution Sector, to coordinate the various initiatives and tailor Group tools to the needs of distribution operations.

As in 2003, the decrease in LTI/D applied to all industrial businesses, thus confirming the improving trend. Their incidence rate of injuries with lost workdays fell 30% over one year, to 6.2 in 2004, and has been divided by two in the past four years. The severity rate fell 9% to 0.30 in 2004 from 0.33 in 2003, and has been halved since 1993.

Ceramics & Plastics and Abrasives recorded the Group's strongest reduction in LTI/D, plummeting over 50%. On average, the falls in LTI/D ranged from 7% to 30% for the other industrial businesses. The Packaging Sector recorded stronger progress than in 2003, even though its LTI/D rate remained slightly above that of the other businesses.

The vast majority of Delegations recorded better LTI/D performance. Six Delegations had an LTI/D rate of less than five in 2004, up from three in 2003: Asia-Pacific, Brazil and Argentina, North America, India, the Nordic countries and Poland. India was the star performer of 2004 with an LTI/D rate of 1.4, down 67% on the previous year and the lowest severity rate in the Group, 0.04. The outstanding results of the Nordic countries and Mexico also deserve a mention: their LTI/D scores were 59% and 33% lower, respectively, than in 2003.

Finally, France's results should also be recognized, even though the country still has the widest margin for improvement. The 27% fall in LTI/D was largely attributable to safety initiatives launched in the Building Distribution Sector and the Flat Glass subsidiaries.

Despite all the preventive action implemented, the Group recorded with great sadness a total of five fatal accidents in the workplace in 2004, as well as four cases of heart failure and the death of one employee who fell victim to the Madrid terrorist bombings of March 2004. The more stringent in-house procedures for responding to such fatal accidents that had been introduced in 2003 were applied in 2004. The Group EHS manager or his/her deputy goes to the site of the accident to review its circumstances, and this procedure is now directly overseen by Group or Sector-level General Management. An in-depth analysis of these accidents is published on the EHS portal, so that facilities can immediately make use of the resulting feedback.

The Millionaires' Club, launched during the "Safety Diamonds" awards of March 2004, includes the manufacturing sites with the highest safety performance. As of December 31, 2004, 80 sites had gained the prestigious membership in the Club; 41 of them had clocked more than a million hours worked without a lost-time injury caused by an accident, and 39 smaller-sized sites had even held this performance for over five years.

The Millionaires' Club – Breakdown of membership at December 31, 2004

Sector	Sites with over 1 million hours worked without a lost-time injury caused by an accident	Sites with over 5 years worked without a lost-time injury caused by an accident
High-Performance Materials	22	21
Construction Products	11	11
Flat Glass	5	4
Packaging	3	3
Total	41	39

3. Environment

Saint-Gobain's industrial operations pose relatively few technological risks. For the most part they process inorganic materials and require very few explosive or environmentally hazardous substances. In fact, more than one third of the Group's sales comes from the distribution of building materials, a labor-intensive service activity that poses very few environmental risks.

The Group's environmental policy has set several priorities:

• Optimizing the use of materials in the Group's industrial processes. This key goal involves controlling waste, in-house recycling and ensuring recyclability of products at the end of their life-cycle.

• Limiting air pollution from the melting processes used to produce glass, pipes and some industrial ceramics. These processes take place in furnaces where temperatures exceed 1,600°C (2,900°F), requiring substantial energy consumption and causing emissions of carbon dioxide (CO_2) and other atmospheric pollutants such as nitrous oxides (NOx) and sulfur oxides (SO_2).

• Managing the impact of Group operations on natural balances, taking into account the way soils are used and natural resources consumed.

• Lastly, ensuring optimum water management by reducing consumption and maximizing recycling.

The following points should be borne in mind for an accurate understanding and interpretation of the data presented below:

• The environmental indicators presented were obtained from the Gaia reporting system, which came on stream in 2004 and expanded the scope of Group sites providing environmental data. As a result, Group emissions data that reflect an increase on 2003 are actually due to this broader scope.

• Data on emissions per ton produced are based on sellable tons.

a) Limited and controlled industrial risks

• Three levels of risk

– Nine sites are subject to specific regulations

At December 31, 2004 seven of the Group's industrial facilities in Europe fell within the "Seveso" category, as defined by the European directive of December 9, 1996 on "controlling risks related to major accidents involving hazardous substances." The directive calls for specific legislation to regulate facilities deemed to involve industrial risks. Five of these sites fall within the low threshold category and two fall within the high threshold category. Classification is not based on the sites' manufacturing processes, which are free of major industrial risks, but on their storage of hazardous materials.

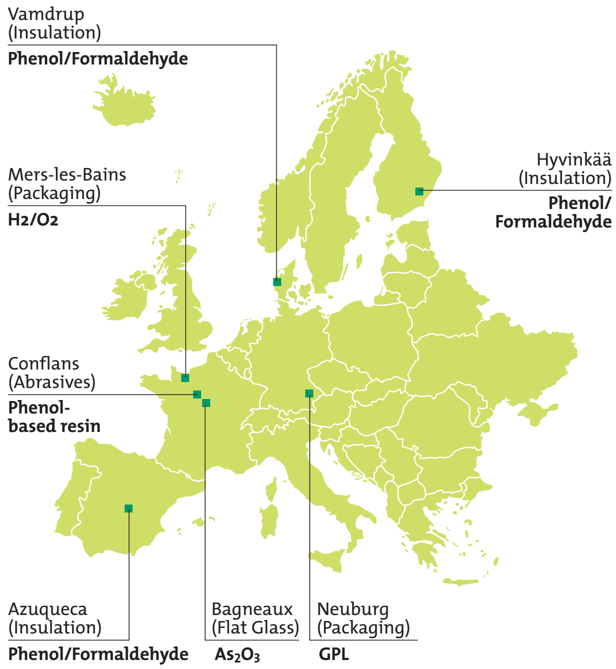
A study conducted in 2003 by the Group EHS Department showed that procedures and methods implemented by the various sites concerned were consistent from one country to the next. Storage areas are systematically managed under special conditions, and compliance with the "Seveso" directive gives an additional focus to the facility's EHS policy.

Outside the European Union, the Group has two other sites subject to regulations equivalent to the Seveso directive.

The site of Lucens, Switzerland, is classed under the OPAM ordinance concerning protection against major accidents, as it stores hazardous materials for use in its manufacturing process.

In the United States, the Lake Charles site is subject to similar legislation due to its use of vinyl chloride to produce PVC pellets used as raw materials for some of CertainTeed's construction materials, e.g. sidings, windows or garden furniture. This site falls under both the Risk Management Program Rule (RMP Rule) and the Emergency Planning and Community Right to know Act (EPCRA).

Location of "Seveso" classed sites



– Sites subject to permit requirements

Most of the other industrial facilities are subject to permit requirements (administrative authorization in France) and must first and foremost comply with the terms of their permit.

– Other sites

Sales outlets of the Building Distribution Sector as well as smaller-sized industrial sites or plants that pose no significant risks, mainly the processing subsidiaries of the Flat Glass Sector and various sites of the Construction Products Sector, do not require a permit and therefore only need to address local community concerns.

Environmental disputes

In 2004, the Group did not have to pay any court-ordered damage settlements related to environmental matters. A series of steps were taken to remedy environmental damage that had been caused, essentially the cleaning up of landfills and the remediation of industrial sites.

b) Optimizing the use and consumption of materials

One of the key focuses of the Group's environmental policy is to make better use of materials by minimizing consumption of natural materials and promoting the recycling and reuse of waste products.

• Controlling consumption of raw materials

Consumption of raw materials has to be addressed differently for different types of operations. The paragraphs that follow list only Group Sectors that consume a significant amount of non-renewable raw materials.

Glass businesses

Glass businesses mainly decrease their consumption of raw materials by introducing cullet in their processes. In 2004, the Glass businesses consumed 13.31 million metric tons of new materials and 6.20 million metric tons of cullet (produced both in-house and externally). Glass melted from cullet (from in-house and external sources) accounted for 43.3% of the Group's glass production. The Packaging Sector and the Insulation Division are the two businesses that make the most extensive use of recycled materials.

Pipe

The Pipe Division uses two types of melting processes. In the first, known as "primary smelting", cast iron is obtained in blast furnaces, from iron ore. In the second process, known as "secondary smelting", the cast iron is produced from scrap metal and recovered cast iron, melted in cupola furnaces or electric furnaces. The breakdown among these two types of production depends on the types of markets served, the requirements of specific products, scheduling, market prices of primary and secondary raw materials, etc. In 2004, as a result of continuing work on the major water-supply contract with Abu Dhabi for large-diameter pipes and the consequences of the global steel industry crisis, primary smelting again took the lion's share. Recycled materials accounted for 52.4% of the amount of cast iron produced.

In addition, the Pipe Division continues to devote a large part of its research and development efforts to optimizing the use of cast iron in its finished products – through continual enhancement of the centrifuge process and by designing ever-lighter pipes – and to controlling the amount of materials used for internal and external coatings on its products. For connectors, a process of coating by cataphoresis guarantees excellent regularity in the layer and keeps the amount of product used to a minimum. As for the inner coating of pipes, a new process, currently undergoing tests in Germany and Brazil and due to be rolled out to the entire Division, will also allow savings of 20% to 30% in the amount of cement used.

• Minimizing waste and improving its recycling or reuse

Group companies produce three types of waste:

– For several businesses, production scrap can be returned into the manufacturing cycle fairly easily, since glass and cast iron are infinitely recyclable materials.

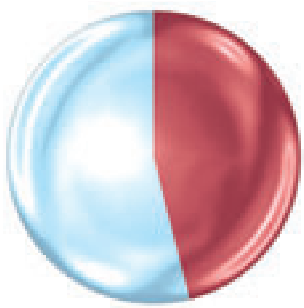
– Non-hazardous commercial waste is increasingly recycled or reused. Used sand from foundries serves in cement kilns, slag from blast furnaces or cupola furnaces is used as public works filler material, etc.

– The main types of hazardous waste produced are the following:
• Dust resulting from the melting of glass, made up of sulfates and possibly containing heavy metals, is collected at the bottom of regenerators or in furnace flues, as well as in fume filters.
• Waste from the demolition of furnaces is composed principally of used refractories.

When such waste is not recyclable, it is disposed of by specialized professionals that also handle paints, solvents or used motor oils.

The EHS Charter proclaims "zero non-recovered waste" as an objective. Several initiatives have been launched at Group and Sector level to change the constraint of waste disposal

In 2004, the Group's Glass and Pipe businesses consumed 44.1% of recycled materials.



In all, the Group generated 2.12 million metric tons of solid waste in 2004, of which 46% were recycled or reused outside the Group.

into an opportunity – by identifying sources of usable raw materials within the waste stream.

The new Procure method of environment-friendly waste management, set up in 2003 and gradually deployed in 2004, involves close cooperation between the Procurement and EHS departments. A contact for waste management has been named in each country, and the aim of the project is to gain more detailed knowledge of waste generation patterns in order to set up partnerships with regional or national suppliers throughout the Group.

The parent company and the General Delegations have signed a number of framework agreements by country with solid-waste management specialists. In addition to streamlining the management of waste, the purpose of these contracts is to create new avenues for recycling or reuse; their renewal will be partly determined by each provider's search for and development of avenues for improvement. The project is already well underway in the Benelux countries, France, Germany and the United States and has just been launched in Brazil, Italy and Spain.

Sector and Division management have also been making this area a priority. The Abrasives Division launched a major initiative to map waste generation by type of operation and by broad category of waste. The aim is then to produce action plans that comply with local regulations in force and meet the specific needs of each site and business.

c) Limiting atmospheric emissions

Saint-Gobain is keenly aware of the environmental significance of the discharges of gases and other substances caused by its industrial operations (mainly the Glass businesses and the Pipe Division), which is why it has taken proactive steps to minimize air pollution for several years now.

• CO_2 emissions and energy consumption

The type of energy sources and the quantities consumed in industrial operations have a direct bearing on emissions of greenhouse gases responsible for climate change (mainly CO_2). A priority focus of Saint-Gobain's environmental policy is to minimize CO_2 emissions and reduce the energy consumption of furnaces.

The quantities of CO_2 indicated below do not cover indirect emissions relating to electricity consumption, but include CO_2 released in the combustion of combustible fossils and CO_2 from chemical reactions.

In Europe, the EU directive on emission quotas is applicable to about 75 Group facilities in its first stage of implementation (2005-2007). The Group was actively involved in the negotiations on quota allocation and contributed to exchanges of information and feedback among the different countries. In France, Saint-Gobain has also chosen to take part in testing the SERINGAS national emissions registry designed by Caisse des Dépôts et Consignations.

In light of the introduction of these quotas, the Group's Glass businesses have undertaken a voluntary commitment to the French organization AERES (Association of Companies for Reducing the Greenhouse Effect) to reduce CO_2 emissions based on sellable tons by 15% between 1990 and 2010. In addition, a number of plants covered by AERES have been independently reviewed by Ernst & Young.

In 2004, Saint-Gobain emitted 11.3 million metric tons of CO_2, of which more than 90% came from glass melting operations and the Pipe Division. Emissions from glass furnaces today represent an average of 601 kg of CO_2 per metric ton. Emissions per ton can vary according to the type of glass manufactured, from 522 kg in Packaging to 994 kg in Reinforcements. In 2004, the Pipe Division emitted 1.09 metric ton of CO_2 per ton of cast iron.

Including recycled materials in production processes is a first emissions-reducing method. In glass operations, 255 to 300 kg of CO_2 emissions are avoided for each metric ton of cullet used. Most Group companies are on a drive to reduce their energy consumption. Nevertheless, for reasons of supply, the Group had to fit some new facilities with heavy fuel oil systems rather than natural gas systems, which explains the slight increase in CO_2 emissions in 2004 even though specific energy consumption has been reduced slightly.

On average, producing one metric ton of glass requires 2,538 kWh and a ton of cast iron takes 3,474 kWh. The Glass businesses' total energy consumption in 2004 amounted to 36,355 Gigawatts/hour (GWh), 2.2% more than in 2003, because of an equivalent increase in the total volume of glass produced. Fuel oil and natural gas are the main energy sources. The Pipe Division consumed 4,993 GWh, 20% less than in 2003, as a direct consequence of the 14.3% decline in production over the same period. The main energy sources for this Division are coal coke (in blast furnaces and cupola furnaces), but also electricity and natural gas.

In the High-Performance Materials Sector, energy use remained stable in relation to 2003, at 3,745 GWh on a comparable basis. Taking into account the integration of the Reinforcements business (excluding glass furnaces) and of three large new sites, energy consumption came to 4,479 GWh.

• Emissions of substances causing acid rain and nitrification

Saint-Gobain factories, mainly in the Glass businesses and the Pipe Division, emit two types of substances that cause environmental acidification, sulfur oxides (SO_2) produced as a result of burning heavy fuel oil and coke, and nitrous oxides (NOx) that are produced through high-temperature oxidation of nitrogen-rich combustion air. The latter also cause nitrification.

Following or anticipating on increasingly strict legal requirements, the Sectors and Divisions concerned have been reducing their emissions of SO_2 for several years through the use of higher-quality fuel oil or coal, but also by reducing their energy consumption or setting up desulfuring processes.

The glass businesses emitted a total of 28,152 metric tons of SO_2 in 2004. Emissions per metric ton of glass varied according to the type of fuel used, from 0.8 kg in Insulation to 2.4 kg in Flat Glass. The Pipe Division emitted 311 metric tons of SO_2 in 2004, representing 0.22 kg per metric ton of cast iron. In Flat Glass, one third of European sites are currently equipped with desulfuring technology, which will be gradually extended to the Sector's other sites.

Group companies have been endeavoring to reduce their NOx output for more than ten years, by focusing on primary measures that eliminate or at least limit the generation of these NOx gases, as opposed to secondary measures that require the consumption of reagents or additional energy and thus increase CO_2 emissions, which the Group is also trying to minimize.

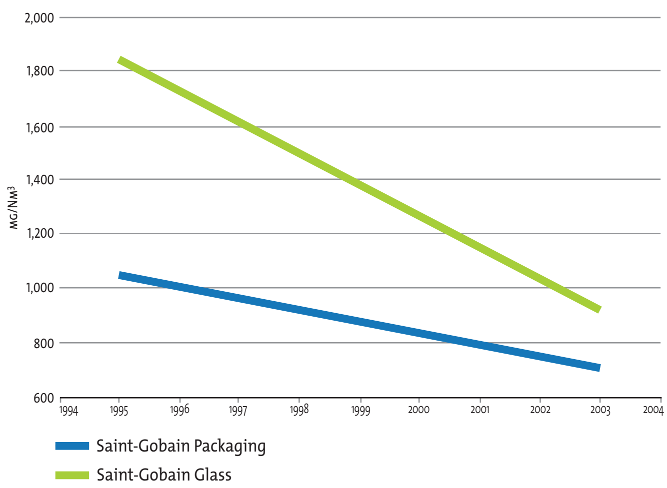
As an example, the FENIX (a French acronym for "low NOx emissions", *Faibles Emissions de NOx)* process applied in the Flat Glass Sector mainly involves optimizing combustion conditions within furnaces. The French ministerial order of 2003 on the glassmaking industry also highlights primary measures, by prescribing thresholds that these processes can reach. The FENIX process is already in use at several sites and will be spread throughout the Flat Glass Sector.

Oxygen furnaces sometimes provide another interesting alternative, since by displacing nitrogen in combustion air they cause far less NOx emission. In Reinforcements, for example, nearly 30% of furnaces are now oxygen furnaces, but the economics of this technology make it difficult to apply to Flat Glass or Packaging.

Saint-Gobain is today one of the world's best performing industrial groups for the reduction of nitrous oxides through primary measures, particularly in its Glass businesses. The Glass businesses emitted a total of 34,779 metric tons of NOx in 2004, representing an average of 2.43kg of NOx per metric ton of glass. However, this ratio varies from 1.14 kg per metric ton of glass in Insulation to 3.20 kg per ton in Reinforcements. The manufacturing of cast iron products caused the release of 948 metric tons of NOx, representing 0.66 kg per ton of cast iron.

Changes in NOx emissions of the Packaging and Flat Glass Sectors in France

The chart below plots changes in NOx emissions from the French sites of Saint-Gobain Glass and Saint-Gobain Emballage. As the two companies rely on different furnace technology, their emissions are not at the same level.



• Emissions of substances causing photo-chemical pollution

The Group emits two types of substances that cause photochemical pollution: nitrous oxides (see above) and, to a lesser degree, volatile organic compounds (VOCs), which are created in certain product processing and finishing phases of specific operations. Even though the products used are to a large degree in liquid form, some VOCs are released in the course of manufacturing.

VOCs are by-products of the various organic substances used for bonding of fibers and glass wool and gluing of abrasives (phenol and formaldehyde), for production of silicon carbide (particularly polycyclic aromatic hydrocarbons), for asphalt roof shingles (formaldehyde), as solvents used in coatings for cast-iron pipes, or in various products for wood protection and finishing at Lapeyre.

Releases of VOCs to the atmosphere generally entail a chemical risk for employees, therefore the increasingly common use of chemical risk assessments allows the Group to study these emissions thoroughly, then to implement corrective action for reducing them.

In the High-Performance Materials Sector and in Lapeyre plants, such analyses have already led to the substitution of a certain number of hazardous products. The Pipe Division has designed solvent-free coating processes that use epoxy powder for taps and connectors, cataphoresis for connectors and, since 2004, autophoresis chemical coating for supplies for roadworks and utilities. When using solvent-free paint is not an option, particularly for pipes, the solution lies in installing VOC-trapping equipment, then oxidizing the VOCs on the manufacturing line.

• Dust emissions

The Group is also involved in an active dust-abatement drive. Particularly for its Glass operations, the Group has decided to use as a reference the new French standard (administrative decree on the Glass industry dated March 12, 2003) and to adapt it where possible to the constraints faced by other Saint-Gobain facilities throughout the world.

Starting in 2004, the Pipe Division took steps to upgrade the collection and treatment of dust in secondary fumes. Specific equipment was installed at sites in France and Brazil and will gradually be added to all Division facilities.

All glass furnaces and manufacturing lines generated a total of 5,403 metric tons of dust, which amounts to an average of 0.38 kg of particles per metric ton of glass. In 2004, the Pipe Division produced 656 metric tons of dust, or 0.46 kg per ton of cast iron.

• Heavy metals

Other regulated hazardous substances emitted by the Group include heavy metals from impurities in raw materials used, particularly cullet. Although the quantities involved are small, monitoring is necessary and is being extended to all sites. Increasingly, dust particles from filtration, which often contain traces of toxic metals, are recycled in furnaces or through appropriate channels. Only final waste that cannot be recycled is landfilled.

• Noise and smells

Disturbances for neighbors of Group facilities in terms of noise or smells are very limited and are managed at the local level. If a specific problem arises, solutions can generally be found through dialogue with the local communities. These solutions can sometimes be as simple as a change in road traffic plans at the site.

d) Controlling impacts on natural balances

• Fauna and flora

The Group's main impacts on its environment come from atmospheric emissions, energy consumption and waste generation, but Saint-Gobain plants generally do not pose any threat to local fauna and flora. Impact studies are nevertheless performed in most countries prior to the siting of a new industrial facility.

In Brazil and other countries, a protected area is preserved for native fauna and flora when a new plant is erected. This was done for the Pipe facility at Itauna, for example.

• Soils

Contaminated soils

Whenever a site is acquired or disposed of, regulatory compliance tests are conducted and the quality of groundwater is monitored. If any contamination is detected, appropriate measures are implemented, such as pollution abatement, containment, or monitoring.

Quarries

The Group manages 39 quarries in France, the United States, Brazil, Italy, Spain, Portugal and Hungary, from which it extracts raw materials for glass manufacturing, such as silica sand – the main ingredient in glass –, but also phonolite, dolomite, limestone and feldspath. In the United States, the Group extracts rhyolite, which is used to make roof shingles, and novaculite, a hard stone used for its abrasive qualities. Other extracted minerals are quartz in Brazil, used in the making of mortars, and, in France, aggregates and gravels for making tar and concrete, and clay.

In all these countries, materials are mined in accordance with applicable regulations.

The purpose of owning quarries is essentially to supply the raw materials required by some of the Group's operations. Sales outside the Group are wholly ancillary, as they account for less than 0.2% of Group sales.

• Purchases of tropical wood

The Building Distribution Sector purchases over 1.5 million cubic meters of wood per year, of which tropical woods account for less than 8%. Several of the Sector's companies have embarked on policies based on controlling their purchases, and toward that end have established close partnerships with suppliers, local government authorities and NGOs.

In the United Kingdom, Saint-Gobain Building Distribution UK is a co-founder of the "Forests Forever" NGO, a member of the “WWF Forest and Trade Network“ (formerly WWF1995+) and a signatory of the Timber Trade Federation’s charter. SGBD-UK also holds regular meetings with Greenpeace to share information on wood producers and wood-exporting countries.

The Company has set two goals: to ensure that its suppliers comply with applicable regulations and to develop on an ongoing basis its purchases of certified wood. In 2004, certified wood accounted for 38% of SGBD-UK’s total wood purchases by volume. In addition, at December 31, 2004, 67 of SGBD-UK’s sales outlets had obtained "Chain of Custody" certification guaranteeing the traceability of their wood products.

Eight Lapeyre industrial carpentry factories process wood, less than 30% of which comes from tropical deciduous trees. The Lapeyre group is committed to protecting forests and has implemented a sourcing policy that gives priority to wood from managed or certified forests. A forest is certified when it is managed in accordance with internationally recognized rules designed to protect the natural environment. Such rules of operation define very specific requirements based on essences, climate and soils, such as the minimum diameter of trees for cutting, the maximum yield of a plot, replanting obligations, steps to protect fauna and flora, and more.

Between 2001 and 2004, the proportion of wood from managed or certified forests rose to 80% from 55%, mainly as a result of replacing non-certified native essences with managed essences like pine and eucalyptus. Lapeyre also contributes to developing certification in Brazil through its membership on the Board of Directors of the Forest Stewardship Council (FSC) and of the related buyers’ club. Lapeyre has also thrown its support behind Greenpeace for the Europe-wide FLEGT (Forest Law Enforcement, Governance and Trade) initiative on international trade in wood and imports into the European Union.

Factories are also reducing their use of forest wood through better use of the raw materials, by developing the use of reconstituted wood and enhanced gluing processes. At December 31, 2004, three Lapeyre plants had received certification from the FSC and one from the PEFC (Pan-European Forest Certification Council), which allowed Lapeyre to market several certified finished products in 2003 and 2004 – stairs in Brazilian tauari and Scandinavian pine, the exotic-wood Isoprix and Classic Bois windows, as well as parquet floors.

Lastly, 8% of Point.P’s wood imports come from Brazil or Africa. The Brazilian imports come from Lapeyre’s local subsidiary, while for purchases of African wood, the Company has set up a partnership with Greenpeace that gives it better control over its purchasing, which it directs as a first priority towards suppliers that comply with local forestry regulations and commit to a code of ethics.

Lapeyre: nearing the goal of complete control over the origin of purchased wood

Change in the share of wood from certified forests within total purchases, 2001-2004

2001	55%
2002	65%
2003	72%
2004	80%

e) Optimal management of water issues

Practically none of the Group’s manufacturing processes use water as a raw material. However, it is used in large volumes for cooling high-temperature processes. In most cases, this cooling water is recycled internally, which helps limit actual consumption considerably.

In 2004, the Group drew 86.4 million cubic meters of water, 87.7% of which was used in glass furnaces, the Pipe Division and the High-Performance Materials Sector.

Each metric ton of glass requires 2 cubic meters on average, with a range that goes from 1 cubic meter to 12.4 cubic meters in the particular case of the Reinforcements Division. In Reinforcements, the bonding process demands heavy water inputs, as chemicals dissolved in water need to be deposited on glass fibers to give them all the required properties. The Division is, however, making efforts in this area; one of its facilities brought on stream a new system for recycling process water in 2004.

The Pipe Division, for its cooling processes, drew 19.7 cubic meters of water per metric ton in 2004, reflecting a slight decrease compared to the previous year. The Division continues to upgrade its programs to enhance water management and reduce consumption through increased recycling. The new Archimedes cement-application process that is currently being tested in Germany and Brazil will allow not only the savings of raw materials mentioned above, but also a substantial reduction in the amount of water needed to coat the inside of pipes and in the volume of effluent generated.

The High-Performance Materials Sector used 14 million cubic meters based on a comparable structure. Taking into account the integration of the Reinforcements business and of three large new sites, water consumption came to 18.2 million cubic meters.

Liquid effluent to be discharged is generally treated prior to being re-injected into the municipal network or natural environment from which it came.

IV – Answers to the environmental challenges of sustainable development

Saint-Gobain endeavors to provide the most appropriate and effective answers to sustainable development issues, by offering highly diverse products and services and using clean technology, in several different areas:

• air quality, with solutions for limiting emissions of greenhouse gases,

• renewable energy, using materials that make the most efficient use of natural energy resources,

• water, particularly in terms of its supply in developing countries,

• materials, with services for managing solid waste and recycling products at the end of their life-cycle,

• clean technology.

The market's increasingly numerous and demanding environmental requirements present Saint-Gobain with a remarkable technological challenge that the Group is committed to meeting, particularly through its research and development programs.

1. Buildings that protect the environment

Saint-Gobain produces building materials that, once installed, allow far more energy to be saved than was required for their manufacturing. They therefore contribute significantly both to energy savings and to reducing overall emissions of greenhouse gases. Such applications from Flat Glass and Insulation generate 10% of Group sales.

Although these businesses do not market products specifically intended for environmental protection, the functions and applications of the materials they produce fit into the overall goal of sustainable development, notably through reductions in greenhouse gas emissions.

Responding to the challenge of global warming, the Group has adopted a proactive communication policy aimed at raising public awareness concerning the dangers of CO_2 emissions from buildings. In France, companies from the Insulation Division (Saint-Gobain Isover, Saint-Gobain Ecophon and Saint-Gobain Eurocoustic) and the Flat Glass Sector (Saint-Gobain Glass) came together with other manufacturers of building materials to create an industry grouping called "Insulating the Earth from CO_2". The purpose of this grouping is to recommend and take a series of long-term steps towards reducing the energy consumption of buildings, which represent the second-largest source of greenhouse gas emissions after transportation. Several practical proposals have already been made to the French government and to building industry players concerning ways of insulating new buildings and renovating old ones.

In Germany, Isover G+H has launched a similar drive to minimize CO_2 emissions, called CO2NTRA, by which it undertakes to provide support to various projects run by environmental protection organizations.

Low-emission double glazing offers three times better thermal insulation than standard double glazing, thanks to an invisible metallic layer applied to one of the two glass panes, which acts as a thermal barrier. It has been estimated that applying this double glazing to all residential housing in Europe would save 82 million metric tons of carbon dioxide (CO_2), representing 9% of emissions from housing sources and 2.7% of total European emissions. For households, the cost of this installation is recovered in less than two years thanks to savings on their heating bill. Considering that glazing has a useful life of about 30 years, these gains add up to a substantial amount for the user. The use of this type of glass should receive a boost from efforts to ensure compliance with the Kyoto Protocol.

Mineral wool is similarly efficient. It has been calculated that the heating energy saved by insulating an isolated building is equivalent to a thousand times the energy that went into manufacturing the material. Likewise, the insulated building can avoid CO_2 emissions equivalent to more than a hundred times those generated during production.

In all, 36 million metric tons of CO_2 emissions would be avoided if all French residential housing and service-sector business facilities were suitably insulated with mineral wool and double glazing with reinforced thermal insulation.

Materials produced by Saint-Gobain's Insulation Division also provide for the soundproofing of buildings, from private homes to multiplex cinema complexes, and raise the acoustic performance of public spaces like classrooms and activity rooms. Other Group Sectors and Divisions also contribute, though to a lesser degree, to better insulation of buildings. Saint-Gobain Weber's wall facings for thermal insulation of buildings from outside or Lapeyre window fittings are increasingly effective, especially for eliminating thermal channels.

Several outlets of the Building Distribution Sector have also taken steps to raise the public's awareness of the need to consider environmental issues in selecting and using building materials. In France as an example, Point.P has set up educational stands on environmental construction and has printed a catalogue of all the environment-friendly products it sells.

2. Materials for renewable energy

The objectives set by the European Union for the use of renewable energies are driving investment in dedicated technologies.

The Pipe Division supplies equipment for the Norwegian market of micro hydraulic plants, and this is but one among many of the Group's products and R & D projects that contribute to the growth of renewable energy sources, including wind, solar and photovoltaic applications.

The Group manufactures glass threads and fabrics for reinforcing wind turbine blades. Because these blades have very precise specifications and require leading-edge quality and reliability, reinforcing them is an application with high added value, for which glass threads offer an optimal solution. Saint-Gobain's sales in this area already amount to €30 million (up 10% on 2003), as the Group continues to support the rapid development of this market, which has grown by 27% per year over the past ten years and should be ten times its current size by 2020.

In the field of solar energy, the Group offers glass panels for solar cells, which in Europe account for 90% of the market for thermal solar energy. These flat cells, made up of a rectangular box lined with absorbent material and covered with a glass pane causing a greenhouse effect within the box, transform solar radiation into household hot water or heating at the level of an individual building. The total installed surface in Europe now amounts to approximately one million square meters, but could reach 10 million sq. m. by 2010, thanks to the incentive policies implemented by governments.

In addition to the glass, the Group supplies the polyurethane foam strips that hold the panels to frame and waterproof them.

Solar energy can also be converted into electricity through photovoltaic cells assembled in modules with transparent conductive glass. Each square meter of such modules installed anywhere in the world requires between one and three square meters of glass, depending on the type of cell and the encapsulation process used. Such modules, which can be set up in buildings or in mobile applications, require very specific properties of great transparency, optimized transmissiveness and the ability to weather outdoor conditions. Saint-Gobain Glass has designed two specific qualities of glass that meet these specifications, the extra-clear "Diamant" glass and the "Albarino" textured glass which maximizes light transmission through a geometric effect. In Germany and Spain, Saint-Gobain Glass Solar assembles solar cells for making custom-designed photovoltaic modules for use in architectural projects.

Driven by government incentives, technical progress and falling costs, the photovoltaic glass market, which represented about 4 million sq. m. in 2002, could reach 16 million sq. m. in 2010 and, according to some estimates, 100 million sq. m. in 2020. In response to this rising demand, the Group's production of this type of glass already grew 80% in 2004 compared to 2003.

Lastly, the Reinforcements and Ceramics & Plastics Divisions are currently taking part in feasibility studies on the production of fuel cells, a non-polluting source of energy with promising applications for cars and buildings.

3. Materials for drinking water supply and wastewater treatment

By their very nature, the products of the Pipe Division contribute to sustainable development, by making it possible to carry drinking water and to evacuate waste water. The Division's first area of expertise was in the setting up of urban drinking water networks. Over the past twenty years, a new application has appeared. As the urban centers of developing countries expanded, their water supply had to be sought further and further afield. The Division produces large-diameter pipes, of up to two meters, that are used to ship drinking water over dozens, or even hundreds of kilometers, to major cities. In many countries, such pipes meet a vital need. Saint-Gobain PAM has won approximately ten major contracts in the Middle East, Latin America and Africa, for distances ranging from 43 km in El Salvador to 138 km for the water supply of Dakar, and involving up to 400,000 metric tons of piping (for the Shuweihat project in Abu Dhabi).

The Group's products are particularly well suited for this new application, because cast iron is an exceptionally safe and durable material – as hundred-year-old pipes in Prague or Montevideo attest – which requires very little maintenance and can be set up in all types of soils. In addition, because of their coupling design, Saint-Gobain pipes require very little technical skill for their installation.

The Division makes available to its client local governments the services of its financial engineering department, that assists them in dealing with banks, insurance companies and other financial institutions in order to seek and coordinate financing for such projects. This department also maintains an active presence with major global financial providers such as the World Bank, regional development banks and European or Arab funds and gives its clients the benefit of its up-to-date knowledge of these bodies and their procedures.

The Group also produces components for ultraviolet-light equipment that purifies drinking water, wastewater or swimming pools in individual homes. The transparent quartz tubing produced by the Ceramics & Plastics Division provides an effective and environmentally safe means of killing bacteria.

4. Recycling or reusing products at the end of their life-cycle

Most of the materials produced by the Group are recyclable, especially glass and cast iron, which makes them environment-friendly. Among the various services which Saint-Gobain offers its professional customers, recovering and processing materials at the end of their life-cycle is more and more in demand, since customers are now aware of the cost and complexity that landfilling these materials involves.

In the Ceramics & Plastics Division, Valoref is already the European leader for recycling decommissioned glass furnaces. The company's all-inclusive offerings include selective demolition of furnaces, on-site sorting and removal of demolition waste, as well as advice and technical assistance. Each of its projects is based on extremely strict specifications, drawn up in close partnership with the industrial client. The company then offers its clients a full range of secondary raw materials or manufactured products. Valoref has successfully recycled most types of refractories, regardless of their nature, quality or level of pollution.

Consumption of recycled glass (cullet) from in-house and external sources accounted for 42.6% of production in the Insulation Division and 54.5% in the Packaging Sector. It is estimated that nine out of ten champagne bottles are produced from recycled glass. To meet its needs for cullet, the Group partly draws upon external sources. The Group also has five glass processing sites, in France, Germany and Italy, which mainly supply the furnaces of the Packaging Sector. In 2004, Saint-Gobain directly processed more than 700,000 metric tons of cullet. Glass recycling is limited by the ability to recover "clean" cullet that is free of contaminants. In France, Saint-Gobain Glass designed a new line of enameled glass, which contains no heavy metals and can therefore be recycled easily without introducing any contaminants. The Reinforcements Division has, since 2003, been taking part in setting up the European Recycling Company (ERC), which brings together expertise from several different industries to develop and promote methods for recycling composite materials. This service meets a genuine need for industrial clients. Similar projects are currently being worked on in the Group's other industrial businesses.

In Building Distribution, approximately 10% of Point.P agencies include waste recovery centers, where tradespeople can dispose of their construction waste before loading up their trucks with new construction materials. This ancillary service has also helped give Point.P a competitive edge.

Some La Plateforme du Bâtiment outlets in France, Spain, Hungary, Mexico, the Netherlands and the United Kingdom are also offering this service, which has been welcomed by their customer base of building contractors and tradespeople as very convenient.

5. Actively contributing to the development of clean technology

Glass threads serve to make composite materials, which are widely used in vehicle dashboards and interiors. Thanks to their lightness, which saves fuel and reduces CO_2 emissions, in addition to their rustproof properties and high resistance, these composites meet the highest standards for performance, safety and environmental soundness.

Saint-Gobain Sekurit's thermally insulating windshields allow savings of 20% on air conditioning and 3% on energy consumption compared to a standard windshield, thanks to an invisible layer of reflective metal inserted within the laminated glass. In a standard configuration, such a windshield reduces CO_2 emissions by 200 kg every 100,000 km.

Further, the thin automotive glass now entering the market is lighter than traditional glass and helps car manufacturers meet their objectives of producing lighter vehicles that consume less fuel.

In 2004 the Group decided to build a plant to manufacture particulate filters for diesel engines. Alongside technologies for advanced control of motor settings, these highly effective filters are helping to break new ground in improving the environmental performance of diesel engines. Work on particulate filters is one of the key development avenues for the High-Performance Materials Sector, since forthcoming changes in European legislation on automobile emissions, aimed at making these filters standard features on all diesel engines, seem likely to open up a vast market for this product.

The Ceramics & Plastics Division also helps fight atmospheric pollution by supplying the filtering material for the "packed towers" of industrial smokestacks. These components have special properties that maximize contact between the gases in need of filtering and the treatment liquid, for optimum scrubbing of the discharges.

Finally, the Group's researches in the field of light emitting diodes (LEDs) for displays and lighting also deserve a mention. Such LEDs will eventually replace electric lamps, as they consume far less energy than current lightbulbs and can offer a quality of full-spectrum lighting that is close to natural luminosity.

RISK MANAGEMENT

Market risks (interest rate, foreign currency, equity and credit risk)

Liquidity risk

In 2004, Saint-Gobain further scaled back net debt from €5,657 million to €5,566 million.

The Group has also managed to achieve a greater spread of maturities by replacing €155 million of 6% bonds maturing on December 15, 2005 (out of a total initial issue of €500 million) and €242 million of 5.125% bonds maturing on July 9, 2008 (out of a total initial issue of €606 million) with a new 5% bond for €501 million maturing on April 25, 2014.

Long-term debt was reduced from €6,518 million to €5,396 million in 2004, mainly due to the reclassification as short-term debt of €984 million in bonds maturing in 2005. At December 31, 2004, substantially all of the Group's long-term debt was composed of bond issues, amounting to €4.8 billion. The remaining amount comprised private issues, Medium Term Notes, perpetual loans and finance leases.

At the same date, the Group's short-term debt totaled €3.1 billion, versus €2.2 billion a year earlier. It mainly consisted of bank overdrafts, treasury notes *(Billets de Trésorerie)* Euro Commercial Paper and US Commercial Paper, and the portion of long-term debt maturing in 2005. This last item accounts for the bulk of the year-on-year change.

Total cash and cash equivalents remained stable year-on-year, at €3 billion, versus €3.1 billion in 2003. Cash and cash equivalents comprise marketable securities, cash on hand and short-term loans.

Compagnie de Saint-Gobain's US Commercial Paper, Euro Commercial paper, *Billets de Trésorerie* and Medium Term Notes programs are backed by a confirmed syndicated line of credit and bilateral credit facilities totaling €2.6 billion at December 31, 2004. No drawdowns were made against any of these credit lines in the year.

A breakdown of long- and short-term debt is provided by type and maturity in Note 20 to the consolidated financial statements. Details of amounts, currencies, and early repayment terms and conditions of the Group's financing programs and confirmed credit lines are also discussed in this Note.

Interest rate risk

Interest rate risk relating to the Group's total net debt is managed by the Treasury Department of Compagnie de Saint-Gobain. Net debt is determined by means of a monthly reporting system which provides a detailed breakdown of each subsidiary's debt by type and by interest rate (fixed or variable). In addition, for the preparation of the interim and annual consolidated financial statements, subsidiaries also provide a breakdown of debt between long- and short-term and fixed and variable rate, together with details of interest rates by line of debt. The breakdown also provides details of any associated derivative financial instruments. Where subsidiaries use derivatives to hedge risk on debt, Compagnie de Saint-Gobain, the Group parent company, is the exclusive counterparty, except in the case of the Dahl International AB Group acquired in 2004, which still has an interest swap portfolio.

The main objective of managing overall interest rate risk on the Group's consolidated net debt is to fix the cost of the medium-term debt and to optimize annual borrowing costs. The Group's policy defines which derivative financial instruments can be used to hedge the debt. Derivative financial instruments may include rate swaps, options – including caps, floors and swaptions – and forward rate agreements. These instruments are traded over-the-counter with counterparties meeting minimum rating standards as defined in the Group's financial policy.

The weighted average interest rate on total debt after giving effect to hedging instruments (rate swaps and caps) was 4.2% for the year ended December 31, 2004 (4.3% in 2003 and 4.7% in 2002).

After giving effect to hedging instruments, at December 31, 2004 93% of Group debt was at fixed rates of interest and 7% was at variable rates. A 1% rise in interest rates would increase the Group's net interest expense and other financial charges by €7.8 million (around 2%) in 2005.

Net debt at December 31, 2004 after the effect of cross-currency swaps was 57% in EUR, 18% in USD and 17% in GBP, with the remaining amount in other currencies.

At that date, including the impact of hedging, €1,753 million of the Group's net debt was due within one year, €3,019 million was due between one and five years, and €794 million was due beyond five years.

Details concerning interest rates on the Group's main borrowings and hedging instruments (rate swaps and options) are provided in Note 21 to the consolidated financial statements, as are details of the Group's debt structure before and after using said hedging instruments, as well as the maturities of debt and cash and cash equivalents.

Foreign currency risk

The Group's policy on currency risk consists of hedging commercial transactions carried out by Group entities in currencies other than their functional currencies. Compagnie de Saint-Gobain and its subsidiaries may use options and forward contracts to hedge exposure arising from commercial transactions. The subsidiaries set up options contracts exclusively through the Group parent company, Compagnie de Saint-Gobain, which then takes a reverse position on the market.

Most forward contracts are for periods of around three months. However, forward contracts taken out to hedge firm orders may have terms of up to two years. Subsidiaries are authorized to enter into forward contracts with their banks for periods of less than two years.

The majority of transactions are hedged, invoice by invoice or order by order, with Saint-Gobain Compensation, the entity set up to manage the Group's currency risks. Saint-Gobain Compensation hedges these risks solely by means of forward purchases and sales of foreign currencies. This enables companies to hedge exposure arising from commercial transactions as soon as the risk emerges. Saint-Gobain Compensation reverses all its positions with Compagnie de Saint-Gobain and does not therefore have any open positions.

The exposure of other Group companies to currency risks is hedged with Compagnie de Saint-Gobain as soon as the latter receives orders sent by the subsidiaries or by cash pools of the National Delegations. Total unhedged transactions for these companies amounted to €39 million at December 31, 2004. If the euro dropped by 1 cent against the Group's trading currencies, the impact would be less than €1 million, which is not material at the level of the consolidated financial statements.

Equity risk

As the Group always favors money-market funds and/or bonds when purchasing mutual funds or equivalents, it is not therefore exposed to any equity risk on its short-term investments.

The Group previously held a portfolio of shares in listed companies. All equities remaining in the portfolio at December 31, 2003 – consisting of 5.3 million Vivendi Universal shares – were sold in 2004.

Energy risk

In order to limit exposure to energy price risks, the Group sets up swaps and options to hedge part of its natural gas purchases in the United States and its fuel oil purchases in Europe.

Industrial and environmental risks

Substantially all of the Group's industrial and environmental risks represent one type of risk, stemming from the storage of certain types of hazardous materials.

Nine Group sites are classified as presenting "major technological risks" within the meaning of European, Swiss and North American regulations, and are therefore subject to specific legislation that is carefully monitored by the regulatory authorities.

In 2004, seven Saint-Gobain sites were classed in the "Seveso" category in Europe: Conflans Saint-Honorine (Abrasives), Mers-les-bains (Packaging) and Bagneaux-sur-Loing (Flat Glass) in France, Neuburg (Packaging) in Germany, Vamdrup (Insulation) in Denmark, Hyvinkää (Insulation) in Finland, and Azuqueca de Henarès (Insulation) in Spain.

Five of these sites store substances which fall within the low threshold category defined in the Seveso directive and two fall within the high threshold category.

Of the sites that fall within the high threshold category, one stores phenol and formaldehyde and the other stores arsenic in the form of arsenious anhydride.

In accordance with the law of July 30, 2003 relating to the prevention of technological and natural risks and the remediation of contaminated areas, specific risk prevention and safety measures have been put in place at each of these sites, with added emphasis on the high-threshold Seveso classed plants.

Once the plants identify the risk of accidents and the potential impact on the environment, they take preventive measures relating to the design and construction of storage facilities, as well as conditions of use and maintenance. A full evaluation of safe storage and risk prevention methods carried out in 2003 showed that procedures were being consistently implemented at each of these units. Additionally, crisis plans have been set up to deal with internal emergencies.

With the exception of the site at Bagneaux-sur-Loing – a joint venture covered by a separate policy – liability with respect to personal injury or property damage relating to the operation of these plants is covered by the Group's current third-party liability insurance program.

In the event of an industrial accident, compensation payments to victims would be managed jointly by the Company, the broker and the insurer.

A site based at Lake Charles in the United States falls under both the Risk Management Program Rule and the Emergency Planning and Community Right to know Act, as it uses vinyl chloride.

Another site in Switzerland is classed as hazardous under the Ordinance Concerning Protection against Major Accidents (OPAM), the country's equivalent to Seveso legislation. The site situated in Lucens stores hazardous materials used in its manufacturing processes.

The Group's other major industrial facilities are subject to a permits regime and are thus regularly monitored by local regulatory authorities.

Legal risks

The Group is not subject to any specific regulations which could have an impact on its situation, although companies running industrial sites are generally required to comply with specific national legislation and regulations that vary from country to country. In the case of France, for example, Group sites are subject to laws and regulations on regulated facilities *(installations classées)*. The Group has no significant technical or commercial dependence on any other companies, is not subject to particular confidentiality restrictions, and has the assets it requires to run its operations.

Compagnie de Saint-Gobain is assessed for income tax on its consolidated fiscal income as provided for under Article 209 *quinquies* of the French General Tax Code (CGI) as well as the integrated tax *(Intégration Fiscale)* system as provided for under Article 223 A *et seq.* of the CGI. The fiscal agreement was renewed by the tax authorities covering the years 2004 to 2006.

The legal risk to which the Group is most exposed is asbestos-related litigation, both in France and – above all – in the United States.

In France, at December 31, 2004, 512 lawsuits based on "inexcusable fault" *("faute inexcusable")* had been filed for asbestos-related occupational diseases against Everite and Saint-Gobain PAM, which in the past had carried out fiber-cement operations. At the end of 2004, 267 of these 512 lawsuits had been completed both in relation to liability and quantum. In addition, a total of 74 suits based on inexcusable fault had at the same date been filed against ten other French companies in the Group. These cases were notably filed in relation to circumstances where equipment containing asbestos had been used for protection against heat from furnaces. At December 31, 2004 compensation due from the first two companies amounted to a total of €1.6 million (versus €1.4 million at end-2003).

Further details of these claims are provided in Note 31 to the consolidated financial statements.

In the United States, after three years marked by sharp increases in asbestos-related lawsuits – mainly against CertainTeed – the number of new claims filed in most States fell (around 18,000 in 2004, compared with 62,000 in 2003, 67,000 in 2002 and 60,000 in 2001). The vast majority of the claims against CertainTeed are settled out of court. Some 20,000 such settlements were entered into in 2004 (versus 54,000 in 2003), leaving some 106,000 claims outstanding at December 31, 2004, compared with 108,000 a year earlier.

The average individual cost of settlement based on all claims resolved rose from USD 2,100 in 2003 to around USD 2,900 in 2004. Given these factors and considering that most insurance coverage has now been used, the Group recorded a €108 million charge in 2004, versus a €100 million charge at the end of 2003. At December 31, 2004 the Group's total cover for asbestos-related claims against CertainTeed amounted to €295 million (end-2003: €341 million), and is achieved primarily through the balance sheet provision.

Further details on asbestos-related claims in the United States are provided in Note 31 to the consolidated financial statements.

To the best of the Company's knowledge, no litigation or arbitration is pending or in progress that is likely to have material impact on the consolidated assets and liabilities, financial position or results of Compagnie de Saint-Gobain or on the Saint-Gobain Group.

Insurance – Coverage of potential risks

In order to protect its assets and revenue streams, the Group relies on a policy of accident prevention and insurance coverage. This policy is embedded within a Group doctrine, which takes into account current conditions in the insurance market. Insurance coverage is coordinated and monitored centrally by the Risks and Insurance Department, which lays down the Group doctrine. This doctrine defines the applicable criteria for the coverage of substantial risks such as property damage and business interruption, as well as third-party liability insurance to protect against claims involving the Group's operations or products. For other types of cover, such as automobile insurance, the Risks and Insurance Department advises individual operating units on policy contents and choice of broker, as well as which market to consult. For these recurring risks, a procedure has been set up to monitor claims management and thus implement the appropriate preventive actions.

The Group's insurance policies came up for renewal in 2004. Its current insurance policies have replaced the existing contracts spanning a number of years that had been taken out before the insurance sector was hit by the events of September 11, 2001, triggering a collapse in the financial markets.

Third-party liability premiums were subject to substantial hikes during the renewal process. However, these rises were partly offset by raising the level of deductibles.

As regards damage to property and related business interruption, the Group has set up a captive insurance company in Ireland to insure against the most common claims and reduce the impact of rising premiums. Coverage for larger, more exceptional claims is still sought through traditional insurance channels.

Newly acquired companies are integrated within the existing insurance programs as quickly as possible to allow the Group to keep a tight rein on guarantees and optimize insurance costs.

Property damage and business interruption

The Group is covered for non-excluded property damage and related business interruption arising from accidental damage to insured assets. This coverage is provided by a number of regional programs, which meet the policy criteria laid down by the Risks and Insurance Department:

• policies should be all risks (subject to named exclusions);

• coverage ceilings should be based on worst-case scenarios where safety systems effectively intervene;

• deductibles should be proportional to the size of the site concerned and cannot be considered as self-insurance.

These policy criteria take into account current insurance offerings, which exclude certain risks such as computer viruses and their impact on operations and set ceilings on coverage for natural disasters such as floods or storms. In extreme scenarios, such events could have a substantial non-insured financial impact, both in terms of reconstruction costs and losses linked to production stoppages.

The captive insurance company registered in Vermont in the United States to cover damage to property belonging to Saint-Gobain's United States and Canadian subsidiaries proved effective in reducing the portion of risks underwritten via the traditional channels.

When defining its policy towards insurance coverage, the Risk and Insurance Department relies on the conclusions drawn in the annual audits carried out by the insurance companies. These audits give a clear picture of the risks each principal subsidiary is exposed to in the event of an accident – particularly fire damage – and detail the financial implications that would arise in a worst-case scenario. This risk evaluation exercise extends to assessing the impact an earthquake in California would have on Saint-Gobain's operating units in the region. Coverage for this risk can then be adjusted as appropriate.

Third-party liability insurance

Two programs provide coverage for third-party personal injury and property damage claims.

The first covers all subsidiaries, except for those located in the geographic area covered by the General Delegation to the United States and Canada. In order to satisfy local regulatory requirements, a policy is taken out in each country in which the Group has a significant presence. Local policies are complemented by central policies issued in Paris which can kick in when the local policy proves inadequate.

Altogether, the contracted lines of coverage correspond to a limit deemed sufficient for the Group's activity. Any exclusions carried by the program are consistent with current market practice, such as potentially carcinogenic substances and gradual pollution.

The second program covers subsidiaries located in the geographic area covered by the General Delegation to the United States and Canada. This program is structured differently to deal with the specific nature of third-party liability coverage in the United States. It is divided into several lines of coverage so that it can be placed on insurance markets in both London and Bermuda. The coverage provided is deemed adequate for the Group's United States operations. The exclusions are in line with current market practice in America and concern matters such as contractual liability and third-party consequential loss.

As in 2003, personal injury arising from exposure to asbestos was excluded from coverage provided under both programs in 2004. Settlements on such claims paid out in the United States in 2004 related to policies taken out a number of years ago.

Awareness of the risk of third-party liability claims is heightened for the operating units and they have incentives to maintain tight control over the related costs as they have to bear the cost of deductibles under the insurance programs. These deductibles do not, however, constitute self-insurance. Saint-Gobain also runs a risk prevention program at its operating units with the support of the Environment, Health and Safety Department.

Exceptions

Since local legislation prevents their inclusion, the programs discussed above do not handle risks specific to the Group's activities in India and Brazil. Insurance coverage is instead purchased locally under the supervision of the Risk and Insurance Department.

Joint ventures and companies not controlled by the Group are also not included in these programs. Again, separate insurance coverage is purchased based on the advice of the Risk and Insurance Department.

OUTLOOK FOR 2005

Continuing in the trend of 2004

Management forecasts for 2005 are based on moderate economic growth stemming once again from a mixed situation. Emerging countries are set to continue reporting robust growth, while slowdowns are expected to hit certain businesses in the United States. Capital spending and industrial output should continue rising, but at a slower pace than in 2004. The renovation market is also expected to hold firm. At the same time, having confounded forecasts to remain buoyant in 2004, new construction starts could start to tail off this year.

The outlook for Europe going forward is largely similar to 2004. On average, new construction starts should level off, with increases in France and Germany being offset by declines envisaged for Spain and the United Kingdom. Automotive production and household consumption both seem to be headed for light growth.

On the basis of this scenario, the Group's new businesses offer good potential for further progress and development in 2005. High-Performance Materials looks set to enjoy a continued recovery in volumes and an improvement in profitability, particularly for the Reinforcements Division. Building Distribution will continue to push ahead with its vigorous internal and external growth policies.

Meanwhile, the outlook is more uneven for the Group's historic businesses. Flat Glass should secure wider margins in the European construction market. Construction Products may see a slowdown in Building Materials and Insulation businesses in the United States. By contrast, the Pipe Division is expected to turn in a better performance after an especially difficult year. Lastly, moderate growth is projected for Packaging.

Against this backdrop, the Group intends to forge ahead with its strategic development and its business model. This will entail offsetting higher costs of energy and raw materials by lifting sale prices; driving though productivity gains in all businesses; expanding investment in emerging countries; and maintaining an energetic pace of acquisitions. Taking into account the risks related to the strong euro and to spiraling raw materials and energy prices, in 2005 the Group aims to achieve year-on-year growth of 6% in operating income based on constant exchange rates, and to maintain strong free cash flow levels.

3 Consolidated financial statements

3 Consolidated financial statements

Consolidated balance sheets

At December 31, 2004

Assets *(in € millions)*	Notes	2004	2003	2002
Goodwill	(3)	5,170	4,902	5,521
Other intangible assets, net	(4)	1,883	1,836	1,914
		7,053	**6,738**	**7,435**
Property, plant and equipment	(5)	22,083	21,199	22,069
Less accumulated depreciation	(5)	(13,144)	(12,513)	(12,687)
		8,939	**8,686**	**9,382**
Investments in equity investees	(6)	61	75	114
Investments at cost	(7)	83	139	144
Non-current marketable securities	(8)	4	78	175
Other non-current assets	(9)	1,375	1,521	1,590
		1,523	**1,813**	**2,023**
Non-current assets		**17,515**	**17,237**	**18,840**
Inventories	(10)	4,838	4,509	4,664
Trade accounts receivable	(11)	4,467	4,240	4,264
Other accounts receivable	(12)	1,099	1,035	1,010
Short-term loans	(20)	69	160	162
Marketable securities	(8)	1,412	1,387	469
Cash and cash equivalents	(20)	1,487	1,527	739
Current assets		**13,372**	**12,858**	**11,308**
TOTAL ASSETS		**30,887**	**30,095**	**30,148**

The accompanying notes are an integral part of the consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY *(in € millions)*	Notes	2004	2003	2002
Capital stock (at Dec. 31, 2004: made up of 340,988,000 €4 par value shares; at Dec. 31, 2003: 347,824,967 €4 par value shares; at Dec. 31, 2002: 341,010,680 €4 par value shares)		1,364	1,391	1,364
Additional paid-in capital and legal reserve		2,123	2,381	2,264
Retained earnings and net income for the year		10,571	9,869	9,204
Cumulative translation adjustments		(2,350)	(2,241)	(1,438)
Treasury stock	(13)	(152)	(313)	(79)
Shareholders' equity		**11,556**	**11,087**	**11,315**
Minority interests	(14)	250	223	227
Net equity of consolidated entities		**11,806**	**11,310**	**11,542**
Non-voting participating securities	(15)	170	170	391
Pensions and other post-retirement benefits	(16)	2,249	2,305	2,353
Deferred tax liability	(17)	548	599	696
Other liabilities	(18)	954	1,032	1,084
Long-term debt	(20)	5,396	6,518	6,238
Shareholders' equity and non-current liabilities		**21,123**	**21,934**	**22,304**
Trade accounts payable		3,967	3,592	3,352
Other payables and accrued expenses	(19)	2,659	2,356	2,348
Current portion of long-term debt	(20)	1,335	550	487
Short-term debt and bank overdrafts	(20)	1,803	1,663	1,657
Current liabilities		**9,764**	**8,161**	**7,844**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**30,887**	**30,095**	**30,148**

The accompanying notes are an integral part of the consolidated financial statements.

3

Consolidated statements of income

(in € millions)	Notes	2004	2003	2002
Net sales		32,025	29,590	30,274
Cost of sales		(23,929)	(22,263)	(22,670)
Gross margin		**8,096**	**7,327**	**7,604**
Selling, general and administrative expenses, including research	(22)	(5,124)	(4,626)	(4,712)
Other operating expenses and income	(23)	(340)	(259)	(310)
Operating income		**2,632**	**2,442**	**2,582**
Dividend income		3	12	22
Interest and other financial charges, net	(24)	(441)	(457)	(504)
Non-operating costs	(25)	(280)	(275)	(252)
Income before profit/(loss) on sales of non-current assets and taxes		**1,914**	**1,722**	**1,848**
Profit/(loss) on sales of non-current assets, net	(26)	(44)	86	3
Provision for income taxes	(17)	(603)	(595)	(612)
Net operating income from consolidated companies before amortization of goodwill		**1,267**	**1,213**	**1,239**
Amortization of goodwill		(155)	(154)	(169)
Net operating income from consolidated companies		**1,112**	**1,059**	**1,070**
Share in net income of equity investees	(6)	8	6	4
Net income before minority interests		**1,120**	**1,065**	**1,074**
Minority interests in consolidated companies	(14)	(37)	(26)	(34)
NET INCOME		**1,083**	**1,039**	**1,040**

Earnings per share (in euros)			
Weighted average number of shares in issue	337,253,298	337,226,640	336,727,133
Income before tax and minority interests per share	5.11	4.92	5.01
Basic earnings per share	3.21	3.08	3.09
Weighted average number of shares assuming full dilution	357,590,028	356,055,169	354,006,928
Income before tax and minority interests per share (diluted)	4.89	4.73	4.82
Diluted earnings per share	3.07	2.96	2.98
Number of shares in issue at December 31	340,988,000	347,824,967	341,010,680
Income before tax and minority interests per share	5.05	4.77	4.94
Earnings per share	3.18	2.99	3.05

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statements of cash flows

(in € millions)	Notes	2004	2003	2002
Net income		**1,083**	**1,039**	**1,040**
Minority interests	(14)	37	26	34
Excess of income of equity investees over dividends	(6)	(6)	1	(1)
Depreciation and amortization	(5)	1,454	1,491	1,603
(Profit)/loss on sales of non-current assets	(26)	44	(86)	(3)
Cash flows from operations		**2,612**	**2,471**	**2,673**
(Increase) decrease in inventories	(10)	**(136)**	**(4)**	**97**
(Increase) decrease in trade accounts and other accounts receivable		123	(24)	329
Increase (decrease) in trade accounts payable, other payables and accrued expenses		270	292	(63)
Changes in income taxes payable and deferred taxes		(33)	47	(120)
Other		(123)	(80)	(50)
Net change in working capital		**101**	**231**	**193**
CASH FLOWS FROM OPERATING ACTIVITIES		**2,713**	**2,702**	**2,866**
Purchases of property, plant and equipment	(5)	(1,537)	(1,351)	(1,431)
Acquisitions of businesses [in 2004: (623), in 2003: (528), in 2002: (599)], net of cash acquired	(2)	(551)	(461)	(575)
Disposals of consolidated investments, net of cash	(2)		523	104
Disposals of investments at cost	(8)	133	125	19
Acquisitions of investments at cost	(7)	(34)	(32)	(31)
Disposals of property, plant and equipment and intangible assets		162	162	201
(Increase) decrease in marketable securities	(8)	(23)	(1,156)	(100)
Other		86	16	(236)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES/DIVESTMENTS		**(1,764)**	**(2,174)**	**(2,049)**
Issues of capital stock	(*)	136	144	164
Minority interests' share in capital stock increases of subsidiaries	(*)	10	5	15
(Increase) decrease in treasury stock	(*)	(241)	(229)	(159)
Dividends paid	(*)	(387)	(379)	(378)
Dividends paid to minority shareholders of consolidated subsidiaries	(14)	(19)	(24)	(19)
(Increase) decrease in short-term loans		93	71	222
Increase (decrease) in long-term debt		(577)	648	777
Increase (decrease) in bank overdrafts and other short-term debt		(3)	57	(1,597)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		**(988)**	**293**	**(975)**
Net effect of exchange rate changes on cash and cash equivalents		**(1)**	**(33)**	**(61)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(40)**	**788**	**(219)**
Cash and cash equivalents at beginning of year		1,527	739	958
Cash and cash equivalents at end of year		1,487	1,527	739

(*) References to the statements of changes in consolidated shareholders' equity.

The accompanying notes are an integral part of the consolidated financial statements.

Statements of changes in consolidated shareholders' equity

	Number of shares		In euro millions					
	Issued	Excluding treasury stock	Capital stock	Additional paid-in capital and legal reserve	Retained earnings and net income for the year	Cumulative translation adjustments	Treasury stock	Shareholders' equity
At December 31, 2001	**85,258,628**	**84,054,040**	**1,364**	**2,249**	**8,540**	**(161)**	**(67)**	**11,925**
Change in par value	255,775,884	252,162,120						
Issues of capital stock								
• Group Savings Plan	4,703,396	4,703,396	19	140				159
• Stock option plans	226,480	226,480	1	4				5
Net income for 2002					1,040			1,040
Dividends paid (per share: €1.125)					(378)			(378)
Translation adjustments						(1,277)		(1,277)
Treasury stock purchased		(5,403,148)					(162)	(162)
Treasury stock canceled	(4,953,708)		(20)	(129)			149	0
Treasury stock sold		107,976			2		1	3
At December 31, 2002	**341,010,680**	**335,850,864**	**1,364**	**2,264**	**9,204**	**(1,438)**	**(79)**	**11,315**
Issues of capital stock								
• Group Savings Plan	6,499,407	6,499,407	26	112				138
• Stock option plans	314,880	314,880	1	5				6
Net income for 2003					1,039			1,039
Dividends paid (per share: €1.130)					(379)			(379)
Translation adjustments						(803)		(803)
Treasury stock purchased		(6,784,000)					(238)	(238)
Treasury stock canceled								0
Treasury stock sold		304,430			5		4	9
At December 31, 2003	**347,824,967**	**336,185,581**	**1,391**	**2,381**	**9,869**	**(2,241)**	**(313)**	**11,087**
Issues of capital stock								
• Group Savings Plan	4,099,192	4,099,192	16	112				128
• Stock option plans	345,700	345,700	2	6				8
Net income for 2004					1,083			1,083
Dividends paid (per share: €1.150)					(387)			(387)
Translation adjustments						(109)		(109)
Treasury stock purchased		(6,730,702)					(280)	(280)
Treasury stock canceled	(11,281,859)		(45)	(376)			421	0
Treasury stock sold		1,227,819			19		20	39
Change in accounting method (1)					(13)			(13)
AT DECEMBER 31, 2004	**340,988,000**	**335,127,590**	**1,364**	**2,123**	**10,571**	**(2,350)**	**(152)**	**11,556**

(1) Impact of the change in accounting method regarding provisions for long-service awards in France and provisions for workers' compensation in the United States (see note 1).

At December 31, 2004, the number of shares making up Compagnie de Saint-Gobain's capital stock totaled 340,988,000.

A total of 4,099,192 shares were created in 2004 in connection with the 2004 Group Savings Plan, and 345,700 shares were awarded upon the exercise of 341,500 stock options granted on November 21, 1996 and of 4,200 stock options granted on November 20, 2003.

In accordance with the authorizations to increase capital stock granted by the Ordinary and Extraordinary Shareholders' Meeting of June 5, 2003, the Board of Directors of Compagnie de Saint-Gobain may issue, on one or several occasions, up to 190 million new shares with or without preemptive or priority subscription rights for Compagnie de Saint-Gobain shareholders (eleventh and twelfth resolutions), 16 million new shares for subscription by members of the Group Savings Plan (thirteenth resolution), and 10,230,320 stock options corresponding to 3% of the total shares making up the Company's capital stock at the date of the authorization, exercisable for the same number of shares (fourteenth resolution).

If the Board of Directors issued all of the remaining stock options available for grant under the authorization, the number of shares making up the Company's capital stock would be increased to 557,155,620.

The Board of Directors of Compagnie de Saint-Gobain used these authorizations to grant:

• 3,717,700 stock options on November 20, 2003, of which 3,655,000 options were still to be exercised at December 31, 2004;

• 3,881,800 stock options on November 18, 2004, none of which had been exercised as of December 31, 2004.

Pursuant to the authorization to cancel shares granted in the fifteenth resolution:

• The Board of Directors of January 29, 2004 canceled 6,799,832 shares;

• The Board of Directors of November 18, 2004 canceled 4,482,027 shares.

If all of the Océane bonds in issue were converted or exchanged for shares, the total number of shares making up the Company's capital stock would be increased to 574,679,432.

Translation adjustments at December 31, 2004 include a net amount of €60 million (€60 million at December 31, 2003 and €61 million at December 31, 2002) in adjustments arising from the translation of the balance sheets of companies outside the euro zone.

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

NOTE 1 • ACCOUNTING PRINCIPLES AND POLICIES

Basis of presentation

The consolidated financial statements of Compagnie de Saint-Gobain and its subsidiaries (together "the Group") have been prepared in accordance with French generally accepted accounting principles.

The application of International Financial Reporting Standards (IFRS) is required for financial years beginning on or after January 1, 2005, and the date of transition to the new standards has been set at January 1, 2004. In light of this changeover, the Group has restated its opening balances as of said date, and identified the impacts of applying IFRS on the 2004 financial statements. This information is provided in note 35.

The preparation of consolidated financial statements in conformity with French generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of expense or income during the year. Actual results may differ from those estimates.

In accordance with *Conseil National de la Comptabilité* (French National Accounting Board) opinion 2004-05, in 2004 the Group recognized provisions for long-service awards in France for the first time. This change of accounting method leads to a decrease of €11 million in consolidated shareholders' equity at January 1, 2004, after the tax effect.

In 2004, the Group also introduced an actuarial method for measuring provisions set aside to cover workers' compensation in the US. At January 1, 2004, the impact of this change of accounting method is a decrease of €2 million in shareholders' equity after the tax effect.

Principles of consolidation

The consolidated financial statements include the financial statements of Compagnie de Saint-Gobain and all significant majority-owned subsidiaries, as well as subsidiaries in which the Group holds a controlling interest, either directly or indirectly. Non-consolidated companies represent less than 0.1% of consolidated net sales.

Companies that are jointly owned are proportionately consolidated. Companies in which the Group exercises directly or indirectly a significant influence are consolidated by the equity method.

Investments in other companies, in which the Group does not exercise significant influence, are stated at cost. A provision is made where necessary to write down the cost to estimated net realizable value.

The results of companies acquired or disposed of during the year are included in the consolidated statement of income for the period after the date of acquisition or before the date of disposal, respectively.

Significant changes in the Group's structure for the year ended December 31, 2004 are shown in note 2. A summary list of significant consolidated companies at December 31, 2004 is provided in note 36.

All significant intercompany accounts and transactions are eliminated in consolidation.

Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate prevailing on the transaction date. Receivables, payables and bank balances in foreign currencies are generally translated at the year-end rate and the related exchange differences are recorded in the income statement.

Translation of the financial statements of foreign companies

Balance sheet items are translated using year-end exchange rates.

Income and expenditure items are translated using the average exchange rate for the year.

The Group's share of any translation gains and losses less any related tax effect, is included in shareholders' equity under the caption "Cumulative translation adjustments" until such time as the foreign investments to which they relate are sold or liquidated.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is amortized on a straight-line basis over its expected useful life for a period not exceeding 40 years.

Other intangible assets

Other intangible assets include purchased goodwill (*fonds de commerce),* patents, trademarks, computer software, and debt issuance costs.

Trademarks, other than retail brands, are amortized on a straight-line basis over a period not exceeding 40 years. Retail brands are not amortized.

Patents and purchased computer software are amortized over their estimated useful lives. Patents are amortized over a period not exceeding 20 years. Purchased software is amortized over a period of 3 to 5 years.

Debt issuance costs relating to bonds or other long-term borrowings are capitalized and amortized over the term of the debt.

Property, plant and equipment

Property, plant and equipment are stated at cost except for the fixed assets of subsidiaries operating in formerly highly inflationary countries which have been revalued in accordance with the provisions of local laws.

Property, plant and equipment is depreciated on a straight-line basis over the following estimated useful lives:

Major factories and offices	40 years
Other buildings	15 - 25 years
Production machinery and equipment	5 - 16 years
Vehicles	4 years
Furniture, fixtures, office and computer equipment	4 - 16 years

Investment grants relating to acquisitions of non-current assets are deferred, recorded under "Other payables and accrued expenses" and credited to income over the estimated useful lives of the relevant assets.

Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are cancelled and any resulting gains or losses are recognized in the income statement.

Valuation of non-current assets and goodwill

The Group carries out impairment tests on a regular basis for non-current assets, including property, plant and equipment, goodwill and other intangible assets.
These tests consist of comparing the assets' carrying value with their fair value or value in use, determined based on the estimated discounted future net cash flows generated by their use.
For property, plant and equipment, impairment tests are carried out when they generate operating losses and where no significant recovery is expected based on annual budget figures or the business plans concerning those assets.
For intangible assets and goodwill, impairment tests are carried out annually based on a five-year business plan. Goodwill is reviewed exhaustively at the level of each business and where necessary more detailed tests are carried out.
The method used for these impairment tests is consistent with that used by the Group for valuing companies when the Group acquires all or part of their capital. The carrying value of non-current assets is compared with the estimated discounted future net cash flows generated by the assets concerned, after tax and excluding interest costs. Cash flows for the fifth year of the business plan are rolled forward over the following two years and then projected to perpetuity using a low growth rate. The discount rate used for future cash flows corresponds to the Group's cost of capital weighted according to the geographic segment of the operations concerned.
An impairment loss is recognized under "Profit/(loss) on sales of non-current assets" if the annual impairment tests show that the fair value of an asset or goodwill is lower than its carrying amount.

Asset financing

The Group's assets are generally financed through debt. However, certain non-current assets are acquired through finance leases which are recognized as capital leases. The accounting treatment of these leases is described below.
The Group has also set up a receivables securitization program in the United States and in the United Kingdom (see note 21). Group companies also use available receivables management facilities in accordance with local practices such as factoring, discounting and transfers in accordance with the Dailly Act in France.

Leases

Assets held under leases which transfer to the Group substantially all of the risks and rewards of ownership are capitalized as property, plant and equipment. The capitalized values of the assets are depreciated on a straight-line basis over the useful life of the assets. The corresponding liability is shown net of related interest in the balance sheet.
Operating lease rental payments are expensed in the year in which they are incurred.

Inventories

Inventories are valued at the lower of cost and market. Cost is generally determined using the weighted average cost method, and in some cases, the First-In-First-Out method.

Financial instruments

The Group uses derivative financial instruments for the purpose of hedging currency and interest rate exposures that exist as part of ongoing business operations.
The main financial instruments used to hedge foreign exchange risks are forward purchase and sale contracts and options. Hedged receivables and payables are recorded in the balance sheet at the hedging rate. The portion representing the extrinsic (time) value of unrealized gains or losses on currency options used to hedge the above positions is taken to income, and the portion representing intrinsic value is recorded in the balance sheet. Unrealized losses on options which are not classified as hedges are recognized in the income statement, whereas unrealized gains are not taken into account.
The Group uses interest rate swaps and swaptions (caps and floors) as well as forward rate agreements to hedge its exposure to increases in interest rates. Income and expenses related to interest rate swaps are recognized on a symmetrical basis with the expenses and income on the hedged items.
The portion representing the extrinsic (time) value of unrealized gains or losses on interest rate options used to hedge the above positions is taken to income and the portion representing intrinsic value is recorded in the balance sheet. Interest rate options which are not classified as hedges are recognized in the income statement at market value.

Marketable securities

Marketable securities consist of shares in subsidiaries and affiliates, units in mutual funds and short-term investments. They are recorded at the lower of cost and market.

Cash and cash equivalents

This item consists of cash on hand and balances with banks.

Pensions and other post-retirement benefits

After retirement the Group's former employees receive pensions in accordance with applicable laws and practices in the respective countries in which the Group operates. There are additional pension obligations in certain Group companies, in France and other countries.
In France, employees receive indemnities on retirement based on past service and other terms in accordance with the respective collective bargaining agreements.
The Group's obligations in respect of pensions and retirement indemnities are determined using an actuarial method based on projected end-of-career salaries (the projected unit credit method) taking into account the specific economic conditions applicable in each country. These obligations are covered by retirement funds and provisions recorded in the balance sheet. The method adopted complies with both French generally accepted accounting principles and US GAAP.

3

In the United States, Spain and Germany, retired employees receive benefits other than pensions, mainly concerning healthcare. The Group's obligations in this respect are determined using an actuarial method and are covered by a provision recorded in the balance sheet.
In addition, in the United States, certain benefits such as income support and healthcare may be granted to former employees before their retirement. The present value of these obligations is determined using rates applied for pensions and is covered by a provision recorded in the balance sheet.

Negative shareholders' equity

When shareholders' equity of a consolidated subsidiary is negative at the end of the financial period, the minorities' share of shareholders' equity is expensed by the Group unless the third parties have a specific obligation to contribute their share of losses. If these companies return to profit, the Group's equity in their earnings is recorded by the majority shareholder up to the amount required to cover losses recorded in prior years.

Revenue recognition

Revenue from sales of products or services is recognized when the risks and rewards of ownership are transferred to the customer or following delivery of the service, net of sales taxes and discounts. The liability for incurred warranty claims is accrued when it is determined that a liability exists and that payment is probable.

Research and development costs

Research and development costs are expensed as incurred and recorded in selling, general and administrative expenses.

Interest charges

All interest charges are expensed as incurred. Since January 1, 2004, charges incurred during the construction of significant non-current assets are no longer capitalized as part of the construction cost of such assets.

Non-operating income and expense

Non-operating income and expense include additions to and reversals from provisions for claims and litigation and environmental provisions, as well as reorganization costs arising on the disposal of activities and measures in favor of employees affected by downsizing plans.

Income taxes

Under an agreement with the French tax authorities, Compagnie de Saint-Gobain is assessed for income tax purposes on its consolidated fiscal income. The amounts payable or receivable by Compagnie de Saint-Gobain resulting from the application of the agreement are included in other accounts receivable and other payables and accrued expenses.
Deferred tax assets and liabilities are calculated using the liability method, based on temporary differences between the values of assets and liabilities recorded in the financial statements and those used for tax purposes. Tax rates applicable to future periods are used to calculate year-end deferred income tax amounts.
A provision is recorded against deferred tax assets corresponding to tax loss carryforwards and deductible temporary differences when it is more likely than not that the asset will not be realized. Under the worldwide tax regime, this valuation allowance is assessed at the tax group level for companies included in the tax consolidation and at the individual tax entity level for companies not included in the tax consolidation.
No provision is made in respect of earnings of subsidiaries that are not intended to be distributed.
Deferred taxes have not been discounted as the Group is not in a position to reliably measure when they will be reversed, particularly due to the number of subsidiaries concerned and the nature of the tax regime applicable to the consolidated tax group.

Deferred taxes on retail brands

A deferred tax liability is recorded on retail brands valued in the consolidated financial statements, even when they cannot be sold separately from the company being acquired. This represents a departure from Article 313 of *Comité de la Réglementation Comptable* (French Accounting Standards Committee) regulation 99-02.
The rate used to calculate deferred taxes on those retail brands that cannot be sold separately from the entity being acquired is the rate applicable to long-term capital gains generated on sales of investments in subsidiaries and affiliates. In light of the application of International Financial Reporting Standards as from 2005, the Group has decided not to take into account the impact of the liability method resulting from the gradual elimination of the tax applicable to disposals of investments in subsidiaries and affiliates.
Under IFRS, a deferred tax liability must be recognized at current tax rates on all brands, including those that cannot be sold separately from the entity being acquired. The impact of this difference is described in note 35, section j.
Therefore, deferred taxes recognized on brands have been fixed in the French GAAP accounts at their value as of December 31, 2003, with a view to maintaining consistent treatment between the different financial reporting standards.
The amount of deferred tax liabilities at December 31, 2004 is indicated in note 17.

Advertising costs

Advertising costs are expensed as incurred.

Earnings per share

The Group discloses earnings per share, based on net income and based on income before tax and minority interests.
Earnings per share are calculated by dividing earnings by the average number of shares in issue during the period, after deduction of treasury stock.
Diluted earnings per share are calculated by including in the average number of shares the conversion of all dilutive share equivalents in issue (stock options and convertible bonds).
The Group also discloses earnings per share calculated by dividing earnings by the number of shares in issue at the end of the fiscal year.

NOTE 2 • CHANGES IN GROUP STRUCTURE

Changes in Group structure were as follows in 2004:

2004	France	Outside France	Total
Fully consolidated companies			
At January 1	192	801	993
Newly consolidated companies (1)	54	111	165
Merged companies	(34)	(26)	(60)
Deconsolidated companies		(3)	(3)
Change in consolidation method	6	19	25
At December 31	**218**	**902**	**1,120**
Proportionately consolidated			
At January 1	2	16	18
Newly consolidated companies		1	1
Change in consolidation method		(2)	(2)
At December 31	**2**	**15**	**17**
Companies accounted for by the equity method			
At January 1	13	57	70
Newly consolidated companies		29	29
Merged companies		(4)	(4)
Deconsolidated companies		(1)	(1)
Change in consolidation method	(6)	(17)	(23)
At December 31	**7**	**64**	**71**
AT DECEMBER 31	**227**	**981**	**1,208**

(1) In keeping with its policy of consolidating minor subsidiaries, 94 companies were fully consolidated for the first time in 2004. The effect of consolidation was an increase of €55 million in property, plant and equipment, an increase of €46 million in pensions and other post-retirement benefits and an increase of €16 million in net debt.

At December 31, 2004, the effect on balance sheet captions of changes in Group structure and in consolidation methods is as follows:

(in € millions)	Increase	Decrease	Total
Impact on assets			
Non-current assets	817	(3)	814
Inventories	253		253
Trade accounts receivable	346		346
Other non-current assets excluding cash and cash equivalents	65		65
	1,481	**(3)**	**1,478**
Impact on liabilities and shareholders' equity			
Minority interests	11	(10)	1
Pensions and other post-retirement benefits	88		88
Long-term liabilities	4		4
Trade accounts payable	325		325
Other payables and accrued expenses	53		53
	481	**(10)**	**471**
Acquisitions/disposals of consolidated investments including net debt acquired/disposed of (a)	1,000	7	1,007
Impact on consolidated net debt*			
Impact on cash and cash equivalents	72	(2)	70
Impact on net debt excluding cash and cash equivalents (b)	449	7	456
	377	**9**	**386**
Acquisitions/disposals of consolidated investments net of cash acquired/disposed of (a) – (b)	**551**	**0**	**551**

* Representing debt and overdrafts of companies acquired/divested.

In 2004, the Group acquired the entire capital stock of Dahl International AB for an amount of €384 million, or €696 million after adjusting for the net debt acquired. Dahl International AB was fully consolidated as from May 1, 2004.

In 2003, the main changes in Group structure represented the sale of the Terreal Group and the acquisition of several companies in the Building Distribution Division in France (including the Dubois Matériaux, Pum Plastiques and Sem Angles groups), and in the United Kingdom.

In 2002, no material companies were fully consolidated for the first time. However, the Group purchased all outstanding minority interests in the Lapeyre Group, thus raising its stake from 74.68% to 100%.

NOTE 3 • GOODWILL

(in € millions)	2004	2003	2002
Net book value at January 1	**4,902**	**5,521**	**6,065**
Acquisitions	638	301	178
Translation adjustments, impact of disposals and other	(182)	(715)	(519)
Amortization for the year	(188)	(205)	(203)
NET BOOK VALUE AT DECEMBER 31	**5,170**	**4,902**	**5,521**

In 2004, "Acquisitions" included €517 million in goodwill recognized on the purchase of Saint-Gobain's interest in Dahl International AB, acquired for €384 million. This item of goodwill was still to be allocated at the year-end. "Translation adjustments, impact of disposals and other" reflects a €23 million decrease net of the deferred tax effect corresponding to the allocation of goodwill relating to Pum Plastiques (see also note 4).

In 2003, "Acquisitions" included €144 million in goodwill recognized on the purchase of Saint-Gobain's interest in Pum Plastiques, acquired for €181 million. Other items which had a material impact on goodwill included the sale of the Terreal Group (€152 million reduction in goodwill, net of amortization) and the stronger euro, which led to negative translation adjustments of €421 million for the year.

In 2002, "Acquisitions" included €58 million in goodwill recognized on the purchase of minority interests in the Lapeyre Group, which were acquired for €350 million. Movements in "Translation adjustments and impact of disposals" primarily reflected changes in the US dollar exchange rate over the year.

NOTE 4 • OTHER INTANGIBLE ASSETS, NET

Changes in other intangible assets are summarized below:

(in € millions)	2004	2003	2002
Net book value at January 1	**1,836**	**1,914**	**1,805**
Acquisitions and changes in Group structure	140	85	290
Disposals	(5)	(2)	(4)
Translation adjustments	(10)	(80)	(94)
Amortization for the year	(78)	(81)	(83)
NET BOOK VALUE AT DECEMBER 31	**1,883**	**1,836**	**1,914**

Intangible assets break down as follows:

(in € millions)	2004	2003	2002
At cost			
Purchased goodwill	100	92	84
Patents	123	145	171
Retail brands	1,504	1,469	1,516
Software	473	398	344
Other	312	285	327
TOTAL AT COST	**2,512**	**2,389**	**2,442**
Amortization and provisions for impairment in value			
Purchased goodwill	(55)	(50)	(43)
Patents	(99)	(106)	(124)
Software	(321)	(247)	(196)
Other	(154)	(150)	(165)
TOTAL AMORTIZATION AND PROVISIONS FOR IMPAIRMENT IN VALUE	**(629)**	**(553)**	**(528)**
OTHER INTANGIBLE ASSETS, NET	**1,883**	**1,836**	**1,914**

As their fair value is at least equal to cost, retail brands do not require a provision for impairment in value.

In 2004, changes in "Retail brands" concerned the addition of the Pum Plastiques brand in an amount of €35 million before taxes, based on the allocation of goodwill generated at the end of 2003.

Changes in "Retail brands" in 2003 were exclusively due to translation adjustments.

In 2002, changes in "Retail brands" mainly concerned the addition of the Lapeyre brand in an amount of €189 million, based on the allocation of goodwill determined after the purchase of the minority interests in the group.

NOTE 5 • PROPERTY, PLANT AND EQUIPMENT

(in € millions)	At Dec. 31, 2003	Changes in Group structure	Acquisitions	Disposals	Transfers	Translation adjustments	Depreciation charge	At Dec. 31, 2004
2004								
At cost:								
Land	1,195	30	33	(35)	0	(3)	–	1,220
Buildings	5,234	109	99	(168)	150	(27)	–	5,397
Machinery and equipment	13,911	196	449	(675)	742	(101)	–	14,522
Construction in progress	859	48	956	(8)	(892)	(19)	–	944
TOTAL DEPRECIATION	**21,199**	**383**	**1,537**	**(886)**	**0**	**(150)**	**–**	**22,083**
Depreciation:								
Land	(99)	(6)	–	4	–	1	(10)	(110)
Buildings	(2,596)	(38)	–	91	–	13	(232)	(2,762)
Machinery and equipment	(9,816)	(127)	–	623	–	31	(976)	(10,265)
Construction in progress	(2)	(3)	–	0	–	1	(3)	(7)
TOTAL DEPRECIATION	**(12,513)**	**(174)**	**–**	**718**	**–**	**46**	**(1,221)**	**(13,144)**
NET BOOK VALUE	**8,686**	**209**	**1,537**	**(168)**	**0**	**(104)**	**(1,221)**	**8,939**
2003								
At cost:								
Land	1,238	21	13	(22)	4	(59)	–	1,195
Buildings	5,350	(9)	109	(101)	151	(266)	–	5,234
Machinery and equipment	14,682	(239)	423	(607)	519	(867)	–	13,911
Construction in progress	799	2	806	(11)	(674)	(63)	–	859
TOTAL DEPRECIATION	**22,069**	**(225)**	**1,351**	**(741)**	**0**	**(1,255)**	**–**	**21,199**
Depreciation:								
Land	(91)	(2)	–	2	–	2	(10)	(99)
Buildings	(2,546)	30	–	65	–	83	(228)	(2,596)
Machinery and equipment	(10,045)	175	–	551	–	521	(1,018)	(9,816)
Construction in progress	(5)	0	–	3	–	0	0	(2)
TOTAL DEPRECIATION	**(12,687)**	**203**	**–**	**621**	**0**	**606**	**(1,256)**	**(12,513)**
NET BOOK VALUE	**9,382**	**(22)**	**1,351**	**(120)**	**0**	**(649)**	**(1,256)**	**8,686**
2002								
At cost:								
Land	1,290	25	26	(29)	7	(81)	–	1,238
Buildings	5,567	43	156	(110)	106	(412)	–	5,350
Machinery and equipment	15,539	(74)	509	(591)	623	(1,324)	–	14,682
Construction in progress	862	44	740	(11)	(736)	(100)	–	799
TOTAL DEPRECIATION	**23,258**	**38**	**1,431**	**(741)**	**0**	**(1,917)**	**–**	**22,069**
Depreciation:								
Land	(84)	(5)	–	2		5	(9)	(91)
Buildings	(2,501)	(23)	–	79		140	(241)	(2,546)
Machinery and equipment	(10,319)	75	–	521		779	(1,101)	(10,045)
Construction in progress	(5)	0	–	0		0	0	(5)
TOTAL DEPRECIATION	**(12,909)**	**47**	**–**	**602**	**0**	**924**	**(1,351)**	**(12,687)**
NET BOOK VALUE	**10,349**	**85**	**1,431**	**(139)**	**0**	**(993)**	**(1,351)**	**9,382**

The increase in property, plant and equipment in 2004 stems from the Group's efforts to step up the capital expenditure program in emerging countries, and particularly in Asia.
The main reason for the reduction in property, plant and equipment in 2003 is the impact of exchange rate fluctuations.
As an industrial group, Saint-Gobain does not have a significant non-operating property portfolio, except for its head office building.
Property, plant, and equipment include the following assets acquired under capital leases:

(in € millions)	2004	2003	2002
At cost:			
Land and buildings	180	202	164
Machinery and equipment	20	38	41
TOTAL DEPRECIATION	**200**	**240**	**205**
Depreciation	(84)	(99)	(88)
NET BOOK VALUE	**116**	**141**	**117**

The depreciation and amortization charge is as follows:

(in € millions)	2004	2003	2002
Amortization of other intangible assets (note 4)	78	81	83
Amortization of goodwill	155	154	169
Depreciation of property, plant and equipment*	1,221	1,256	1,351
TOTAL DEPRECIATION AND AMORTIZATION	**1,454**	**1,491**	**1,603**
*Included in cost of sales	1,047	1,089	1,174

In 2004, the Group recorded a total charge of €84 million for the write-down of certain items of goodwill, intangible assets and property, plant and equipment, compared with €121 million in 2003 and €46 million in 2002.

NOTE 6 • INVESTMENTS IN EQUITY INVESTEES

The Group's investments in equity investees can be analyzed as follows:

(in € millions)	2004	2003	2002
At January 1	**75**	**114**	**169**
Changes in Group structure	(20)	(35)	(35)
Dividends paid	(2)	(7)	(3)
Share in net income of equity investees	8	6	4
Translation adjustments	0	(3)	(21)
At December 31	**61**	**75**	**114**

NOTE 7 • INVESTMENTS AT COST

	2004		2003		2002	
(in € millions)	Gross book value	Net book value	Gross book value	Net book value	Gross book value	Net book value
At January 1	**192**	**139**	**206**	**144**	**233**	**171**
Acquisitions	34	34	32	32	31	31
Disposals	(14)	(6)	(17)	(10)	(10)	(7)
Provisions for impairment in value for the year	–	(2)	–	(3)	–	(1)
Changes in Group structure	(98)	(82)	(27)	(24)	(44)	(48)
Translation adjustments	0	0	(2)	0	(4)	(2)
AT DECEMBER 31	**114**	**83**	**192**	**139**	**206**	**144**

The fair value of these investments approximates their net book value.

In 2004, changes in Group structure resulted mainly from the first-time consolidation of a significant number of small companies in accordance with the requirements of IFRS (see note 2).

NOTE 8 • CURRENT AND NON-CURRENT MARKETABLE SECURITIES

Marketable securities include units in SICAV and other mutual funds as well as short-term investments recorded at the lower of cost and market. These marketable securities are principally variable-income. Unrealized gains on marketable securities are not considered as material in the consolidated financial statements.

(in € millions)	Gross book value	Net book value	Unrealized gains	Estimated market value [1]
At December 31, 2004:				
Non-current marketable securities	7	4	7	11
Total marketable securities	1,412	1,412	–	1,412
At December 31, 2003:				
Vivendi Universal	74	74	28	102
Other interests	7	4	5	9
NON-CURRENT MARKETABLE SECURITIES	**81**	**78**	**33**	**111**
TOTAL MARKETABLE SECURITIES	**1,387**	**1,387**	**–**	**1,387**
At December 31, 2002:				
Vivendi Universal	171	171	19	190
Other interests	7	4	2	6
NON-CURRENT MARKETABLE SECURITIES	**178**	**175**	**21**	**196**
TOTAL MARKETABLE SECURITIES	**469**	**469**	**–**	**469**

(1) Based on stock market prices at December 31.

In 2004, the decrease in non-current marketable securities reflects the sale of the Company's remaining interest in Vivendi Universal. The decrease in non-current marketable securities in 2003 primarily reflects the sale of 7,000,000 Vivendi Universal shares.

The increase in total marketable securities in 2003 mainly reflects cash and cash equivalents generated at the end of the year, primarily due to the proceeds of the April 8, 2003 bond issue and the disposal of both Vivendi Universal shares and interests in the Terreal Group.

NOTE 9 • OTHER NON-CURRENT ASSETS

(in € millions)	2004	2003	2002
Capitalized loans and deposits	242	340	517
Retirement benefits - Additional minimum liability	1,021	1,067	946
Prepaid pension costs	112	114	127
OTHER NON-CURRENT ASSETS	**1,375**	**1,521**	**1,590**

"Retirement benefits – Additional minimum liability" and "Prepaid pension costs" are a result of the application of US generally accepted accounting principles relating to pensions and other post-retirement benefits. The accounting methods applicable to these two items are described in note 16.

In accordance with French generally accepted accounting principles, the total additional minimum liability has been recorded under "Other non-current assets". Under US generally accepted accounting principles, part of the commitment – in an amount of €939 million (€985 million in 2003 and €877 million in 2002) – would be recorded as a deduction from shareholders' equity, net of tax.

NOTE 10 • INVENTORIES

At December 31, 2004, 2003 and 2002, raw materials, work in progress and finished goods in inventory as well as provisions for impairment in value of inventories can be analyzed as follows:

(in € millions)	2004	2003	2002
At cost			
Raw materials	1,099	1,088	1,184
Work in progress	306	320	352
Finished goods	3,826	3,480	3,534
Gross inventories	**5,231**	**4,888**	**5,070**
Provisions for impairment in value			
Raw materials	(100)	(92)	(89)
Work in progress	(12)	(14)	(16)
Finished goods	(281)	(273)	(301)
Provisions for impairment in value	**(393)**	**(379)**	**(406)**
NET INVENTORIES	**4,838**	**4,509**	**4,664**

Changes in this item in 2004 mainly reflect newly consolidated companies (see note 2). Business operations accounted for an increase of €136 million in net inventories.

NOTE 11 • TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are short-term receivables.

(in € millions)	2004	2003	2002
Trade accounts receivable	4,807	4,582	4,646
Less provisions for doubtful accounts	(340)	(342)	(382)
NET TRADE ACCOUNTS RECEIVABLE	**4,467**	**4,240**	**4,264**

Changes in this item in 2004 mainly reflect newly consolidated companies (see note 2). Excluding newly consolidated companies, net trade accounts receivable decreased by €120 million.

3

Changes in provisions for doubtful accounts:

(in € millions)	2004	2003	2002
At January 1	**(342)**	**(382)**	**(405)**
Movement for the year	18	30	4
Changes in Group structure	(15)	(5)	(1)
Translation adjustments	(1)	15	20
AT DECEMBER 31	**(340)**	**(342)**	**(382)**

In 2004, the total charge related to unrecoverable and doubtful receivables amounted to €80 million (2003: €73 million; 2002: €93 million). The Group has a securitization program in place in the United States and in the United Kingdom, which is described in note 21.

NOTE 12 • OTHER ACCOUNTS RECEIVABLE

All amounts recorded under "Other accounts receivable" are due within one year.

(in € millions)	2004	2003	2002
Advances to suppliers	78	90	53
Prepaid payroll taxes	24	22	18
Other prepaid and recoverable taxes	452	413	356
Accrued income	168	154	188
Other receivables	383	361	401
Provisions for impairment in value	(6)	(5)	(6)
OTHER ACCOUNTS RECEIVABLE	**1,099**	**1,035**	**1,010**

NOTE 13 • TREASURY STOCK

Compagnie de Saint-Gobain capital stock held by consolidated Group companies is shown as a separate deduction from shareholders' equity under "Treasury stock", at historical cost. Total shares held in treasury stock were 5,860,410 at December 31, 2004, 11,639,386 at December 31, 2003, and 5,159,816 at December 31, 2002.
In 2004, the Group purchased 6,730,702 Compagnie de Saint-Gobain shares on the stock market (2003: 6,784,000; 2002: 5,403,148 shares) and re-sold 1,227,819 of them (2003: 304,430; 2002: 107,976).
In addition, a total of 11,281,859 shares were canceled in 2004. 6,799,832 shares were canceled at the Board of Directors' meeting of January 29, 2004, and 4,482,027 at the Board meeting of November 18, 2004. No shares were canceled in 2003, compared with 4,953,708 in 2002.
Share buybacks in 2004, 2003 and 2002 were carried out for several different purposes, but specific numbers of shares were not assigned to each objective. Therefore, the shares concerned were recorded as treasury stock.

NOTE 14 • MINORITY INTERESTS

(in € millions)	2004	2003	2002
At January 1	**223**	**227**	**423**
Net income for the year	37	26	34
Dividends paid by consolidated subsidiaries	(19)	(24)	(19)
Minority interests' share in capital stock increases of subsidiaries	10	5	15
Changes in Group structure (see note 2)	1	6	(142)
Translation adjustments	(2)	(17)	(84)
AT DECEMBER 31	**250**	**223**	**227**

In 2003 and 2004, there were no significant movements in minority interests. In 2002, the bulk of the decrease in this item reflected the purchase of the outstanding minority interests in the Lapeyre Group during the first half of the year.

NOTE 15 • NON-VOTING PARTICIPATING SECURITIES

In the 1980s, Compagnie de Saint-Gobain issued 1,288,299 TMO-indexed non-voting participating securities (indexed against average bond rates) and 194,633 Euribor-indexed non-voting participating securities. These securities are not redeemable and the interest paid on them is included in financial charges. The interest paid on the 1,288,299 TMO-indexed non-voting participating securities, up to a limit equal to 125% of the average rate of interest on bonds, includes a fixed-interest element and a variable portion based on the consolidated net income of the Group. The interest paid on the 194,633 non-voting participating securities indexed against Euribor (as a minimum) comprises a fixed-interest element applicable to 60% of the nominal value of the security and equal to 7.5% per annum, and a variable amount on the remaining 40% based on the consolidated net income of the previous year, within the limits fixed in the prospectus. As part of the Group's interest cost management, in the past, Spafi and Saint Gobain Nederland – two wholly-owned subsidiaries of Compagnie de Saint-Gobain – purchased certain of these NVPs. At December 31, 2003, Spafi held 681,416 TMO-indexed NVPs and Saint-Gobain Nederland held 117,117 Euribor-indexed NVPs. At that date, the book value of NVPs held by the Group amounted to €221 million. These investments, which had been reclassified as a deduction from non-voting participating securities in the consolidated balance sheet at December 31, 2003, were bought back by Compagnie de Saint-Gobain on June 30, 2004 and subsequently canceled. As a result, "Non-voting participating securities" amounted to €170 million at December 31, 2004 and 2003, compared with €391 million at December 31, 2002. This item can be analyzed as follows:

(in € millions)	2004	2003	2002
TMO-indexed securities (indexed against average bond rates)	92	92	196
Euribor-indexed securities	78	78	195
TOTAL	**170**	**170**	**391**

Net interest paid on non-voting participating securities amounted to €11 million in 2004, compared with €10 million in 2003 and €11 million in 2002.

NOTE 16 • PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The following tables show commitments for pensions and other post-retirement benefits:

	France	Other European countries		North America		Rest of the world	Net total
(in € millions)	Pensions and retirement indemnities	Plans with assets in excess of accumulated benefits	Plans with accumulated benefits in excess of assets	Plans with assets in excess of accumulated benefits	Plans with accumulated benefits in excess of assets	Pensions and retirement indemnities	
AT DECEMBER 31, 2004							
Projected benefit obligation	**465**	**308**	**3,051**	**11**	**1,452**	**51**	**5,338**
Plan assets	**118**	**340**	**1,710**	**12**	**1,244**	**38**	**3,462**
Benefits in excess of (less than) plan assets	**347**	**(32)**	**1,341**	**(1)**	**208**	**13**	**1,876**
Deferred variances	**(92)**	**(70)**	**(747)**	**(5)**	**(358)**	**0**	**(1,272)**
Additional minimum liability (see note 9)							**1,021**
Accruals for related benefits			**6**		**219**		**225**
Prepaid pension cost (see note 9)							**112**
Contractual termination indemnities							**98**
Insurance funding							**189**
Total provisions for pensions and other post-retirement benefits							**2,249**
AT DECEMBER 31, 2003							
Projected benefit obligation	453	277	2,830	11	1,489	51	5,111
Plan assets	102	320	1,548	12	1,149	36	3,167
Benefits in excess of (less than) plan assets	351	(43)	1,282	(1)	340	15	1,944
Deferred variances	(93)	(64)	(737)	(5)	(423)	0	(1,322)
Additional minimum liability (see note 9)							1,067
Accruals for related benefits			6		211		217
Prepaid pension cost (see note 9)							114
Contractual termination indemnities							74
Insurance funding							211
Total provisions for pensions and other post-retirement benefits							2,305
AT DECEMBER 31, 2002							
Projected benefit obligation	420	261	2,766	12	1,498	32	4,989
Plan assets	98	323	1,514	12	1,087	27	3,061
Benefits in excess of (less than) plan assets	322	(62)	1,252	0	411	5	1,928
Deferred variances	(56)	(39)	(716)	(4)	(402)	3	(1,214)
Additional minimum liability (see note 9)							946
Accruals for related benefits			6		247		253
Prepaid pension cost (see note 9)							127
Contractual termination indemnities							82
Insurance funding							231
Total provisions for pensions and other post-retirement benefits							2,353

Description of defined benefit plans

The Group's main defined benefit plans are as follows:
In France, in addition to retirement bonuses, there are three defined benefit schemes based on projected end-of-career salaries. These plans were closed to new employees by the companies concerned between 1969 and 1997.
In Germany, retirement plans provide pensions and death and disability benefits for employees. These plans have been closed to new employees since 1996.
In the Netherlands, employees may still benefit from supplementary pension plans.
In the United Kingdom, employee retirement plans provide pensions as well as death and permanent disability benefits. These defined benefit plans – which are based on employees' average salaries over their final years of employment – have been closed to new employees since 2001.
In the United States and Canada, the Group's defined benefit schemes are based on projected end-of-career salaries. Since January 1, 2001, new employees have been offered a mixed scheme based on both defined contributions and defined benefits, known as the "Cash balance" scheme.

Valuation of pension commitments and retirement indemnities

Pension commitments are determined by actuarial valuations using a method based on projected end-of career salaries (the projected unit credit method). The method adopted complies with both French generally accepted accounting principles and US GAAP.
Based on projected end-of-career salaries, the Group's pension commitments amounted to €5,338 million at December 31, 2004, compared with €5,111 million at December 31, 2003, and €4,989 million at December 31, 2002. Out of this total, unfunded commitments amounted to €618 million in 2004. Vested rights (obtained by the beneficiaries of the retirement plans), calculated on the basis of current salaries, amounted to €4,666 million at December 31, 2004 (December 31, 2003: €4,476 million; December 31, 2002: €4,338 million). They represent commitments to pensioners.

Plan assets

For defined benefit plans, plan assets have been progressively built up by contributions, primarily in the United States and the United Kingdom. Contributions paid by the Group totaled €232 million in 2004, €219 million in 2003 and €89 million in 2002, and the effective yield on plan assets was €322 million in 2004.
The fair value of plan assets – which came to €3,462 million at December 31, 2004 (end-2003: €3,167 million; end-2002: €3,061 million) – is deducted from the amount of the Group's commitment valued according to the projected unit credit method in order to calculate the related provision.

Actuarial assumptions used for valuing pension commitments and plan assets

Assumptions as to mortality, employee turnover and salary projections take into account the economic conditions specific to each country and company. Interest rates used in 2004 to determine the present value of future commitments were generally between 4% and 6.5%, depending on the country concerned.
The rates used in the countries in which the Group's commitments are the most significant are as follows:

	France	Other European countries			United States
(percentages)		Germany	Netherlands	United Kingdom	
Discount rate	5.00%	5.25%	5.00%	5.60%	6.50%
Salary increases	2.50%	2.50% to 3.25%	2.25%	3.00% to 3.90%	3.00%
Estimated return on plan assets	5.70%	5.50%	5.75%	6.50% to 8.50%	8.75%

Deferred variances

Deferred variances are primarily made up of actuarial gains and losses (gains of €1,224 million in 2004), as well as differences due to changes in pension plans and the first-time adoption of the standard by Group companies. These variances result from year-on-year changes in the actuarial assumptions used to value commitments and plan assets, as well as differences between actual market conditions and assumptions applied.

Deferred variances amounted to €1,272 million at December 31, 2004 (end-2003: €1,322 million; end-2002: €1,214 million), and are deducted from the provision for pensions and other post-retirement benefits.
They are amortized using the "corridor" approach (whereby variances from the previous financial year exceeding 10% of the present value of the defined benefit obligation or the fair value of plan assets are amortized in the period) over the average remaining service period or average remaining life expectancy of the relevant beneficiary. Amortization in 2004 totaled €77 million, compared with €35 million in 2003 and €16 million in 2002).

Additional minimum liability

In accordance with US GAAP, the Group recognizes a minimum provision which represents pension commitments based on beneficiaries' current salary, less any plan assets. The additional minimum liability represents the difference between this minimum provision and pension commitments calculated based on projected end-of-career salaries, less plan assets and deferred variances.
The additional minimum liability is recorded in pensions and other post-retirement benefits which leads to a corresponding entry in other non-current assets (see note 9). At December 31, 2004, the aggregate amount of the additional minimum liability was €1,021 million, compared with €1,067 million at end-2003 and €946 million at end-2002.

Accruals for related benefits

Obligations for other post-retirement and post-employment benefits are determined by actuarial valuations. They are recognized in the same way as for pension obligations. At December 31, 2004, the provision amounted to €225 million, compared with €217 million at end-2003 and €253 million at end-2002.
The assumptions as to mortality, employee turnover and interest rates used to determine future benefits are those used for the determination of the pension liability. In the United States, the annual growth rate for medical treatment received by retirees has been set at 11.5%.

Prepaid pension cost

When pension plan assets are in excess of accumulated benefits, calculated based on current salary levels, an asset is recorded under "Prepaid pension cost" under "Other non-current assets" (see note 9). At December 31, 2004, this item amounted to €112 million, versus €114 million at end-2003 and €127 million at end-2002.

Contractual termination indemnities and other benefits

Provisions for contractual termination indemnities and other benefits totaled €98 million at December 31, 2004 (end-2003: €74 million; end-2002: €82 million). They include contractual termination indemnities payable in certain countries, particularly Italy, when an employee leaves the Group on retirement or for other reasons. Since January 1, 2004, these indemnities have been calculated using an actuarial method in the same way as for other benefits, which mainly include long-service awards to employees in France (see note 1).

Insurance funding

This item corresponds to amounts payable in the future to insurance companies under the funded retirement schemes for Group employees in Spain. It amounted to €189 million at December 31, 2004, €211 million at December 31, 2003, and €231 million at December 31, 2002.

Change in provisions for pensions and other post-retirement benefits

The change in provisions for pensions and other post-retirement benefits can be broken down as follows:

(in € millions)	2004	2003	2002
At January 1	**2,305**	**2,353**	**1,836**
Charges to provisions	263	212	212
Contributions and benefits paid	(365)	(362)	(305)
Changes in Group structure (see note 2)	88	4	5
Other (reclassifications and translation adjustments)	(42)	98	605
AT DECEMBER 31	**2,249**	**2,305**	**2,353**

Pension charge

The pension charge is as follows:

(in € millions)	2004	2003	2002
Pensions and retirement indemnities			
Vested rights	119	121	139
Interest cost	293	281	304
Return on plan assets	(268)	(265)	(294)
Amortization of variances	53	27	16
Sub-total	**197**	**164**	**165**
Other post-retirement benefits			
Vested rights	3	10	12
Interest cost	25	21	22
Amortization of variances	24	8	–
Sub-total	**52**	**39**	**34**
Other benefits	**14**	**9**	**13**
TOTAL PENSION CHARGE	**263**	**212**	**212**

NOTE 17 • PROVISION FOR INCOME TAXES

Compagnie de Saint-Gobain is assessed for income tax purposes on its consolidated fiscal income. The fiscal agreement which covered the years 2001 to 2003 was renewed on August 20, 2004 to cover the years 2004 to 2006. As a result of this agreement the Group's share of the aggregate amount of income taxes paid by Group companies included in the worldwide tax group is taken into account when determining consolidated fiscal income.

Furthermore, under the terms of Article 223 et seq. of the French General Tax Code (*Code Général des Impôts*), Compagnie de Saint-Gobain has opted for the integrated tax (*Intégration Fiscale*) system in addition to the consolidated tax system described above.

The net pre-tax income of companies included in the tax group is as follows:

(in € millions)	2004	2003	2002
Income of companies included in the tax group	1,112	1,059	1,070
Income tax expense	603	595	612
NET INCOME OF COMPANIES INCLUDED IN THE TAX GROUP BEFORE INCOME TAXES	**1,715**	**1,654**	**1,682**

This income breaks down as follows:

(in € millions)	2004	2003	2002
French companies	656	774	656
Non-French companies	1,059	880	1,026
NET INCOME OF COMPANIES INCLUDED IN THE TAX GROUP BEFORE INCOME TAXES	**1,715**	**1,654**	**1,682**

The provision for income tax is as follows:

(in € millions)	2004	2003	2002
Current taxes	**(648)**	**(628)**	**(615)**
France	(237)	(269)	(207)
Outside France	(411)	(359)	(408)
Deferred taxes	**45**	**33**	**3**
France	76	49	(21)
Outside France	(31)	(16)	24
TOTAL PROVISION FOR INCOME TAX	**(603)**	**(595)**	**(612)**

In 2004, the provision for income tax represented 35% of total Group income before tax (36% in 2003 and 2002). The effective tax rates are determined as follows:

(in percentages)	2004	2003	2002
Current income tax rate	33	33	33
Surcharge on French income tax	1	1	1
Technical assistance fees and net capital gains taxed at lower rates	(1)	(1)	(1)
Other, including amortization of goodwill	2	3	3
EFFECTIVE RATE	**35**	**36**	**36**

At December 31, 2004, the provision for deferred taxes recorded in the balance sheet can be analyzed as follows:

(in € millions)	
At January 1, 2004	**599**
Movement for the year	(45)
Translation adjustments	(4)
Effect of changes in Group structure and other	(2)
AT DECEMBER 31, 2004	**548**

The principal components of the net deferred tax liability are as follows:

(in € millions)	2004	2003	2002
Pensions	122	167	204
Retail brands	(371)	(359)	(373)
Depreciation and amortization	(338)	(318)	(365)
Other	39	(89)	(162)
TOTAL NET DEFERRED TAX LIABILITY	**(548)**	**(599)**	**(696)**

NOTE 18 • OTHER LIABILITIES

Provisions for contingencies and charges break down as follows by type and according to whether the related charges are included in operating or non-operating expense:

(in € millions)	At January 1, 2004	Additions to and reversals from provisions (surplus provisions)	Reversals from provisions (utilized)	Changes in Group structure	Other (reclassifications and translation adjustments)	At December 31, 2004
2004						
Provisions for operating contingencies and charges						
Provision for customer warranties	147	46	(48)	1	(4)	142
Provision for major repairs	10	1	(6)		1	6
Provision for personnel costs	95	24	(25)		(4)	90
Provision for other contingencies	115	28	(4)	3	(7)	135
Provisions for non-operating contingencies and charges						
Provision for claims and litigation	368	109	(138)		(13)	326
Provision for environmental risks	66	4	(2)	2	(2)	68
Provision for restructuring costs	134	97	(105)	1	1	128
Provision for risks relating to subsidiaries and affiliates	13	(2)		(2)	(3)	6
Provision for unrealized foreign exchange losses						
Badwill	**84**	**(33)**		**7**	**(5)**	**53**
TOTAL	**1,032**	**274**	**(328)**	**12**	**(36)**	**954**
Impact (net of accrued charges)						
Operating income		99				
Net financial income						
Non-operating income and expense, net		208				
Amortization of goodwill		(33)				
TOTAL		**274**				

(in € millions)	At January 1, 2003	Additions to and reversals from provisions (surplus provisions)	Reversals from provisions (utilized)	Changes in Group structure	Other (reclassifications and translation adjustments)	At December 31, 2003
2003						
Provisions for operating contingencies and charges						
Provision for customer warranties	160	43	(47)		(9)	147
Provision for major repairs	13	3	(7)		1	10
Provision for personnel costs	92	29	(22)	1	(5)	95
Provision for other contingencies	136	24	(33)	(3)	(9)	115
Provisions for non-operating contingencies and charges						
Provision for claims and litigation	332	102	(6)		(60)	368
Provision for environmental risks	66	4	(3)	3	(4)	66
Provision for restructuring costs	149	89	(97)	1	(8)	134
Provision for risks relating to subsidiaries and affiliates	15	3	(10)		5	13
Provision for unrealized foreign exchange losses		**1**	**(1)**			
Badwill	121	(51)		26	(12)	84
TOTAL	**1,084**	**247**	**(226)**	**28**	**(101)**	**1,032**
Impact (net of accrued charges)						
Operating income		99				
Net financial income		1				
Non-operating income and expense, net		198				
Amortization of goodwill		(51)				
TOTAL		**247**				

(in € millions)	At January 1, 2002	Additions to and reversals from provisions (surplus provisions)	Reversals from provisions (utilized)	Changes in Group structure	Other (reclassi-fications and translation adjustments)	At December 31, 2002
2002						
Provisions for operating contingencies and charges						
Provision for customer warranties	162	42	(42)		(2)	160
Provision for major repairs	109	15	(22)		(89)	13
Provision for personnel costs	109	23	(17)	1	(24)	92
Provision for other contingencies	261	11	(57)	1	(80)	136
Provisions for non-operating contingencies and charges						
Provision for claims and litigation	207	104	(15)		36	332
Provision for environmental risks	66	4	(3)	2	(3)	66
Provision for restructuring costs	196	57	(106)	9	(7)	149
Provision for risks relating to subsidiaries and affiliates	8	8	(9)	8		15
Provision for unrealized foreign exchange losses	**2**		**(2)**			
Badwill	135	(34)		20		121
TOTAL	**1,255**	**230**	**(273)**	**41**	**(169)**	**1,084**
Impact (net of accrued charges)						
Operating income		91				
Net financial income						
Non-operating income and expense, net		173				
Amortization of goodwill		(34)				
TOTAL		**230**				

Provisions for operating contingencies and charges

Additions to and reversals from these provisions are recorded under operating income and expense.

Provision for customer warranties
This provision covers the Group's commitments in relation to warranties granted to customers.

Provision for major repairs
Since 2003, this provision has been recorded to cover the costs of demolition and scrapping of assets which require cyclical upgrades, particularly furnaces in the Group's various operations.

Provision for personnel costs
This provision mainly covers indemnities due to personnel unrelated to reorganization operations. At December 31, 2004, the provision totaled €90 million and primarily concerned North America (€38 million) as well as Germany and Central Europe (€27 million).

Provision for other contingencies
At December 31, 2004, provisions for other contingencies amounted to €135 million and essentially concerned France (€36 million), Germany and Central Europe (€40 million), North America (€14 million) and Latin America (€15 million).

Provisions for non-operating contingencies and charges

Additions to and reversals from these provisions are recorded under non-operating expense and income.

Provision for claims and litigation
The provision for claims and litigation has been set up as a top-up to the Group's insurance cover to provide for the costs of asbestos-related lawsuits issued against the Group. The provision covers the costs of lawsuits currently in progress as well as potential new claims.

At December 31, 2004, the provision amounted to €326 million, compared with €368 million at December 31, 2003 and €332 million at December 31, 2002. A €109 million charge to this provision was recorded in 2004. Insurance settlements receivable for accepted claims and amounts paid in advance totaled €68 million at December 31, 2004, compared with €106 million at December 31, 2003 and €214 million at December 31, 2002. These amounts are included in "Other non-current assets".

Asbestos-related risks are described in further detail in note 31.

To the best of the Company's knowledge, no litigation or arbitration is pending or in progress that is likely to have a material impact on the consolidated assets and liabilities, financial position or results of the Group.

Provision for environmental risks

This provision is intended to cover costs for environmental protection measures and site clean-ups. After a net charge to the provision of €4 million during the year, it totaled €68 million at December 31, 2004, compared with €66 million at both December 31, 2003 and December 31, 2002.

Environmental risks are described in further detail in note 32.

Provision for restructuring costs

At December 31, 2004, the provision for restructuring costs amounted to €128 million following a €97 million charge in the year (compared with €134 million at December 31, 2003 and €149 million at December 31, 2002). The provision primarily concerns France (€19 million), Germany and Central Europe (€54 million) and the Benelux countries (€18 million). Restructuring costs are described in note 25.

Provision for risks relating to subsidiaries and affiliates

This provision is intended to cover financial risks in relation to certain subsidiaries, particularly when the Group intends to divest these companies. After a net release of €2 million during the year, the provision totaled €6 million at December 31, 2004, compared with €13 million at December 31, 2003 and €15 million at December 31, 2002.

Provision for unrealized foreign exchange losses

Changes in provisions for unrealized foreign exchange losses impact net interest and other financial charges.

Badwill

Badwill is amortized on a straight-line basis over a period not exceeding 40 years.

NOTE 19 • OTHER PAYABLES AND ACCRUED EXPENSES

(in € millions)	2004	2003	2002
Customer deposits	105	98	109
Income tax payable	249	221	138
Payable to suppliers of non-current assets	271	203	146
Grants	25	28	31
Accrued personnel expenses	875	777	770
Accrued taxes other than on income	326	272	242
Other*	808	757	912
TOTAL	**2,659**	**2,356**	**2,348**

* Including €77 million relating to cross-currency swaps at December 31, 2002.

NOTE 20 • LONG-TERM AND SHORT-TERM DEBT

Breakdown of long-term and short-term debt

Long-term and short-term debt consist of the following:

Amount outstanding at December 31 *(in € millions)*	2004	2003	2002
Long-term debt (excluding current portion)			
Bond issues	4,805	5,748	5,273
Bank borrowings in euros	238	311	443
Medium Term Notes	77	110	170
Perpetual bonds	33	33	33
Other long-term debt including capital leases	243	316	319
Total long-term debt	**5,396**	**6,518**	**6,238**
Short-term debt			
Current portion of long-term debt	1,335	550	487
Borrowings due in less than one year (US CP, euro CP and *Billets de trésorerie)*	415	485	636
Bank overdrafts and other short-term bank borrowings	1,388	1,178	1,021
Total short-term debt	**3,138**	**2,213**	**2,144**
TOTAL DEBT	**8,534**	**8,731**	**8,382**
Short-term loans	(69)	(160)	(162)
Total marketable securities	(1,412)	(1,387)	(469)
Cash and cash equivalents	(1,487)	(1,527)	(739)
NET DEBT INCLUDING ACCRUED INTEREST	**5,566**	**5,657**	**7,012**

Liquidity risk management

Net debt came to €5,566 million at December 31, 2004, down €91 million compared with one year earlier. The Group has managed to achieve a greater spread of maturities by replacing €155 million of 6% bonds maturing on December 15, 2005 (out of a total initial issue of €500 million) and €242 million of 5.125% bonds maturing on July 9, 2008 (out of a total initial issue of €606 million) with a new 5% bond for €501 million maturing on April 25, 2014.

Maturities of long- and short-term debt are as follows:

Maturities at December 31	2004					2003	2002
(in € millions)	Bonds	Private placement notes	MTN	Other	Total		
2004	–	–	–	–	–	–	451
2005	–	–	–	–	–	1,350	1,345
2006	440	–	40	50	530	523	724
2007	1,287	223	37	54	1,601	1,603	1,687
2008	577	15	–	42	634	878	–
2009	1,000	–	–	22	1,022	–	–
2010 and beyond	1,501	–	–	75	1,576	2,131	1,998
Unspecified (including perpetual bonds)	–	–	–	33	33	33	33
Total long-term debt	**4,805**	**238**	**77**	**276**	**5,396**	**6,518**	**6,238**
Short-term debt (1)	**984**	**74**	**33**	**2047**	**3,138**	**2,213**	**2,144**
TOTAL DEBT	**5,789**	**312**	**110**	**2323**	**8,534**	**8,731**	**8,382**

(1) Including current portion of long-term debt.

Undrawn confirmed credit lines

Compagnie de Saint-Gobain's US Commercial Paper, Euro Commercial Paper, *Billets de Trésorerie* and Medium Term Notes programs are backed by a confirmed syndicated line of credit for €2,000 million, expiring in November 2009. This line of credit is renewable for a further period of one year at December 31, 2005 and December 31, 2006. Compagnie de Saint-Gobain also has 9 bilateral credit lines totalling €629 million at December 31, 2004.
The two former syndicated credit lines for €600 million and €1,200 million, due to expire in September 2006 and November 2007, respectively, were canceled in advance of term and replaced by a new syndicated line of credit for €2,000 million. This move was intended to enable the Group to benefit from exceptionally low interest rates in 2004 and a more flexible regulatory environment (elimination of requirements to meet certain financial ratios as a condition for avoiding early repayment).
No drawdowns were made against any of these credit facilities in 2004. The commitment fee amounted to €3.1 million in 2004, compared with €3.2 million in 2003 and €2.5 million in 2002.

The only covenants that would, if violated, result in the facilities becoming immediately repayable or being withdrawn, are as follows:
• failure to comply with either of the following ratios:
– ratio of net debt (€5,566 million in 2004) to cash flow from operations (€2,612 million – see consolidated statements of cash flows) below 4 or 3.75;
– interest cover ratio of over 2 or 3. Interest cover represents the coverage of consolidated net interest expense by consolidated net income before tax and net interest expense (€441 million – see note 24).
These covenants are applicable to 6 bilateral credit lines representing €473 million. At December 31, 2004, the Group's ratio of net debt to cash flow from operations was 2.1 and its interest cover ratio was 4.9.
• default on bank borrowings capped at a certain level.

Bank borrowings

All bank borrowings are immediately repayable in the event of:
• default on any instalment;
• default on any other borrowings in excess of a certain amount.
Certain loan agreements also include covenants relating to shareholders' equity. The 7 bank loan agreements to which these covenants apply represent €76 million out of a total of €312 million in bank borrowings. The most restrictive of these covenants requires the Group to have shareholders' equity of at least €2.9 billion, and concerns a loan of €22.9 million.

Financing programs

The Group has a number of programs available for medium-term and long-term (Medium Term Notes) and short-term (Commercial Paper and Billets de Trésorerie) financing.

At December 31, 2004, the situation of these programs was as follows:

Programs (in millions of currency)	Currency	Drawdown period	Authorized ceilings at Dec. 31, 2004	Drawn down at Dec. 31, 2004	Drawn down at Dec. 31, 2003	Drawn down at Dec. 31, 2002
Medium Term Notes	EUR	1 to 30 years	2,500	110	150	216
US commercial paper	USD	up to 12 months	1,000 (*)	0	0	29
Euro commercial paper	USD	up to 12 months	1,000 (*)	0	0	100
Billets de trésorerie	EUR	up to 12 months	1,500	415	485	513

(*) Equivalent to €734 million based on the exchange rate at December 31, 2004.

Billets de Trésorerie, Euro Commercial Paper and US Commercial Paper issues generally have a life of 1 to 6 months. In view of their frequent renewal, the Group treats them as variable-rate debt.

Details of outstanding Medium Term Notes are described below.

Collateral

At December 31, 2004, €40 million in Group debt were secured by various non-current assets (real estate and securities).

Interest rate risk management

Details of the main financial instruments used by the Group are provided below.

Bond issues

The €5,789 million worth of outstanding bonds (short- and long-term) break down as follows at December 31, 2004:

Maturity (in € millions)		2005	2006	2007	2008	2009	2010	2014	TOTAL
EUR	Fixed rate	345	–	920	364	1,000	300	451	**3,380**
	Variable rate	–	–	–	–	–	700	50	**750**
USD	Fixed rate	–	440	–	–	–	–	–	**440**
	Variable rate	–	–	367	–	–	–	–	**367**
GBP	Fixed rate	426	–	–	–	–	–	–	**426**
	Variable rate	213	–	–	213	–	–	–	**426**
TOTAL		**984**	**440**	**1,287**	**577**	**1,000**	**1,000**	**501**	**5,789**
Fixed rate		**78%**	**100%**	**71%**	**63%**	**100%**	**30%**	**90%**	**73%**

The term "Variable rate" in the table above refers to fixed-rate bonds that have been converted into variable-rate debt through the use of swaps.

On February 18, 2002, Compagnie de Saint-Gobain issued 4,380,953 Océane bonds that are convertible into new shares or exchangeable for existing shares and which mature on January 1, 2007. These bonds have a nominal value of €210 each, and the total issue came to €920 million. The annual interest rate for these Océane bonds is 2.625% payable in arrears on January 1 each year.

At December 31, 2004, Compagnie de Saint-Gobain had not used its entitlement to repurchase any of the Océane bonds. Moreover, none of the bondholders had requested to convert or exchange their bonds for Compagnie de Saint-Gobain shares in accordance with the exchange ratio of one bond for four shares.

Therefore if all of the bonds were converted at the price provided for in the issue agreement, the holders would receive a total of 17,523,812 shares, representing 5.14% of the capital stock of Compagnie de Saint-Gobain at December 31, 2004.

Bank borrowings

The €312 million worth of private placement notes (current- and long-term portions) break down as follows at December 31, 2004:

Maturity *(in € millions)*		2005	2006	2007	2008	TOTAL
EUR	Fixed rate	0	0	92	15	**107**
	Variable rate	69	0	131	0	**200**
NOK	Fixed rate	5	0	0	0	**5**
TOTAL		**74**	**0**	**223**	**15**	**312**
Fixed rate		**7%**	**0%**	**41%**	**100%**	**36%**

The term “Variable rate” in the table above corresponds to private placement notes issued at variable rates and fixed-rate notes converted into variable-rate debt through the use of swaps.

Medium Term Notes

The €110 million worth of outstanding Medium Term Notes (current- and long-term portions) break down as follows at December 31, 2004:

Maturity *(in € millions)*		2005	2006	2007	Total
EUR	Variable rate	–	7	–	**7**
USD	Fixed rate	–	–	37	**37**
CZK	Fixed rate	33	33	–	**66**
TOTAL		**33**	**40**	**37**	**110**
Fixed rate		**100%**	**82%**	**100%**	**94%**

The term “Variable rate” in the table above corresponds to Medium Term Notes issued at variable rates.

Perpetual bonds

In 1985, Compagnie de Saint-Gobain issued €125 million worth of perpetual bonds – 25,000 bonds with a face value of €5,000 – paying interest at a variable rate indexed against Libor. These securities are not redeemable and the interest paid on them is included in financial charges.

At December 31, 2004, 18,496 perpetual bonds had been bought back and canceled. At that date, 6,504 perpetual bonds were outstanding, representing a total nominal amount of €33 million.

Bank overdrafts and other short-term bank borrowings

This item includes bank overdrafts, local short-term bank borrowings taken out by subsidiaries and accrued interest on short-term debt.

NOTE 21 • FINANCIAL INSTRUMENTS

Interest rate risk management

Interest rate risk relating to the Group's total net debt is managed by the Treasury Department of Compagnie de Saint-Gobain. Net debt is determined by means of a monthly reporting system which provides a detailed breakdown of each subsidiary’s debt by type and by interest rate (fixed or variable). In addition, for the preparation of the interim and annual consolidated financial statements, subsidiaries also provide a breakdown of debt between long- and short-term and fixed and variable rate, together with details of interest rates and hedging instruments by line of debt. Where subsidiaries use derivatives to hedge risk on debt, Compagnie de Saint-Gobain, the Group parent company, is the exclusive counterparty, except in the case of Dahl International AB (acquired in 2004), which still has an interest swap portfolio.

The main objective of managing overall interest rate risk on the Group's consolidated net debt is to fix the cost of the medium-term debt and to optimize annual borrowing costs. The Group's policy defines which derivative financial instruments can be used to hedge the debt. Derivative financial instruments may include rate swaps, options – including caps, floors and swaptions – and forward rate agreements. These instruments are traded over-the-counter with counterparties meeting minimum rating standards as defined in the Group’s financial policy.

The average interest rates for material long-term debt items before hedging are as follows:

	2004	2003	2002
Interest rate on outstanding debt at December 31			
Bond issues	5.08%	5.01%	5.11%
Medium Term Notes	4.30%	4.83%	5.01%
Private placement notes	3.95%	3.95%	4.30%
Perpetual bonds	2.44%	2.46%	3.44%

The following derivative instruments are used by the Group:

Interest rate swaps

The notional amount of interest rate swaps breaks down as follows at December 31, 2004:

	Fixed rate borrower					Variable rate borrower			
	EUR	SEK	NOK	DKK	TOTAL	EUR	GBP	USD	TOTAL
2005	3	94	8	7	**112**	–	213	–	**213**
2006	6	67	–	–	**73**	8	–	–	**8**
2007	–	–	–	–	**–**	40	–	367	**407**
2008	–	–	–	–	**–**	–	213	–	**213**
2009	–	–	–	–	**–**	–	–	–	**–**
2010	–	–	–	–	**–**	700	–	–	**700**
2011	–	–	–	–	**–**	–	–	–	**–**
2012	–	–	–	–	**–**	–	–	–	**–**
2013	–	–	–	–	**–**	–	–	–	**–**
2014	–	–	–	–	**–**	50	–	–	**50**
TOTAL IN EUROS	**9**	**161**	**8**	**7**	**185**	**798**	**426**	**367**	**1,591**

Cross-currency swaps

The Group uses cross-currency swaps in connection with the financing of its US subsidiaries, and has swapped euro-denominated debt for debt in US dollars.

Maturities of the Group's cross-currency swaps are presented below. The amounts shown correspond to the notional amount of the original euro leg of the swap, in millions of euros.

Received Paid	Fixed EUR Fixed USD	Variable EUR Fixed USD	Total
2005		297	**297**
2006	138		**138**
2007			**0**
2008			**0**
2009	49		**49**
TOTAL	**187**	**297**	**484**

Currency swaps

The Group uses currency swaps as part of its day-to-day cash management. At December 31, 2004, currency swaps amounted to €841 million.

Options

In addition, the Group had options (interest rate caps) on a notional amount of €90 million which were out of the money at December 31, 2004.

The face value amount of commitments given and received in the form of swaptions and early repayments of borrowings amounted to €76 million and €37 million, respectively.

Group debt structure, after interest rate hedges

The weighted average interest rate on total debt after giving effect to hedging instruments (cross-currency swaps, currency swaps, rate swaps and caps) was 4.2% for the year ended December 31, 2004 (4.3% for 2003 and 4.7% for 2002).

After giving effect to in-the-money options and other hedging instruments, at December 31, 2004 93% of Group debt was at fixed rates of interest and 7% was at variable rates.

Net debt at December 31, 2004 before and after the effect of rate swaps, cross-currency swaps and currency swaps (i.e. including and excluding the impact of hedges), was in the following currencies:

	Before hedging			After hedging		
(in € millions) Net debt in:	Variable rate	Fixed rate	Total	Variable rate	Fixed rate	Total
EUR	(661)	4,391	**3,730**	(349)	3,423	**3,074**
USD	(201)	855	**654**	54	925	**979**
GBP	126	864	**990**	468	438	**906**
SEK	(8)	3	**(5)**	188	164	**352**
CHF	(9)	0	**(9)**	(92)	0	**(92)**
Other currencies	13	97	**110**	92	112	**204**
TOTAL	**(740)**	**6,210**	**5,470**	**361**	**5,062**	**5,423**
Accrued interest			**143**			**143**
NET DEBT			**5,613**			**5,566**

3

Including the effect of derivatives and at the year-end rate, total debt was €47 million lower than the figure excluding derivatives. The difference corresponds to the exchange-rate impact of cross-currency swaps.
Its contra-entry is the revaluation difference on assets financed in the target currency (e.g. assets in dollars).

Fair value of derivative instruments

The fair value of derivative financial instruments used by the Group is as follows (excluding accrued interest):

Type of instrument	Fair value *(in € millions)*
Interest rate swaps	42.7
Cross-currency swaps	36.8
Purchased caps	0.0
Currency options	1.4
Energy swaps and futures	(3.1)

The positive amount of €36.8 million shown for cross-currency swaps represents the cost of replacing these swaps on the market at year-end (including the €46.9 million exchange-rate impact of cross-currency swaps described above). However, the swaps were acquired for hedging purposes and are intended to be held until maturity. Any exchange loss or gain on the swaps at maturity will be offset by a corresponding gain or loss on the hedged instruments.

Effect of an increase in interest rates

A 1% increase in interest rates in 2005 would increase the Group's net interest expense and other financial charges by €7.76 million (including the effect of derivatives), assuming that the total amount of debt remains stable. This increase takes into account the cost of the securitization program in the United States.

Revised maturities of debt and cash and cash equivalents

The table below sets out the maturities at December 31, 2004 of gross debt and cash and cash equivalents both before and after hedging. The net interest rate position is the net of the lender and borrower positions.

(in € millions)	Total	Within one year	Between 2 and 5 yrs	Over 5 years
Gross debt	8,581	3,422	3,615	1,544
Cash and cash equivalents	(2,968)	(2,964)	(4)	–
NET DEBT BEFORE HEDGING	**5,613**	**458**	**3,611**	**1,544**
Derivatives	(47)	1,295	(592)	(750)
NET DEBT AFTER HEDGING	**5,566**	**1,753**	**3,019**	**794**

Marketable securities

Marketable securities include units in SICAV and other mutual funds recorded at the lower of cost and market. All of these securities have variable interest rates.
Financial transactions such as purchases and sales of marketable securities and currency or interest rate hedging instruments, are carried out with diversified and high-quality counterparties. Credit risk is therefore low. The choice of counterparties as well as the determination of position limits by counterparty is part of a rigorous and selective process.

Foreign currency risk management

Commercial transactions

The Group's policy on currency risk consists of hedging commercial transactions carried out by Group entities in currencies other than their functional currencies. Compagnie de Saint-Gobain and its subsidiaries may use options and forward contracts to hedge exposure arising from commercial transactions.
Subsidiaries are not authorized to enter into option contracts with external counterparties. Instead, options are set up exclusively with Compagnie de Saint-Gobain, the parent company of the Group, which then takes a reverse position on the market.
Most forward contracts are for periods of around three months. However, forward contracts taken out to hedge firm orders may have terms of up to two years. Subsidiaries are authorized to enter into forward contracts with their banks for periods of less than two years.
The majority of transactions are hedged, invoice by invoice or order by order, with Saint-Gobain Compensation, the entity set up to manage the Group's currency risks. Saint-Gobain Compensation hedges these risks solely by means of forward purchases and sales of foreign currencies. This enables companies to hedge exposure arising from commercial transactions as soon as the risk emerges. Saint-Gobain Compensation reverses all its positions with Compagnie de Saint-Gobain and does not therefore have any open positions.
The exposure of other Group companies to currency risks is hedged with Compagnie de Saint-Gobain as soon as the latter receives orders sent by the subsidiaries or by cash pools of the National Delegations.
Total unhedged transactions for these companies amounted to €39 million at December 31, 2004. If the euro dropped by 1 cent against the Group's trading currencies, the impact would be less than €1 million, which is not material at the level of the consolidated financial statements.
At December 31, 2004, the Group had options to purchase USD for EUR for a nominal amount of €35.7 million.

Financial transactions

Hedging of financial transactions is managed on a case-by-case basis, for example for acquisitions in foreign currency, repatriation of dividends or capital contributions to subsidiaries. Option-based strategies are generally used in these cases.

At December 31, 2004, the Group had options to purchase CHF 195 million in connection with the acquisition of the Swiss-based Sanitas Troesch.

Energy risk management

The Group hedges part of its natural gas purchases in the United States using futures and fixed-rate borrower/variable-rate lender swaps on the NYMEX, as well as options. Outstanding swaps at December 31, 2004 had a fair value of €(1.1) million. Outstanding options at December 31, 2004 had a fair value of €0.3 million.
In addition, the Group has launched a hedging program to cover purchases of heating oil for some of its European subsidiaries. The hedges consist exclusively of fixed-rate borrower/variable-rate lender swaps based on various Platt's references. At December 31, 2004, outstanding swaps had a fair value of €(2.3) million.

Equity risk management

The Group is not exposed to equity risk, as it always favors money-market funds and/or bonds when purchasing mutual funds or equivalents, and is therefore not exposed to any equity risk on its short-term investments.
The Group previously held a portfolio of shares in listed companies. All equities remaining in the portfolio at December 31, 2003 – consisting of 5.3 million Vivendi Universal shares – were sold in 2004.

Securitization of receivables and off-balance sheet commitments

The Group has set up two securitization programs through its US subsidiary, CertainTeed Receivables Corporation, and through its subsidiary in the UK, Jewson Ltd.
The US program concerns a maximum amount of USD 550 million maturing in July 2008. Under the program, receivables of the US subsidiaries are sold to a bank at daily intervals, on a no-recourse basis. The amount received by the subsidiaries corresponds to a variable percentage of the face value of the receivables, determined mainly by reference to the interest rate on the bank's commercial paper issues. The sold receivables amounted to €378 million at December 31, 2004 (end-2003: €368 million; end-2002: €385 million).
The difference between the face value of the sold receivables and the proceeds received from the bank is treated as interest expense. In 2004, the amount recorded as interest expense came to €7.8 million (2003: €7.5 million; 2002: €8.8 million).
The main events which could cause the program to be terminated are a change in Compagnie de Saint-Gobain's rating to below investment grade or default on any amounts due to the bank under the program.

The guarantee given by Compagnie de Saint-Gobain under this program is recorded as an off-balance sheet commitment in an amount of USD 550 million at December 31, 2004.
The UK program launched in February 2004 concerns a maximum amount of GBP 160 million renewable at yearly intervals. At December 31, 2004, sold receivables shown under liabilities amounted to €227 million and the related interest expense to €10.1 million.
The main events which could cause the program to be terminated are:
• default on any amounts due to the bank under the program;
• default on bank borrowings in excess of GBP 35 million;
• failure to comply with certain ratios related to the proportion of missed payments over the total amount of receivables sold.

NOTE 22 • RESEARCH & DEVELOPMENT AND ADVERTISING COSTS

Selling, general and administrative expenses include research and development costs of €304 million, €306 million and €312 million for the years ended December 31, 2004, 2003 and 2002, respectively.
Advertising costs amounted to €185 million in 2004, €184 million in 2003 and €209 million in 2002.

NOTE 23 • OTHER OPERATING EXPENSES AND INCOME

(in € millions)	2004	2003	2002
Pensions and other post-retirement benefit costs (see note 16)	(249)	(203)	(199)
Amortization of intangible assets	(76)	(76)	(76)
Employee profit-sharing	(141)	(127)	(134)
Income from miscellaneous sales and other income and expenses	126	147	99
TOTAL OTHER OPERATING EXPENSES, NET	**(340)**	**(259)**	**(310)**

3

NOTE 24 • INTEREST AND OTHER FINANCIAL CHARGES, NET

(in € millions)	2004	2003	2002
Interest on non-voting participating securities	(18)	(24)	(26)
Interest expense	(433)	(412)	(446)
Other financial charges	(71)	(80)	(103)
Interest income	64	54	69
Other financial income	16	13	18
Net gains/(losses) on foreign exchange	1	(8)	(16)
TOTAL INTEREST AND OTHER FINANCIAL CHARGES, NET	**(441)**	**(457)**	**(504)**

In 2004, interest costs relating to the construction of items of property, plant and equipment are no longer capitalized in the Group's financial statements. Total interest capitalized amounted to €2.5 million and €2.0 million for the years ended December 31, 2003 and 2002, respectively.

NOTE 25 • NON-OPERATING EXPENSES AND INCOME

(in € millions)	2004	2003	2002
Provisions for contingencies	(111)	(109)	(116)
Reorganization costs			
• France	(29)	(32)	(53)
• Other European countries	(91)	(110)	(60)
• North America	(30)	(18)	(15)
• Rest of the world	(6)	(4)	(3)
Other	(13)	(2)	(5)
TOTAL NON-OPERATING EXPENSES AND INCOME	**(280)**	**(275)**	**(252)**

As in 2003 and 2002, provisions for contingencies in 2004 primarily included the asbestos-related litigation charge explained in notes 18 and 31.
Reorganization costs in 2004 related mainly to Flat Glass (Solaglas Ltd and the Division's German entities), Packaging (Saint-Gobain Containers Inc. in the United States) and Pipe (Saint-Gobain Güssrohr KG in Germany, Saint-Gobain Pipelines Plc in the United Kingdom and Saint-Gobain Condotte SpA in Italy).
Reorganization costs in 2003 mainly related to Flat Glass (Solaglas Ltd and the Division's German entities), Building Distribution (Raab Karcher in Germany and the Netherlands and Saint-Gobain Building Distribution Ltd) and Abrasives (Saint-Gobain Abrasives North America, Saint-Gobain Abrasives UK and Saint-Gobain Abrasifs France).
In 2002, reorganization costs mainly related to Flat Glass (Cristaleria de Hortaleza), Insulation (including the costs relating to the Europe-wide reorganization of Saint-Gobain Isover's research centers), and Ceramics & Plastics (Saint-Gobain Céramiques Avancées Desmarquest).

NOTE 26 • PROFIT/(LOSS) ON SALES OF NON-CURRENT ASSETS

In 2004, losses on sales of non-current assets came to €44 million due to capital losses generated on disposals and asset write-downs. These were not offset by the capital gain made on the sale of shares in Vivendi Universal.
In 2003, total profit on sales of non-current assets came to €86 million. Capital gains made – particularly on the sale of the Terreal Group and of 7 million Vivendi Universal shares – were partly offset by capital losses on disposals and asset write-downs.
In 2002, capital gains made on the disposal of certain non-strategic Group assets were almost totally offset by capital losses and asset write-downs.

NOTE 27 • NET INCOME EXCLUDING PROFIT/(LOSS) ON SALES OF NON-CURRENT ASSETS

Net income for the year amounted to €1,083 million in 2004, compared with €1,039 million in 2003 and €1,040 million in 2002.
Net income excluding profit/(loss) on sales of non-current assets amounted to €1,122 million in 2004, versus €1,020 million in 2003 and €1,051 million in 2002. Based on the 340,988,000 shares outstanding at December 31, 2004 (2003: 347,824,967; 2002: 341,010,680), earnings per share (EPS) excluding profit/(loss) on sales of non-current assets amounted to €3.29 in 2004 (2003: €2.93; 2002: €3.08).
The difference between net income and net income excluding profit/(loss) on sales of non-current assets reflects the combined impact of €44 million in capital losses on sales of assets in 2004 (versus capital gains of €86 million in 2003 and capital gains of €3 million in 2002). It also reflects the related tax effects, representing a gain of €4 million in 2004 (versus a loss of €69 million in 2003 and €15 million in 2002), and minority interests related to the assets, representing an amount of €1 million in 2004 (versus €2 million in 2003 and €1 million in 2002).

NOTE 28 • STOCK-BASED PLANS

Stock option plans on Compagnie de Saint-Gobain shares

Compagnie de Saint-Gobain has stock option plans available to certain employees, and a Group Savings Plan ("PEG"), or employee stock purchase plan.
The stock option plans allow the Board of Directors to grant options which entitle the holder to obtain Saint-Gobain shares at a price based on the average share price for the 20-day period preceding the date of grant. Discounts of 10% and 5% on this average price were granted in 1997 and 1998 respectively. Such discounts were discontinued in 1999.

Options vest over a period of two, three, four or five years with full vesting occurring at the end of the vesting period. Options must be exercised within eight or ten years from the date of grant. All rights to options are forfeited if the employee terminates employment with the Group, unless expressly agreed otherwise by the Chairman of Compagnie de Saint-Gobain and the Appointments Committee.

From 1997 to 2002, these plans involved purchase options on existing shares. In 2003 and 2004, the plans involved subscription options for new shares.

Further to the four-for-one stock split of June 27, 2002, the number of options at December 31, 2001 has been multiplied by four in order to permit meaningful year-on-year comparisons.

Movements relating to stock options outstanding in 2002, 2003 and 2004 are listed below:

	€4 par value shares	Average exercise price (in euros)
Options outstanding at December 31, 2001	**11,288,540**	**35.92**
Options granted	3,785,500	23.53
Options exercised	(334,456)	23.15
Options forfeited	(164,520)	39.87
Options outstanding at December 31, 2002	**14,575,064**	**32.95**
Options granted	3,717,700	35.67
Options exercised	(619,310)	24.14
Options forfeited	(80,000)	23.53
Options outstanding at December 31, 2003	**17,593,454**	**33.88**
Options granted	3,881,800	43.56
Options exercised	(1,573,519)	29.51
Options forfeited	(72,700)	32.89
OPTIONS OUTSTANDING AT DECEMBER 31, 2004	**19,829,035**	**36.12**

At December 31, 2004, 5,773,735 options were exercisable at an average exercise price of €37.80.

At December 31, 2004, 2,630,820 options were available for grant under the authorization given by the General Meeting of June 5, 2003.

The following table summarizes information about stock options outstanding at December 31, 2004:

Date of grant	Options exercisable			Options not exercisable		Total options outstanding	Type of options
	Exercise price (in euros)	Number of options	Average remaining contractual life in months	Exercise price (in euros)	Number of options	Number of options	
1997	28.47	374,580	11			374,580	Purchase
1998	29.54	576,965	23			576,965	Purchase
1999	40.63	1,562,890	59			1,562,890	Purchase
2000	37.69	1,607,500	71	37.69	859,000	2,466,500	Purchase
2001	40.22	1,651,800	83	40.22	1,980,200	3,632,000	Purchase
2002	23.53		95	23.53	3,679,300	3,679,300	Purchase
2003	35.67		107	35.67	3,655,000	3,655,000	Subscription
2004	43.56		119	43.56	3,881,800	3,881,800	Subscription
TOTAL		**5,773,735**			**14,055,300**	**19,829,035**	

Group Savings Plan (PEG) of Compagnie de Saint-Gobain

The PEG employee stock purchase plan is open to all Group employees in France and in most other European countries who have completed a minimum of three months' service with the Group. The plan offers shares to eligible employees at a 20% discount from the average price quoted for the shares for the 20-day period preceding the date of the meeting of the Board of Directors at which the Plan is set. Employees can invest for a five- or ten-year term. Over this period, employees may not sell their shares, barring exceptional circumstances.

Under the PEG, the Group issued 4,099,192, 6,499,407 and 4,703,396 new shares to employees in 2004, 2003, and 2002, respectively, at an average price per share of €31.41 in 2004, €21.14 in 2003 and €33.88 in 2002.

Stock option plan on Lapeyre shares

Transactions during 2002 relating to stock options granted by Lapeyre are listed below:

	Shares	Average exercise price (in euros)
Options outstanding at December 31, 2001	**42,900**	**32.01**
Options exercised	**(42,900)**	**32.01**
Options outstanding at December 31, 2002	**0**	**–**

No options for Lapeyre shares have been exercisable since December 31, 2002.

NOTE 29 • OFF-BALANCE SHEET COMMITMENTS: CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Contractual obligations and commercial commitments are described below, except for off-balance sheet commitments related to debt and financial instruments, which are discussed in notes 20 and 21, respectively.

The Group has no other material off-balance sheet commitments.

Contractual obligations

Commitments under capital leases

Non-current assets acquired under capital leases are capitalized in the consolidated financial statements and the related liability is recorded in the balance sheet.

In 2004, €111 million of minimum future lease payments due under capital leases corresponded to land and buildings, compared with €147 million in 2003 and €124 million in 2002. Total commitments under capital leases decreased to €116 million in 2004, from €141 million in 2003 and €117 million in 2002.

(in € millions)	2004	2003	2002
Minimum future lease payments			
• Within one year	17	21	20
• Between one and five years	63	65	62
• Beyond five years	36	68	49
Total	**116**	**154**	**131**
Less estimated executory costs included in capital leases	–	–	–
Total minimum future lease payments	**116**	**154**	**131**
Less interest costs	(23)	(48)	(46)
PRESENT VALUE OF NET MINIMUM LEASE PAYMENTS	**93**	**106**	**85**

Obligations under operating leases

The Group leases equipment and office, manufacturing and warehouse space under various non-cancelable operating leases. Lease terms generally range from 1 to 9 years. Certain contracts contain renewal options for various periods of time and contain clauses for payment of real estate taxes and insurance. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases.

Net rental expense was €400 million in 2004 (2003: €387 million; 2002: €386 million), corresponding to rental expense of €424 million in 2004 (2003: €406 million; 2002: 411 million), including €217 million relating to land and buildings, less €24 million of subletting revenue (2003: €19 million and 2002: €25 million).

Future minimum commitments under non-cancelable operating leases as well as contingent rent do not represent material amounts for the Group.

Future minimum commitments under operating leases are as follows:

	Total 2004	Payments due			Total 2003	Total 2002
(in € millions)		Within 1 year	Between 1 and 5 yrs	Beyond 5 years		
Operating leases						
• Rental expense	1,885	337	815	733	1,596	1,845
• Subletting revenue	(110)	(16)	(49)	(45)	(107)	(128)
TOTAL	**1,775**	**321**	**766**	**688**	**1,489**	**1,717**

Other contractual obligations

Non-cancelable purchase commitments include commitments to purchase raw materials and services including vehicle leasing commitments, as well as non-cancelable orders for fixed assets.

	Total 2004	Payments due			Total 2003	Total 2002
(in € millions)		Within 1 year	Between 1 and 5 yrs	Beyond 5 years		
Non-cancelable purchase commitments						
• Non-current assets	44	42	2	0	39	33
• Raw materials	222	138	83	1	167	146
• Services	137	55	57	25	149	102
• Other purchases	82	67	14	1	77	64
TOTAL	**485**	**302**	**156**	**27**	**432**	**345**

The Group has also received guarantees, amounting to €53 million at December 31, 2004, versus €48 million at December 31, 2003 and €60 million at December 31, 2002.

Commercial commitments

	Total 2004	Payments due			Total 2003	Total 2002
(in € millions)		Within 1 year	Between 1 and 5 yrs	Beyond 5 years		
Discounted bills	13	13	0	0	9	12
Security for borrowings	5	4	1	0	8	16
Other commitments given	69	16	25	28	126	122
TOTAL	**87**	**33**	**26**	**28**	**143**	**150**

In 2004, the decrease in "Other commitments given" mainly reflects the reclassification under contractual obligations of certain non-cancelable purchases of services and other purchase commitments entered into by GIE Telecom et Achats, included for the first time in the consolidated financial statements.

At December 31, 2004, pledged assets amounted to €178 million (end-2003: €23 million) and mainly concerned non-current assets in India, Korea and China.

The Group held €45 million of receivables secured by guarantees at December 31, 2004, compared with €40 million at December 31, 2003 and €31 million at December 31, 2002. Out of the 2004 total, €6 million concerned guaranteed receivables related to Pipe, Abrasives and Ceramics & Plastics export contracts. The majority of these commitments have a term of less than one year.

NOTE 30 • WORKFORCE AND PERSONNEL EXPENSES

Average headcount and corresponding personnel expenses

AVERAGE NUMBER OF EMPLOYEES	2004	2003	2002
Fully consolidated companies			
Managers	16,927	16,391	15,954
Supervisors	68,865	64,986	63,319
Other employees	88,455	88,420	90,368
TOTAL	**174,247**	**169,797**	**169,641**
Proportionately consolidated companies			
Managers	32	40	32
Supervisors	545	607	531
Other employees	936	1,240	1,052
SUB-TOTAL	**1,513**	**1,887**	**1,615**
TOTAL	**175,760**	**171,684**	**171,256**

PERSONNEL EXPENSES *(in € millions)*	2004	2003	2002
Remuneration (including social security contributions)	6,540	6,277	6,465

3

2004 200

Remuneration of directors and corporate officers

The total direct and indirect remuneration received by corporate officers from Group companies in France and abroad amounted to €13.8 million in 2004, €12.7 million in 2003 and €13 million in 2002. The gross variable portion included in these remuneration amounts came to €5.1 million in 2004, €4.5 million in 2003 and €4.6 million in 2002.
Attendance fees paid to Directors amounted to €0.5 million for 2004, 2003, and 2002.

NOTE 31 • LITIGATION

In France, further lawsuits were filed in 2004 by former employees (or persons claiming through them) of Everite and Saint-Gobain PAM ("the employers") – which in the past had carried on fiber-cement operations – for asbestos-related occupational diseases, with the aim of obtaining supplementary compensation over and above the assumption of occupational diseases compensation by the French Social Security. A total of 512 such lawsuits have been issued against the two companies since 1997.
At the end of 2004, 267 of these 512 lawsuits had been completed both in relation to liability and quantum. In all of these cases, the employers were held liable on the grounds of "inexcusable fault". However, in 257 of these 267 rulings, the Social Security authorities were ordered to pay compensation for the victims for procedural reasons (statute of limitations, liability issues *["inopposabilité"])*.
Everite and Saint-Gobain PAM were held liable for the payment of €1.6 million in compensation in the 10 other lawsuits.
Out of the 245 lawsuits outstanding against Everite and Saint-Gobain PAM at December 31, 2004, the merits of 49 have been decided but the compensation awards have not yet been made, pending issue of medical reports. In all these cases, the Social Security authorities were ordered to pay compensation for the victims for the same procedural reasons described above (statute of limitations, liability issues, etc.).
Out of the 196 remaining lawsuits, 12 were dismissed in 2004 as a claim was made to the French Asbestos Victims Compensation Fund (FIVA).
At December 31, 2004 the procedures relating to the merits of the other 184 cases were at different stages: 27 are involved in administrative proceedings with the French Social Security authorities; 72 are pending with the Social Security courts; appeals have been issued to the Court of Appeal in 41 cases in which the employers were held liable for inexcusable fault (including 34 cases in which statute of limitations and/or liability issues have been raised as mentioned above); and 44 cases have been appealed to the *Cour de Cassation,* including 22 by the French Social Security authorities in relation to procedural matters and 22 by Everite against the decision of the Paris Court of Appeal dismissing certain liability issues.

The main development in 2004 was the decision handed down by the Orléans Court of Appeal on December 16, 2004 in relation to proceedings brought by Everite against its insurers with a view to obtaining insurance coverage. Such coverage had been expressly refused for each claim filed.
This ruling held that the insurers and co-insurers were to provide the coverage claimed by Everite to the extent of their liability, subject to no minimum or limits in the cases where claimants had been exposed to asbestos fibers between January 27, 1987 and July 1, 1992 and where the first medical diagnosis of their condition was given after January 27, 1987. In application of the above, the Orléans Court of Appeal ordered the insurance companies concerned to insure Everite for an amount equal to the claims filed up to October 14, 2003, representing a total of €337,367.

In addition, 74 suits based on inexcusable fault had been filed by current or former employees of ten other French companies in the Group, in particular involving circumstances where equipment containing asbestos had been used to protect against heat from furnaces.
In 2004, 8 suits were dismissed at the request of employees or former employees further to claims made to the Asbestos Victims Compensation Fund.
At December 31, 2004, 17 lawsuits were completed: 9 through judgments by the *Cour de Cassation* which dismissed appeals issued by employees or former employees against Court of Appeal decisions dismissing the claims of "inexcusable fault", 4 through judgments issued by the Social Security courts and 3 by Court of Appeal decisions finally dismissing employees' claims. Only one ruling in 2004 held the employer liable for "inexcusable fault".
For the 49 suits outstanding at the end of 2004, 4 are in the investigation stage by the French Social Security authorities, 11 are pending before the Social Security courts and 34 before the Court of Appeal.

Asbestos-related litigation in the United States

In the United States, three Group companies that once manufactured products containing asbestos such as fiber-cement pipes, roofing products or specialized insulation, are facing legal action from persons other than the employees or former employees of the companies. The claims are based on alleged exposure to the products although in the vast majority of cases the claimants cannot demonstrate any specific exposure to one or more products, or any specific illness or physical disability. The majority of these claims are made simultaneously against many other non-Group entities which have been manufacturers, distributors, installers or users of products containing asbestos.

Developments in 2004

After three years marked by sharp increases in new lawsuits filed against CertainTeed (60,000 in 2001, 67,000 in 2002 and 62,000 in 2003, compared to 19,000 in 2000), approximately 18,000 new suits were filed in 2004, representing a fall in new claims in most States, particularly those reporting the highest number of claims in previous years. In Mississippi, for example, new suits filed fell from 29,000 in 2003 to 2,000 in 2004. The exceptional influx of lawsuits in 2003 arose further to the enactment of new legislation as from January 1, 2003. There was a fall-off in new claims at the end of the first half of 2003 and the trend did not recur in 2004. As in previous years, the vast majority of the 18,000 or so new claims are "mass" actions which can involve hundreds or even thousands of claimants making claims for damages against dozens of companies operating in different economic sectors, without providing evidence of any specific exposure to any product allegedly manufactured by CertainTeed, or of any specific illness or physical disability. Only a very low proportion of these new lawsuits involve a serious illness, cancer or mesothelioma.

Almost all of the claims against CertainTeed are settled out of court. Approximately 20,000 claims were resolved in 2004 (compared with 54,000 in 2003 and 44,000 in 2002). Taking into account the 108,000 outstanding cases at the end of 2003 and the new cases having arisen in 2004, as well as claims resolved, some 106,000 claims were outstanding at December 31, 2004. These figures have remained relatively stable since the end of 2002.

The average individual cost of settlement increased from approximately USD 2,100 in 2003 to around USD 2,900 in 2004. This trend mainly reflects the significant fall in the number of mass actions as a proportion of total claims, as described above.

Impact on the Group's results

The Group recorded a €108 million charge in 2004 to cover future developments in relation to these claims. The charge is slightly more than the amount recognized in 2002 and 2003 (€100 million). At December 31, 2004, the Group's total cover for asbestos-related claims against CertainTeed in the United Stated amounted to €295 million (USD 402 million), compared with €341 million at December 31, 2003 (USD 431 million). The coverage is achieved almost entirely through the balance sheet provision, as most available insurance had been used at December 31, 2003.

Cash flow impact

Total compensation paid for these cases – including claims resolved prior to 2004 but only paid out in 2004 and those fully resolved and paid in 2004 – amounted to €113 million in 2004 (USD 140 million), versus €135 million (USD 153 million) in 2003.

Outlook for 2005

Although the number of new suits has been falling since the third quarter of 2003, the most significant drop has been in "mass claims" which generally have a lower average cost of settlement than the overall average figure. This has led to an increase in the average individual cost of settlement. No significant developments have been observed during the past few months, either in terms of new claims or in terms of the average cost of settlement.

If the bill currently being considered by the US Senate is adopted, claimants will no longer be able to file the sort of claims described above in the United States. If enacted the bill would prohibit employees who have been exposed to asbestos from bringing their claims to court. Instead, such employees would receive compensation for their exposure from a trust fund. An initial bill was adopted by the US Senate Judiciary Committee on July 10, 2003, but has not yet been put to the vote of the full Senate. Further to the presidential elections of November 2, 2004, the Chairman of the new Republican-majority Senate has publicly committed to drafting a new bill and to starting discussions on amendments to the bill during the first six months of 2005.

In Brazil, former Group employees suffering from asbestos-related occupational illness are offered either exclusively financial compensation or lifetime medical assistance combined with financial assistance. Only a small number of asbestos-related lawsuits were outstanding at December 31, 2004 and they do not represent a material risk for the companies concerned.

NOTE 32 • ENVIRONMENT

In accordance with *CNC* Recommendation 2003-R02 of October 21, 2003, the Group's environment-related expenditure, assets and liabilities are shown below.

Environment-related expenditure

Environment-related expenditure includes the salaries of employees working to protect the environment, training costs, depreciation and amortization charges for environmental non-current assets, warranties and guarantees given, research and development expenditure designed to improve product life cycles and all other environment-related costs.

Environment-related expenditure in the 2004 statement of income amounted to €154 million (2003: €127 million; 2002: €142 million) and mainly concerns France (€44 million), Germany and Central Europe (€28 million) and North America (€31 million).

Environmental assets

Costs incurred to mitigate or prevent environmental risks are capitalized when they are expected to generate future economic benefits that will flow to the Group. In 2004, capitalized environmental costs amounted to €68 million in the consolidated balance sheet (2003: €52 million; 2002: €70 million). The costs relate to pollution-abatement and environmental protection equipment, recycling of raw materials and waste, and the reduction of raw material and energy consumption.

Environmental liabilities

When the Group considers that it is exposed to an environmental risk, a provision is recognized to the extent of the estimated future outlay required to settle the liability. At December 31, 2004, these provisions amounted to €68 million (€66 million at end-2003 and end-2002).

The present value of these provisions is calculated on a case-by-case basis according to when the risk is expected to materialize. This is particularly the case for provisions covering the cost of dismantling and restoring sites and retiring assets. However, when the timing of the risk cannot be estimated reliably, the risk is considered a current liability and is not discounted.

Environment-related risks and industrial sites subject to specific regulations are monitored by the Environment, Health and Safety Department.

NOTE 33 • RELATED-PARTY TRANSACTIONS

The main balances and transactions with companies accounted for by the equity method are as follows:

(in € millions)	2004	2003	2002
Assets			
Financial receivables	0	1	11
Inventories	0	0	0
Other receivables	11	16	21
Cash and cash equivalents	6	9	7
Provisions for impairment in value	0	(1)	(2)
Liabilities			
Short-term debt	1	1	6
Cash advances	3	5	4
Expenses			
Purchases	5	10	28
Income			
Sales	57	67	61

NOTE 34 • SEGMENT INFORMATION

The Group modified its structure in 2004 to bring it into line with its business model. As a result, the three existing business sectors (Glass, Housing Products and High-Performance Materials), have been reorganized into five new business sectors (two for new businesses, three for historic ones). The new structure stands as follows:

New businesses:
- Building Distribution Sector
- High-Performance Materials (HPM) Sector
  - Ceramics & Plastics and Abrasives
  - Reinforcements

Historic businesses:
- Flat Glass Sector
- Packaging Sector
- Construction Products Sector (CP)
  - Building Materials
  - Insulation
  - Pipe

Segment information for 2002 and 2003 has been adjusted to take account of this new structure.

In addition, in 2004 the Group also redefined the geographical breakdown of its activities in order to present results reported by emerging countries and Asia separately. Eastern European countries are therefore no longer included in “Other Europe” but in “Emerging countries and Asia”. The presentation of results by geographic segment for 2002 and 2003 has been adjusted to reflect the new structure.

Management uses several different indicators to measure operational performance and to make resource-allocation decisions. These indicators are based on the data used to prepare the consolidated financial statements. Internal sales are generally carried out based on the same conditions as sales to external customers and are eliminated in consolidation. The accounting principles applied are the same as those described in note 1.

Segment information by Sector and by Division

(in € millions)	Building Distribuition	High-Performance Materials				Flat Glass	Packaging	Construction Products					Other (*)	Total
		Ceramics & Plastics and Abrasives	Reinfor-cements	Items elimi-nated from HPM	Total			Building Materials	Insulation	Pipe	Items elimi-nated from CP	Total		
2004														
External sales	13,678	3,417	1,184		4,601	4,368	3,775	2,461	1,885	1,253		5,599	4	32,025
Internal sales	1	56	80	(20)	116	26	4	164	133	128	(20)	405	(552)	0
Net sales	13,679	3,473	1,264	(20)	4,717	4,394	3,779	2,625	2,018	1,381	(20)	6,004	(548)	32,025
Operating income	737	392	74		466	440	440	195	242	70		507	42	2,632
Depreciation and amortization (excluding goodwill)	(200)	(155)	(108)	0	(263)	(305)	(258)	(95)	(110)	(58)	0	(263)	(10)	(1,299)
Amortization of goodwill	(44)	(53)	(5)	0	(58)	(6)	(17)	(19)	(2)	(9)	0	(30)	0	(155)
Net goodwill	2,315	1,184	205		1,389	209	469	486	68	227		781	7	5,170
Total assets	10,355	3,720	1,594		5,314	4,609	3,376	1,690	1,331	1,347		4,368	2,865	30,887
Total liabilities (excl. equity)	7,457	2,107	843		2,950	3,036	2,100	716	644	833		2,193	1,595	19,331
Purchases in the year:														
• property, plant and equipment	249	132	107	0	239	448	302	102	145	47	0	294	5	1,537
• securities (net of cash acquired)	480	(4)	11		7	46	(1)	22	(1)	(1)		20	(1)	551

* "Other" represents intercompany eliminations in relation to sales, and the holding company activity for the other captions.

(in € millions)	Building Distribuition	High-Performance Materials				Flat Glass	Packaging	Construction Products					Other (*)	Total
		Ceramics & Plastics and Abrasives	Reinfor-cements	Items elimi-nated from HPM	Total			Building Materials	Insulation	Pipe	Items elimi-nated from CP	Total		
2003														
External sales	11,301	3,208	1,132		4,340	4,273	3,865	2,623	1,793	1,395		5,811		29,590
Internal sales	4	48	80	(16)	112	25	4	201	116	121	(16)	422	(567)	0
Net sales	11,305	3,256	1,212	(16)	4,452	4,298	3,869	2,824	1,909	1,516	(16)	6,233	(567)	29,590
Operating income	560	273	97		370	471	442	265	168	151		584	15	2,442
Depreciation and amortization (excluding goodwill)	(184)	(163)	(112)	0	(275)	(307)	(271)	(117)	(115)	(60)	0	(292)	(8)	(1,337)
Amortization of goodwill	(50)	(50)	(2)	0	(52)	4	(19)	(24)	(4)	(10)	0	(38)	1	(154)
Net goodwill	1,796	1,319	215		1,534	227	524	507	68	238		813	8	4,902
Total assets	9,019	3,948	1,592		5,540	4,483	3,428	1,717	1,278	1,474		4,469	3,156	30,095
Total liabilities (excl. equity)	6,411	2,312	821		3,133	2,892	2,096	538	636	898		2,072	2,404	19,008
Purchases in the year:														
• property, plant and equipment	213	108	143	0	251	364	265	117	89	50	0	256	2	1,351
• securities (net of cash acquired)	385	17	6		23	13	3	9	(1)	29		37		461

* "Other" represents intercompany eliminations in relation to sales, and the holding company activity for the other captions.

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(in € millions)	Building Distribution	High-Performance Materials: Ceramics & Plastics and Abrasives	Reinforcements	Items eliminated from HPM	Total	Flat Glass	Packaging	Construction Products: Building Materials	Insulation	Pipe	Items eliminated from CP	Total	Other (*)	Total
2002														
External sales	10,951	3,592	1,280		4,872	4,406	4,072	2,880	1,867	1,226		5,973		30,274
Internal sales	1	45	90	(15)	120	18	4	194	104	118	(15)	401	(544)	0
Net sales	10,952	3,637	1,370	(15)	4,992	4,424	4,076	3,074	1,971	1,344	(15)	6,374	(544)	30,274
Operating income	534	244	167		411	495	479	335	184	135		654	9	2,582
Depreciation and amortization (excluding goodwill)	(183)	(189)	(114)	0	(303)	(328)	(293)	(131)	(126)	(61)	0	(318)	(9)	(1,434)
Amortization of goodwill	(46)	(66)	(6)	0	(72)	1	(21)	(22)	0	(10)	0	(32)	1	(169)
Net goodwill	1,654	1,642	235		1,877	274	642	736	74	257		1,067	7	5,521
Total assets	8,620	4,632	1,711		6,343	4,658	3,689	2,562	1,364	1,396		5,322	1,516	30,148
Total liabilities (excl. equity)	6,042	2,794	836		3,630	3,099	2,288	1,422	670	821		2,913	861	18,833
Purchases in the year:														
• property, plant and equipment	227	160	120	0	280	377	294	135	78	39	0	252	1	1,431
• securities (net of cash acquired)	132	1	62		63	17	2	11	(2)			9	352	575

* "Other" represents intercompany eliminations in relation to sales, and the holding company activity for the other captions.

Selected information related to the Group's operations by geographical area is as follows:

(in € millions)	France	Other western European countries	North America	Emerging countries and Asia	Internal sales	Total
At December 31, 2004:						
Net sales	10,704	13,743	5,727	3,553	(1,702)	32,025
Non-current assets	4,213	6,999	3,636	2,667		17,515
At December 31, 2003:						
Net sales	9,926	12,225	5,735	3,127	(1,423)	29,590
Non-current assets	4,224	6,563	4,101	2,349		17,237
At December 31, 2002:						
Net sales	9,439	12,382	6,784	3,034	(1,365)	30,274
Non-current assets	4,358	6,934	5,130	2,418		18,840

The geographical breakdown of external sales for 2004, 2003 and 2002 is as follows:

(in € millions)	France	Other western European countries	North America	Emerging countries and Asia	Total
At December 31, 2004:					
External sales	9,338	13,214	5,497	3,976	32,025
At December 31, 2003:					
External sales	8,473	11,822	5,529	3,766	29,590
At December 31, 2002:					
External sales	8,083	11,985	6,555	3,651	30,274

NOTE 35 • CHANGEOVER TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Accounting principles and options adopted by the Group

The accounting principles adopted by the Saint-Gobain Group for the changeover to International Financial Reporting Standards (IFRS) and those used to prepare its 2004 consolidated financial statements under IFRS are in compliance with all standards published by the International Accounting Standards Board (IASB) at December 31, 2004. Pursuant to European Regulation EC 1606/2002 of July 19, 2002, these standards are applicable as from January 1, 2005 within the European Union. Any publication in 2005 of new or revised standards, European regulations or official interpretations carrying retrospective application requirements may lead to changes in the financial information presented below.

The International Financial Reporting Standards have been applied retrospectively in the opening balance sheet at the date of transition to IFRS (January 1, 2004), with the exception of certain optional exemptions and mandatory exceptions provided for in IFRS 1, First-time Adoption of International Financial Reporting Standards. Details are given below on the exemptions and exceptions used by the Group on a case-by-case basis.

The Group has chosen to apply as of January 1, 2004 IAS 32 and IAS 39 relating to financial instruments, and IFRS 2 concerning Share-based Payment.

IFRS 3 – Business Combinations

The Group has chosen to use the exemption available in IFRS 1 whereby entities may elect not to restate business combinations that occurred before the transition date. Consequently, only business combinations that occurred after January 1, 2004 are accounted for in accordance with IFRS 3. Therefore the balance of goodwill at January 1, 2004 has not been adjusted restrospectively.

Under IFRS 3, goodwill is no longer amortized but is tested for impairment annually or more frequently if events of changes in circumstances indicate that it might be impaired.

Negative goodwill (badwill) is now recognized immediately in profit or loss. At January 1, 2004, the opening balance of negative goodwill was recorded against equity.

IAS 27 – Consolidated Financial Statements and Accounting for Investments in Subsidiaries

The methods of consolidation applied to the Group's subsidiaries have been reviewed in light of the appropriate accounting standards (IAS 27, 28 and 31).

The Group has chosen not to use the option available in IAS 31 whereby jointly controlled entities may be accounted for using the equity method, and has therefore continued to account for such interests using proportionate consolidation.

IAS 38 – Intangible Assets

Only those items meeting the recognition criteria in IAS 38 have been recognized as intangible assets. Accordingly, certain intangible items *(fonds de commerce)* relating to past business combinations have been reclassified as goodwill. Furthermore, in the opening balance sheet start-up costs have been canceled and recorded as a deduction from shareholders' equity. Only acquired retail brands have been accounted for as intangible assets with an indefinite useful life due to their public renown. Therefore, indefinite-lived intangible assets are not amortized but tested for impairment annually or more frequently if there is an indication that the intangible asset may be impaired.

Under the Group's current financial reporting standards (French GAAP), research and development costs are expensed as incurred. Following a review of development expenditure, the Group has not identified any material projects likely to qualify as intangible assets under IAS 38.

IAS 16 – Property, Plant and Equipment

In accordance with the option available under IFRS 1, property, plant and equipment in the opening balance sheet have not been restated at fair value but are shown at depreciated cost.

The Group has retrospectively applied IAS 16 to all of its property, plant and equipment at January 1, 2004. To restrict the scope of adjustments to significant asset items only, the Group has devised a materiality threshold comprising three different criteria: the asset's gross carrying amount, the length of time it has been carried in the balance sheet and the difference between the current depreciation period and the asset's effective useful life.

In accordance with IAS 16 and IAS 23, borrowing costs incurred for the construction and acquisition of property, plant and equipment are recorded as interest and other financial charges and are not included in the cost of the related asset.

Based on an analysis of all of its industrial processes, the Group has identified the major components of its industrial machinery and equipment which are required to be depreciated separately. The Group will no longer recognize provisions for major repairs, as these are now included in the cost of the asset. The Group has also adjusted its depreciation schedules in line with the effective useful lives of its industrial assets.

The Group has opted not to record any residual value for its long-lived assets, with the exception of its head office building, which is its only material non-industrial asset. Most of the Group's industrial assets are expected to be used up until the end of their useful lives and are not generally expected to be sold.

IAS 17 - Leases

The Saint-Gobain Group already applied similar finance lease classification criteria to those set out in IAS 17. However, all leases have been reviewed and certain contracts have been reclassified where appropriate.

IAS 36 – Impairment of Assets

At January 1, 2004, the Saint-Gobain Group carried out impairment tests on assets, including goodwill and other intangible assets in accordance with IAS 36 and IFRS 1. No additional impairment charge was deemed necessary as a result of these tests, as similar procedures are already used by the Group in its consolidated financial statements under French GAAP.

In light of the changeover to IFRS, the Group has fine-tuned the method used to calculate impairment, and discount rates now vary from country to country (see note 1).

IAS 2 - Inventories

In accordance with IAS 2, and in keeping with the treatment applied under French GAAP, inventories are carried at the lower of cost and net realizable value.

Tools with a useful life of more than one year that were recorded in inventories under French GAAP have been reclassified as property, plant and equipment in accordance with IFRS.

IAS 11 – Construction Contracts

In accordance with IAS 11, subsidiaries which used the completed contract method to account for long-term construction projects under French GAAP have now adopted the percentage-of-completion method. As the number of subsidiaries concerned is limited, the requirements of IAS 11 do not have a material impact on the Group's consolidated financial statements.

IAS 21 – The Effects of Changes in Foreign Exchange Rates

Pursuant to the option provided for in IFRS 1, cumulative translation differences that existed as a separate component of equity prior to January 1, 2004 have been added back to consolidated retained earnings. At January 1, 2004, the balance of the foreign exchange translation reserve after the changeover to IFRS has thus been reset to zero.

In accordance with IAS 21, the unamortized portion of goodwill arising on the acquisition of a foreign subsidiary and denominated in euros at the acquisition date has been translated into that subsidiary's functional currency at January 1, 2004.

In accordance with IAS 21, foreign currency items, including sales, are converted at the exchange rate ruling on the transaction date. Where the transactions are hedged against currency risks, the related gains and losses are included in operating income which therefore reflects margins converted at the hedging rate.

IAS 19 – Employee Benefits

In accordance with the option available under IFRS 1, at January 1, 2004 the unamortized portion of actuarial gains and losses and past service cost relating to defined benefit pension plans and similar benefits have been recognized in full in pensions and other post-retirement benefits, leading to a reduction in shareholders' equity.

The Saint-Gobain Group has chosen to recognize actuarial gains and losses generated after January 1, 2004 using the corridor method.

As the scope of IAS 19 is wider than the scope of the previous standards applied by the Group (US standards FAS 87, FAS 106 and FAS 112), an accrual is now recorded for certain post-employment benefits, e.g. jubilee awards or termination benefits, in countries such as Germany or Italy.

The actuarial assumptions used to calculate these benefits are consistent with those used to calculate pension commitments under French GAAP.

The Group has also chosen to recognize the interest cost relating to the pension obligation and the expected return on pension plan assets in interest and other financial charges.

IFRS 2 – Share-based Payment

The Saint-Gobain Group has opted for early application of IFRS 2 to all of its stock option plans effective as from the plan set up on November 20, 2002, in accordance with the provisions of the standard. The Group has also chosen to apply IFRS 2 to its 2004 Group Savings Plan ("PEG"), although this is not specifically required by the standard as the rights under the plan vested prior to January 1, 2005.

The costs of stock option plans are calculated using the Black & Scholes formula, based on the following inputs:

• volatility assumptions, which take into account the historical volatility of the share price over a rolling 10-year period, as well as implied volatility from traded share options as observed since the Océane bond issue in January 2002. Periods during which the share price was extraordinarily volatile have been disregarded;

• the average length of time similar options have remained outstanding, based on the actual behaviour of option holders over the past few years for the plans launched between 1993 and 1997;

• expected dividends, as assessed on the basis of historical information dating back to 1998;

• the risk-free interest rate, which is equivalent to the implied yield on zero-coupon government issues.

The Group has used the method set out in the *CNC*'s statement of December 21, 2004 to measure the cost of its Group Savings Plan. The calculation method notably takes into account the non-transferability of the shares awarded to employees over a period of five years. The cost relating to the period of non-transferability is measured and deducted from the 20% discount granted by the Group on employee share awards. The bases for the calculation are as follows:

• the exercise price is the price set by the Board of Directors and corresponds to the average share price for the 20-day period preceding the date of grant, less a discount of 20%;

• the grant date of the options is the date on which the plan is announced to employees. For Saint-Gobain, this is the date on which the terms and conditions of the plan are announced on the Group's intranet site;

• the interest rate applicable to employee share awards and used to determine the cost of non-transferabiilty is the rate that would be applied by a bank to an individual with an average risk profile applying for a general purpose five-year consumer loan.

IAS 12 – Income Taxes

Within the scope of this note on the impacts of IFRS, deferred tax assets are still offset against deferred tax liabilities.

As described in note 1 on accounting principles and policies, under French GAAP deferred taxes recognized on retail brands that could not be sold separately from the company being acquired were calculated using the tax rate applicable to disposals of investments. Under IFRS, all deferred tax items are calculated at the statutory tax rate (33.33%), which is the tax rate applicable to all identifiable assets and liabilities in the consolidated tax group. In light of these new requirements, an additional provision for taxes has been recorded.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

In accordance with IAS 37, provisions for material contingencies and charges likely to result in an outflow of resources embodying economic benefits whose timing can be estimated reliably have been discounted to present value.

IAS 39 – Financial Instruments

The Group has opted to apply IAS 32 and IAS 39 on financial instruments at January 1, 2004, without applying the fair value option. The Group has not chosen to apply the special accounting treatment set out in the standard for internal hedging transactions.

Differences between French GAAP and IFRS with respect to the definition of debt and equity

Under IAS 32 and IAS 39, the distinction between debt and equity is made by reference to the substance of the contract rather than its legal form.

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets with another entity under conditions that are potentially unfavorable to the entity.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

In view of the above:

• non-voting participating securities have been reclassified as debt, in accordance with IAS 39;

• the Group has separated its Océane bonds into a debt (liability) component and an equity component.

Differences between French GAAP and IFRS with respect to the measurement of non-derivative financial instruments

Under IAS 32 and IAS 39, the accounting treatment of financial instruments depends on their classification in one of the available categories. Four categories are provided for financial assets and two for financial liabilities.

Depending on the category used, at year-end the instruments are measured at amortized cost or fair value. However, following a decision adopted by the European Union, the fair value option may not be used for financial liabilities, which should be carried at amortized cost.

Accordingly:

• at year-end obligations under bonds and private placement notes are measured at amortized cost at December 31, 2004, and premiums and issuance costs are amortized using the yield-to-maturity method;

• marketable securities are remeasured at fair value through profit or loss;

• investments in subsidiaries and affiliates are measured at fair value with changes in fair value taken to equity, in accordance with the treatment applied to the “available for sale” category.

Differences between French GAAP and IFRS with respect to derecognition

Under IAS 32 and IAS 39, a financial asset should only be derecognized in very limited circumstances, such as when the contractual rights to the cash flows from the financial asset expire or when other specific derecognition criteria are met.

Accordingly, securitized receivables relating to the US-based subsidiary CertainTeed Receivables Corp which were included in off-balance sheet commitments under French GAAP, have been added back to receivables and short-term debt in the opening IFRS balance sheet at January 1, 2004.

Differences between French GAAP and IFRS with respect to the accounting treatment of currency, interest rate and commodity derivatives (swaps, options and forwards)

Under IAS 32 and IAS 39, all such instruments are carried in the balance sheet at fair value, irrespective of whether or not a hedging relationship exists as defined in IAS 39.

Changes in the fair value of derivatives designated as fair value hedges and derivative instruments that do not qualify as hedging instruments are taken to profit or loss. However, changes in the fair value of derivatives designated as cash flow hedges are recognized directly in equity.

• Derivatives designated as fair value hedges

The Group has applied fair value hedge accounting to virtually all of its interest rate derivatives (fixed-for-variable rate swaps) in its portfolio at year-end 2004. These items are matched to fixed-rate debts exposed to a fair value risk.

In accordance with hedge accounting principles, the portion of debt included in fair value hedging relationships defined by the Group is remeasured at fair value.

The remeasurement of the hedged item at fair value limits exposure to the risk of changes in fair value on interest rate swaps to the ineffective portion of the hedge.

• Derivatives designated as cash flow hedges

Cash flow hedge accounting has been applied by the Group to all of its derivative instruments (swaps) used to fix the cost of future purchases of gas and fuel (fixed-for-variable rate swaps). These instruments are matched to highly probable forecast purchases at year-end 2004.

By using cash flow hedging, the Group can defer the impact on profit or loss of changes in the fair value of these instruments by recording them in a special hedging reserve in equity. The reserve will be reversed through profit or loss at the date the hedged transaction is executed and the hedged item is recognized in profit or loss.

As for fair value hedges, cash flow hedging limits the Group’s exposure to changes in the fair value of interest rate swaps to the ineffective portion of the hedge.

• Derivatives not classified as hedges

Changes in the fair value of these items in the year are recognized in profit or loss.

Derivatives not classified as hedges include:

• mainly interest rate and currency swaps;

• all options (relating to gas, currency and interest rates) for which changes in fair value are already recorded in profit or loss under French GAAP;

• forward currency swaps for which changes in fair value are already recorded in profit or loss under French GAAP.

3

Impact of IFRS on the opening balance sheet

The balance sheet presented below has been condensed to give an overview of the impacts of the changeover to IFRS. Therefore it does not reflect the final presentation of the financial statements to be prepared under IFRS in future accounting periods.

The comments provided below relate to the opening balance sheet at January 1, 2004. The balance sheet at December 31, 2004 is provided for information purposes. Changes in line items between these two dates are a result of the movements described in notes 1 to 34, as well as the application of IFRS to 2004 income as presented in this note.

	At January 1, 2004					At Dec. 31, 2004
(in € millions)	Notes	French GAAP	Impact of IFRS	Group structure (note c)	IFRS	IFRS
Goodwill	(d)	4,902	(147)		4,755	5,203
Other intangible assets, net	(e)	1,836	(80)		1,756	1,804
Property, plant and equipment	(f)	8,686	411	(12)	9,085	9,367
Investments in associates		75	3		78	64
Available-for-sale and other securities	(g)	217	31		248	92
Other non-current assets	(h)	1,521	(1,175)		346	252
Non-current assets		**17,237**	**(957)**	**(12)**	**16,268**	**16,782**
Inventories	(f)	4,509	(26)		4,483	4,817
Trade accounts receivable	(k)	4,240	300	(1)	4,539	4,789
Other accounts receivable		1,035	(5)		1,030	1,070
Short-term loans		160	0		160	69
Cash and cash equivalents	(k)	2,914	0	(1)	2,913	2,898
Current assets		**12,858**	**269**	**(2)**	**13,125**	**13,643**
TOTAL ASSETS		**30,095**	**(688)**	**(14)**	**29,393**	**30,425**
Shareholders' equity	(a),(b)	11,087	(1,082)		10,005	10,673
Minority interests	(c)	223	(1)	(13)	209	237
Shareholders' equity and minority interests		**11,310**	**(1,083)**	**(13)**	**10,214**	**10,910**
Non-voting participating securities	(k)	170	(170)		0	0
Pensions and other post-retirement benefits	(h)	2,305	534		2,839	2,750
Deferred tax liability	(j)	599	(350)		249	238
Other liabilities	(d),(i)	1,032	(73)		959	901
Long-term debt	(k)	6,518	162		6,680	5,629
Non-current liabilities		**10,624**	**103**	**0**	**10,727**	**9,518**
Trade accounts payable		3,592	(22)		3,570	3,954
Other payables and accrued expenses	(h)	2,356	(66)		2,290	2,556
Short-term debt	(k)	2,213	380	(1)	2,592	3,487
Current liabilities		**8,161**	**292**	**(1)**	**8,452**	**9,997**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**30,095**	**(688)**	**(14)**	**29,393**	**30,425**

a) Reconciliation of equity

(in € millions)	Notes	Shareholders' equity at January 1, 2004	Income for 2004	Issues of capital stock	Dividends	Acquisitions and disposals of treasury stock	Cumulative translation adjustments	Other move-ments	Shareholders' equity at Dec. 31, 2004
French GAAP		**11,087**	**1,083**	**136**	**(387)**	**(241)**	**(109)**	**(13)**	**11,556**
Goodwill	(d)	(111)	161					(3)	47
Other intangible assets	(e)	(23)	(3)					(2)	(28)
Property, plant and equipment	(f)	289	27					3	319
Pensions and other post-retirement benefits	(h)	(1,642)	23				47	17	(1,555)
Group Savings Plan and stock options		0	(32)					32	0
Deferred taxes	(j)	350	(13)				(18)	(7)	312
Financial instruments	(g) (k)	63	(3)					(28)	32
Other adjustments		(8)	(4)					2	(10)
Total IFRS impact		**(1,082)**	**156**	**0**	**0**	**0**	**29**	**14**	**(883)**
IFRS		**10,005**	**1,239**	**136**	**(387)**	**(241)**	**(80)**	**1**	**10,673**

b) Translation adjustments

The Group has chosen to use the option available under IFRS 1 and to fully recognize in consolidated retained earnings all cumulative translation differences existing at January 1, 2004, amounting to €(2,241) million. This has no impact on consolidated shareholders' equity.

c) Changes in Group structure and consolidation method

The Group has de facto operational control over Mineracao Jundu Ltda (a Brazilian-based company specializing in building materials) and this company is therefore fully consolidated in the French GAAP financial statements. As IAS 27 does not recognize de facto control, Mineracao Jundu Ltda has been proportionately consolidated in the financial statements prepared in accordance with IFRS. The corresponding impact on the opening balance sheet at January 1, 2004 is a €13 million decrease in minority interests and a €12 million reduction in property, plant and equipment. However, opening consolidated shareholders' equity is not affected.

d) Goodwill

The change in this item is primarily due to the measurement of goodwill arising on the acquisition of a foreign entity in that entity's functional currency rather than in euros as under previous GAAP. This results in a decrease of €163 million in net goodwill at the opening balance sheet date.

Furthermore, certain intangible items *(fonds de commerce)* acquired in business combinations have been reclassified as goodwill in an amount of €43 million.

In light of other adjustments to goodwill and negative goodwill on simultaneous transactions (decrease of €27 million), consolidated goodwill comes out at €4,755 million in the opening IFRS balance sheet, compared with €4,902 million under French GAAP.

These adjustments lead to a decrease of €111 million in opening shareholders' equity (see note a), resulting from the remeasurement of goodwill arising on acquisitions of foreign subsidiaries (€163 million) and the cancellation of negative goodwill in an amount of €52 million.

e) Other intangible assets

The application of IFRS leads to an €80 million reduction in intangible assets, broken down as follows:

- certain intangible items *(fonds de commerce)* have been reclassified as goodwill in an amount of €43 million;
- land use rights in China, India and Poland have been reclassified from intangible assets to other accounts receivable, for a total amount of €14 million;
- start-up costs have been written off against equity for an amount of €16 million;
- other miscellaneous adjustments have led to a decrease of €7 million in this caption.

The impact of these last two adjustments is a decrease of €23 million in opening shareholders' equity (see note a).

f) Property, plant and equipment

As discussed in note 1 on accounting principles and policies, the Group has identified the major components of its industrial equipment and machinery and has revised the applicable depreciation periods. The Group has also adjusted the useful lives of certain assets in line with their effective useful lives. These changes have led to a retrospective adjustment to depreciation at January 1, 2004, resulting in extended depreciation periods and an increase of €316 million in the net carrying amount of property, plant and equipment, plus €5 million relating to other adjustments.

The Group retrospectively wrote down the carrying amount of its property, plant and equipment by €26 million to adjust for borrowing costs previously capitalized under French GAAP.

Spare parts with a useful life of more than one year – recorded in inventories under French GAAP – have been reclassified as property, plant and equipment, for a total amount of €25 million.

The impact of reclassifying operating leases as finance leases is an increase of €92 million in non-current assets and an increase in net debt for the same amount (including €77 million relating to the long-term portion).

The combined impact of these restatements and balance sheet reclassifications (including inventories and other accounts receivable) is a €411 million increase in property, plant and equipment.

The impact of the afore-mentioned adjustments on shareholders' equity is €289 million in respect of property, plant and equipment.

g) Available-for-sale and other securities

In accordance with IAS 39, the Group has marked-to-market its available-for-sale securities relating to listed, non-consolidated subsidiaries. This mainly reflects the unrealized capital gains on Vivendi Universal shares held by Compagnie de Saint-Gobain (€29 million) and miscellaneous other investments (€2 million). In the opening IFRS balance sheet, these adjustments lead to an increase of €31 million in "Available-for-sale and other securities" and in shareholders' equity.

All of the Group's remaining interests in Vivendi Universal were sold in 2004.

h) Pensions and other post-retirement benefits (other non-current assets)

The changeover from standards FAS 87, FAS 106 and FAS 112 to IFRS has several impacts on balance sheet items.

The €1,642 million decrease in shareholders' equity results from the following:

• the full recognition in pensions and other post-retirement benefits of actuarial gains and losses and the unamortized portion of past service cost for pension plans operated by subsidiaries in the US and in the UK (€1,513 million);

• the change in the method of measuring certain employee benefits ("hourly plans") in the US (€62 million);

• miscellaneous other adjustments totaling €67 million, including the capping of plan assets for certain actuarial calculations and the recognition of other post-employment benefits.

The €1,175 million decrease in other non-current assets is a result of:

• the cancellation of the additional minimum liability accrual recognized in accordance with FAS 87 with a contra-entry to pensions and other post-retirement benefits, in an amount of €1,067 million;

• the cancellation of the unamortized portion of actuarial gains and losses against prepaid pension cost, for an amount of €66 million;

• miscellaneous other adjustments totaling €42 million.

The combined impact of these adjustments and the reclassification of other payables and accrued expenses for a total of €67 million is an increase of €534 million in pensions and other post-retirement benefits to €2,839 million.

i) Other liabilities

As discussed in note d, negative goodwill has been written off against equity (€52 million) or reclassified as a deduction from goodwill (€23 million).

The impact of these and other miscellaneous adjustments totaling €2 million is a decrease of €73 million in other provisions in the opening balance sheet.

j) Deferred taxes

The decrease of €480 million in deferred tax liabilities recorded against equity reflects the impact of the various adjustments described above, particularly as regards pensions and other post-retirement benefits (see note h).

The increase of €130 million in this item reflects the adjustments recorded in respect of deferred tax liabilities on the Group's retail brands, as described in the section of note 35 on IAS 12 (Income Taxes).

The combined impact of these restatements is an increase of €350 million in shareholders' equity.

k) Financial liabilities

The application of IAS 32 and IAS 39 has led to the following main adjustments:

• non-voting participating securities (€170 million) and the related accrued interest (€8 million) have been reclassified as debt;

• a portion of the amount relating to Océane bonds has been reclassified in shareholders' equity (€101 million) with the balance remaining under bonds;

• the opening balance sheet reflects additional accrued interest following the recalculation of the interest cost related to the Océane bonds at market rates (€42 million), and the cancellation of issuance premiums (€8 million).

• securitized receivables in the United States have been added back to the consolidated balance sheet, leading to a €368 million increase in trade accounts receivable and an increase in short-term debt for the same amount;

• cross-currency swaps have been marked-to-market, leading to an increase of €8 million in net debt.

As a result of these adjustments and the reclassification of operating leases as finance leases (see note f), net debt increased by €702 million. An overview of these adjustments is provided in the section below on net debt.

The increase of €63 million in shareholders' equity (see note a) reflects available-for-sale securities (see note g) for an amount of €31 million; Océane bonds (reclassification of an amount of €101 million, less accrued interest of €42 million); and derivatives marked-to-market, as well as other miscellaneous adjustments.

Reconciliation of 2004 income

The statement of income presented below has been condensed to give an overview of the impacts of the changeover to IFRS. Therefore it does not reflect the final presentation of the financial statements to be prepared under IFRS in future accounting periods.
The presentation of the statement of income under French GAAP has been maintained under IFRS.

(in € millions)	2004 French GAAP	2004 IFRS adjustments	Notes	2004 IFRS
Sales	32,025	147	(l)	32,172
Cost of sales	(23,929)	(165)	(m)	(24,094)
Selling, general and administrative expenses including research	(5,124)	(193)	(m)	(5,317)
Other operating expenses and income	(340)	322	(m)	(18)
Operating income	**2,632**	**111**		**2,743**
Dividends from non-consolidated subsidiaries	3	0		3
Non-operating costs	(280)	9		(271)
Profit/(loss) on sales of assets and asset write-downs	(44)	(19)	(n)	(63)
Amortization of goodwill	(155)	161	(o)	6
Business income	**2,156**	**262**		**2,418**
Net financial income/(loss)	(441)	(94)	(p)	(535)
Income taxes	(603)	(13)	(q)	(616)
Share in net income of equity investees	8	0		8
Net income before minority interests	**1,120**	**155**		**1,275**
Minority interests	(37)	1		(36)
NET INCOME	**1,083**	**156**		**1,239**
NET INCOME EXCLUDING CAPITAL GAINS	**1,122**	**167**		**1,289**
Earnings per share (in euros)				
Weighted average number of shares in issue	**337,253,298**			**337,253,298**
Income before tax and minority interests per share	5.11			5.61
Basic earnings per share	3.21			3.67
Weighted average number of shares assuming full dilution	**357,590,028**			**357,590,028**
Income before tax and minority interests per share (diluted)	4.89			5.41
Diluted earnings per share	3.07			3.55
Number of shares in issue at December 31	**340,998,000**			**340,998,000**
Income before tax and minority interests per share	5.05			5.55
Earnings per share	3.18			3.63

l) Sales

Reported sales under IFRS are €147 million higher than sales reported under French GAAP, due to the following movements:

• in accordance with IAS 18, €190 million in ancillary revenue relating mainly to sales of pallets and containers and to revenues from property leases have been excluded from other operating income and reclassified under sales;

• rebilled freight costs have been reclassified under sales, whereas discounts granted to customers are now recorded as a deduction from sales, leading to a net decrease of €40 million in the sales figure;

• in accordance with IAS 21, sales are recorded at the exchange rate ruling at the transaction date and not at the hedging rate, leading to a decrease of €12 million in this item;

• the change of accounting method regarding the elimination of sales relating to proportionately consolidated companies leads to an increase of €17 million in sales;

• finally, the change of consolidation method applied to Mineracao Jundu (see note c) results in a decrease of €8 million in sales.

3

m) Operating expenses

Certain costs presented under other operating expenses and income under French GAAP have been reclassified to various income statement line items (cost of sales or selling, general and administrative expenses including research costs) under IFRS. These items mainly relate to:

• costs of employee profit-sharing (€141 million);

• amortization charged against intangible assets (€76 million);

• ancillary revenue reclassified under sales (€190 million).

Furthermore, a number of adjustments have been made to operating income:

• the interest cost relating to pensions has been reclassified under net financial income/(loss) for an amount of €95 million;

• adjustments to the pension charge under IFRS have a positive impact of €23 million on operating income;

• costs of stock option plans and the Group Savings Plan have been recognized in selling, general and administrative expenses for €18 million and €14 million, respectively;

• the useful lives of property, plant and equipment have been revised, leading to a positive impact of €29 million on the depreciation charge for the year;

• miscellaneous other adjustments, leading to a decrease of €4 million in this item.

The afore-mentioned reclassifications and adjustments have a positive impact of €111 million on operating income.

n) Profit/(loss) on sales of assets and asset write-downs

This item mainly concerns the reclassification of write-downs taken on long-term financial receivables previously recorded in non-operating costs (€9 million) and of impairment losses recognized on goodwill (€10 million), corresponding to the amortization provided under French GAAP.

o) Goodwill amortization

Net amortization taken on goodwill has been cancelled in an amount of €161 million. This item amounted to €6 million at December 31, 2004, reflecting the negative goodwill generated in the year.

p) Net financial income/(loss)

(in € millions)	2004 French GAAP	2004 IFRS adjust-ments	2004 IFRS
Borrowing costs, gross [(1)]	(451)	1	(450)
Cash proceeds	64	0	64
Borrowing costs, net	**(387)**	**1**	**(386)**
Interest cost relating to pensions	0	(95)	(95)
Other interest income/(expense)	(54)	0	(54)
NET FINANCIAL INCOME/(LOSS)	**(441)**	**(94)**	**(535)**

(1) Gross borrowing costs under French GAAP are equal to the sum of items recorded under interest expense and interest on non-voting participating securities in note 24.

The increase in net interest and other financial charges mainly corresponds to the reclassification of the interest cost relating to pensions.

q) Provision for income taxes

The net impact of the restatements set out above is an additional deferred tax charge of €13 million.

Impact of IFRS on net debt

The components of net debt under IFRS are the same as in French GAAP (see note 20), except for:

• the inclusion of derivative instruments acquired as hedges of cash and cash equivalents and net debt;

• the exclusion of short-term loans made by the Group to non-consolidated companies.

The impact of applying IFRS on net debt at January 1, 2004 is as follows:

(in € millions)	
Net debt at January 1, 2004 under French GAAP	**5,657**
Finance leases	92
Reclassification of non-voting participating securities	178
Restatement of Océane bonds	(67)
Remeasurement of financial instruments at market	(6)
Reclassification of additional paid-in capital	(23)
Securitized receivables (US program)	368
Reclassification of loans to non-consolidated companies	160
Total IFRS impact	**702**
NET DEBT AT JANUARY 1, 2004 UNDER IFRS	**6,359**
NET DEBT AT DECEMBER 31, 2004 UNDER IFRS	**6,218**

Impact of IFRS on cash flows

(in € millions)		2004 French GAAP	IFRS adjust-ments	2004 under IFRS
Net income		**1 083**	**156**	**1 239**
Depreciation and amortization		1 454	(80)	1 374
Other transactions affecting cash flows from operations		75	(49)	26
Cash flows from operations	(r)	**2 612**	**27**	**2 639**
Net change in working capital		269	(9)	260
Net change in provisions for contingencies and charges		(168)	(3)	(171)
Cash flows from operating activities	(s)	**2 713**	**15**	**2 728**
Purchases of property, plant and equipment		(1 537)	(3)	(1 540)
Acquisition of businesses, net of cash acquired		(551)		(551)
Other investments		(116)	66	(50)
Disposals of consolidated investments				0
Disposals of investments at cost		133		133
Disposals of property, plant and equipment and other intangible assets		162	0	162
Other		168	(76)	92
Cash flows from (used in) investing activities/divestments		**(1 741)**	**(13)**	**(1 754)**
Issues of capital stock		136		136
Minority interests' share in capital stock increases of subsidiaries		10		10
(Increase) decrease in treasury stock		(241)		(241)
Dividends paid		(387)		(387)
Dividends paid to minority shareholders of consolidated subsidiaries		(19)	2	(17)
Change in long-term debt, short-term loans and bank overdrafts		(487)	(4)	(491)
Cash flows from (used in) financing activities	(t)	**(988)**	**(2)**	**(990)**
Net effect of exchange rate changes on cash and cash equivalents		1	0	1
Increase (decrease) in cash and cash equivalents		**(15)**	**0**	**(15)**
Cash and cash equivalents at beginning of year		**2 914**	**(1)**	**2 913**
Cash and cash equivalents at end of year	(u)	**2 899**	**(1)**	**2 898**

r) Cash flow from operations

The impact of applying IFRS on cash flow from operations stems mainly from:

• the reclassification of operating leases as finance leases in an amount of €20 million. Cash flow from operations increases as a result of the cancellation of rental expense to the extent of the lease payments made, which are included under financing activities;

• the cancellation of goodwill amortization;

• the reclassification of exceptional asset write-downs.

s) Cash flow from operating activities

In addition to the impact on cash flow from operations, changes in amounts payable on purchases of property, plant and equipment, amounts receivable on disposals and investment grants is now shown under cash flows from investing activities/divestments in order to reflect the effective impact of the cash flows generated by these operations in the period.

t) Cash flows from (used in) financing activities

As set out in note r), the reclassification of certain operating leases as finance leases has a €20 million impact on debt. Other adjustments relate to restatements made in accordance with IAS 39.

u) Cash and cash equivalents at end of year

In accordance with IFRS, the Group has modified the presentation of its statement of cash flows to show marketable securities in its cash and cash equivalents line (see note 8), as well as the change in the line item.

Segment information by Sector and Division

(in € millions)	Building Distribution	High-Performance Materials: Ceramics & Plastics and Abrasives	High-Performance Materials: Reinforcements	High-Performance Materials: Items eliminated from HPM	High-Performance Materials: Total	Flat Glass	Packaging	Construction Products: Building Materials	Construction Products: Insulation	Construction Products: Pipe	Construction Products: Items eliminated from CP	Construction Products: Total	Other (*)	Total
2004 UNDER IFRS														
External sales	13,652	3,427	1,191		4,618	4,403	3,876	2,458	1,897	1,261		5,616	7	32,172
Internal sales	1	55	80	(21)	114	26	4	162	133	127	(19)	403	(548)	0
Sales	13,653	3,482	1,271	(21)	4,732	4,429	3,880	2,620	2,030	1,388	(19)	6,019	(541)	32,172
Operating income	762	419	84		503	461	459	202	257	83		542	16	2,743
Business income	759	347	62		409	411	422	187	238	43		468	(51)	2,418
Share in net income of equity investees		6			6			1		1		2		8
Depreciation and amortization	(203)	(182)	(109)		(291)	(339)	(256)	(92)	(111)	(71)		(274)	(11)	(1,374)
Net goodwill	2,388	1,203	219		1,422	182	478	424	67	233		724	9	5,203
Retail brands	1,504				0							0		1,504
Total assets	10,138	3,726	1,624		5,350	4,498	3,446	1,767	1,375	1,322		4,464	2,529	30,425
Total liabilities (excl. equity)	7,599	2,257	858		3,115	3,004	2,155	859	702	831		2,392	1,487	19,752
Purchases in the year of:														
• property, plant and equipment	249	132	108		240	448	302	100	144	51		295	6	1,540
• securities (net of cash acquired)	480	(4)	11		7	46	(1)	22	(1)	(1)		20	(1)	551

* "Other" represents intercompany eliminations in relation to sales, and the holding company activity for the other captions.

Segment information by geographic area

(in € millions)	France	Other western European countries	North America	Emerging countries and Asia	Internal sales	Total
At December 31, 2004:						
Sales	10,771	13,801	5,739	3,577	(1,716)	32,172
Non-current assets	4,476	6,391	3,415	2,500		16,782
Capital expenditure	363	483	273	421		1,540

NOTE 36 • PRINCIPAL FULLY CONSOLIDATED COMPANIES

The table below shows the principal consolidated companies, notably those with net sales of over €100 million.

Principal fully consolidated companies

			Percentage interest (held directly and indirectly)
PRINCIPAL FULLY CONSOLIDATED COMPANIES AT DECEMBER 31, 2004			
Building Distribution Sector			
	Distribution Sanitaire Chauffage	France	100.00%
	Lapeyre	France	100.00%
	Point.P	France	100.00%
	Raab Karcher GmbH	Germany	100.00%
	Saint-Gobain Building Distribution Ltd	United Kingdom	99.97%
	Raab Karcher BV	Netherlands	100.00%
	Dahl International Ab	Sweden	100.00%
High-Performance Materials Sector			
CERAMICS & PLASTICS AND ABRASIVES			
	Saint-Gobain Abrasifs	France	99.92%
	Société Européenne des Produits Réfractaires	France	100.00%
	Saint-Gobain Abrasives Inc.	United States	100.00%
	Saint-Gobain Ceramics & Plastics Inc.	United States	100.00%
	Saint-Gobain Performance Plastics Corp.	United States	100.00%
	Saint-Gobain Abrasivi	Italy	99.92%
	SEPR Italia	Italy	100.00%
	Saint-Gobain Abrasivos Brasil	Brazil	100.00%
	Saint-Gobain Abrasives BV	Netherlands	99.92%
	Saint-Gobain Abrasives Ltd	United Kingdom	99.97%
REINFORCEMENTS			
	Saint-Gobain Vetrotex France	France	100.00%
	Saint-Gobain Vetrotex Italia SpA	Italy	100.00%
	Saint-Gobain Vetrotex America Inc.	United States	100.00%
Flat Glass Sector			
	Saint-Gobain Glass France	France	100,00%
	Saint-Gobain Sekurit France	France	100,00%
	Saint-Gobain Sekurit Deutschland GmbH & CO Kg	Germany	99.90%
	Saint-Gobain Glass Deutschland GmbH	Germany	99.90%
	Saint-Gobain Glass Benelux	Belgium	99.74%
	Saint-Gobain Sekurit Benelux SA	Belgium	99.90%
	Koninklijke Saint-Gobain Glass	Netherlands	99.74%
	Cebrace Cristal Plano Ltda	Brazil	50.00%
	Saint-Gobain Vidros	Brazil	100.00%
	Saint-Gobain Cristaleria SA	Spain	99.66%
	Solaglas Ltd	United Kingdom	99.97%
	Saint-Gobain Glass Italia	Italy	100.00%
	Saint-Gobain Sekurit Italia	Italy	100.00%
	Hankuk Sekurit Limited	Korea	72.92%

3

				Pourcentage de détention direct et indirect
Packaging Sector				
		Saint-Gobain Desjonquères	France	99.99%
		Saint-Gobain Emballage	France	100.00%
		Saint-Gobain Oberland AG	Germany	96.67%
		Saint-Gobain Vicasa SA	Spain	99.57%
		Saint-Gobain Containers Inc.	United States	100.00%
		Saint-Gobain Calmar Inc.	United States	100.00%
		Saint-Gobain Vetri SpA	Italy	99.98%
Construction Products Sector				
	BUILDING MATERIALS			
		Saint-Gobain Weber	France	99.99%
		Saint-Gobain Stradal	France	100.00%
		CertainTeed Corporation	United States	100.00%
		Brasilit	Brazil	100.00%
		Saint-Gobain Weber Cemarksa SA	Spain	99.99%
	INSULATION			
		Saint-Gobain Isover	France	100.00%
		Saint-Gobain Isover G+H AG	Germany	99.89%
		CertainTeed Corporation	United States	100.00%
		Saint-Gobain Ecophon Group	Sweden	99.65%
	PIPE			
		Saint-Gobain PAM SA	France	100.00%
		Saint-Gobain Gussrohr KG	Germany	100.00%
		Saint-Gobain Pipelines Plc	United Kingdom	99.97%
		Saint-Gobain Canalizacion SA	Spain	99.93%
		Saint-Gobain Condotte SpA	Italy	100.00%
		Saint-Gobain Canalizaçao SA	Brazil	100.00%
PRINCIPAL PROPORTIONATELY CONSOLIDATED COMPANY AT DECEMBER 31, 2004				
Flat Glass Sector				
		Hankuk Glass Industries	Korea	46.00%

Statutory Auditors' report on the consolidated financial statements

For the year ended December 31, 2004

To the shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Compagnie de Saint-Gobain for the year ended December 31, 2004.
These consolidated financial statements have been approved by the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

I - OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with the professional standards applied in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
In our opinion, the consolidated financial statements give a true and fair view of Compagnie de Saint-Gobain and its subsidiaries' financial position and their assets and liabilities as of December 31, 2004, and of the results of their operations for the year then ended, in accordance with French accounting principles and regulations.
Without qualifying the opinion expressed above, and in accordance with the requirements of Article L. 232-6 of the French Commercial Code, we wish to draw your attention to the following matters set out in Note 1 to the consolidated financial statements describing the changes in accounting methods during the year resulting from:
• the first-time application of *Conseil National de la Comptabilité* (French National Accounting Board) opinion no. 2004-05 on accounting for long-service awards in France;
• the introduction of an actuarial method to calculate provisions to cover workers' compensation costs in the United States.

II - JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L. 225-235 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:

Change in accounting methods

As part of our assessments of the accounting principles and methods applied by the Group, we obtained assurance about the appropriateness of the changes in accounting methods set out above and of the description thereof provided in the Notes to the consolidated financial statements.

Impairment of property, plant and equipment and intangible assets

As stated in Note 1 to the consolidated financial statements, the Group carries out impairment tests on a regular basis for its non-current assets, including goodwill. As part of our assessment of the significant estimates used to prepare the consolidated financial statements, we examined the approach used by the Group and – based on the information available at the time of our audit – we also ensured that the estimates made by the Group at December 31, 2004 were reasonable.

Provisions for pensions and other post-retirement benefits

The Group records provisions for pensions and other post-retirement benefits in accordance with the accounting principles described in Note 1 to the consolidated financial statements. Such provisions are calculated based on the assumptions and methods described in Note 16. As part of our assessments of the significant estimates used to prepare the consolidated financial statements, we ensured that the assumptions and methods used for determining these provisions, as well as the resulting valuations, were reasonable.

Provisions for contingencies and charges

The types of provisions for contingencies and charges recorded under "Other liabilities" are described in Note 18 to the consolidated financial statements. Based on the information available at the time of our audit, we ensured that the methods used to determine provisions for contingencies and charges, as well as the disclosures relating to said provisions provided in the Notes to the consolidated financial statements at December 31, 2004, were reasonable.
These assessments were made in the context of our audit of the consolidated financial statements, taken as a whole, and therefore contributed to the formation of the unqualified opinion expressed in the first part of this report.

III - SPECIFIC VERIFICATION

We have also reviewed the information given in the Group's management report. We have no comments to make as to its fair presentation and its conformity with the consolidated financial statements.

Paris and Paris La Défense, March 24, 2005

The Statutory Auditors

PricewaterhouseCoopers Audit

Pierre Coll   Christian Marcellin

KPMG Audit
Department of KPMG S.A.

Jean Gatinaud   Gilles Salignon

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the consolidated financial statements. This information includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. This report, together with the Statutory Auditors' report addressing financial and accounting information in the Chairman's report on internal control, should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

4 Financial statements of Compagnie de Saint-Gobain (Parent Company)

Statements of income

(in euro thousands)		2004	2003	2002
Operating revenue				
Royalties		92,008	100,989	101,613
Other services		66,402	62,391	54,537
Net sales		**158,410**	**163,379**	**156,150**
Expense transfers		885	1,463	1,316
Other operating income		83	126	134
	TOTAL I	**159,378**	**164,969**	**157,600**
Operating expense				
Other purchases and external charges		(99,946)	(94,919)	(94,492)
Taxes other than on income		(4,278)	(6,140)	(4,023)
Wages and salaries		(34,820)	(33,656)	(33,687)
Payroll taxes		(16,680)	(15,822)	(15,498)
Depreciation, amortization and provisions				
• non-current assets		(3,864)	(6,671)	(6,531)
• contingencies and charges		–	–	–
Other operating expenses		(2,321)	(2,583)	(3,401)
	TOTAL II	**(161,909)**	**(159,790)**	**(157,632)**
Operating income		**(2,531)**	**5,178**	**(32)**
Share in profits of joint ventures				
Gains	TOTAL III	46	382	20
Losses	TOTAL IV	(1)	(12)	(7)
Financial income				
Income from investments in subsidiaries and affiliates		720,263	415,750	500,867
Income from loans and other investments		315,577	349,321	431,580
Income from other non-current investment securities		73	85	68
Other interest income		127,238	135,999	131,685
Write-backs of provisions and expense transfers		16,394	49,581	1,673
Foreign exchange gains		118,096	305,614	946,652
Net income from sales of marketable securities		18,105	12,085	577
	TOTAL V	1,315,746	1,268,435	2,013,102
Financial expense				
Allowances for impairment in value of investments		(27,779)	(19,058)	(44,550)
Interest expense		(485,708)	(522,942)	(573,383)
Foreign exchange losses		(117,471)	(305,462)	(946,531)
Net expense from sales of marketable securities		–	–	–
	TOTAL VI	(630,958)	(847,462)	(1,564,464)
Net financial income		**684,788**	**420,972**	**448,638**
INCOME BEFORE TAX AND EXCEPTIONAL ITEMS		**682,301**	**426,521**	**448,620**

(in euro thousands)		**2004**	2003	2002
Exceptional income				
From revenue transactions		19,892	14,232	24,145
From capital transactions		162,214	128,619	364,082
Reversals of depreciation, amortization and provisions		16,634	340	103,791
	TOTAL VII	198,740	143,191	492,018
Exceptional expenses				
On revenue transactions		(20,114)	(1,406)	(10,004)
On capital transactions		(139,785)	(113,218)	(364,340)
Depreciation, amortization and provisions		(529)	(11,402)	(772)
	TOTAL VIII	(160,428)	(126,026)	(375,116)
Net exceptional income		**38,312**	**17,164**	**116,902**
Income tax	TOTAL IX	**45,403**	**69,888**	**30,396**
Total income		**1,719,313**	**1,646,865**	**2,662,739**
Total expenses		**(953,296)**	**(1,133,291)**	**(2,066,823)**
NET INCOME		**766,017**	**513,574**	**595,916**

From December 31, 2004 the statement of income will be presented based on the guidelines set out by the French General Chart of Accounts and not according to the rules applicable to holding companies. The presentation of the financial statements for 2002 and 2003 has therefore been adjusted.
Changes in provisions for impairment of investments in subsidiaries and affiliates, investment securities and provisions for contingencies and charges relating to treasury shares, which were recorded under exceptional items until 2003, are now included in financial income. As a result, income of €49,581 thousand for 2003 and €1,673 thousand for 2002 were reclassified from exceptional income to financial income. In addition, exceptional expenses of €15,991 thousand for 2003 and €42,401 thousand for 2002 were reclassified to financial expenses.

4

Balance sheets

At December 31

ASSETS *(in euro thousands)*	12/31/04			12/31/03	12/31/02
	Gross	Depreciation, amortization and provisions	Net		
NON-CURRENT ASSETS					
Intangible assets (note 5)					
• Goodwill (1)	567	(476)	91	113	136
• Other intangible assets	34,217	(28,954)	5,263	7,209	11,887
• In progress	10,947		10,947	4,153	961
Property and equipment (note 6)					
• Land	620		620	620	620
• Buildings	487	(256)	231	242	252
• Other	9,907	(7,494)	2,413	2,910	2,711
• In progress			0	0	0
Financial investments (2) (note 7)					
• Investments in subsidiaries and affiliates	7,719,982	(1,217)	7,718,765	7,791,258	7,890,199
• Investment-related receivables	4,338,465		4,338,465	4,790,181	5,539,962
• Other investment securities	247,601	(25,582)	222,019	404,747	147,684
• Loans	1,108,263		1,108,263	1,649,507	1,542,190
• Other financial investments	535		535	1,103	1,080
TOTAL I	**13,471,591**	**(63,979)**	**13,407,612**	**14,652,043**	**15,137,682**
CURRENT ASSETS (note 8)					
• Other receivables (3)	112,107		112,107	108,764	96,702
• Marketable securities	1,211,659		1,211,659	1,214,718	76,943
• Cash and cash equivalents	2,287,959		2,287,959	1,681,339	1,303,929
Accruals					
• Prepayments (3)	1,543		1,543	2,407	3,306
TOTAL II	**3,613,268**	**0**	**3,613,268**	**3,007,228**	**1,480,880**
• Deferred charges TOTAL III	5,543		5,543	7,957	10,564
Translation adjustments TOTAL IV	-	-	-	-	
TOTAL	**17,090,402**	**(63,979)**	**17,026,423**	**17,667,228**	**16,629,126**
(1) Including leasehold rights			-	-	-
(2) Of which due within one year			3,979,151	3,295,454	3,891,338
(3) Of which due in over one year			4,827	771	942

LIABILITIES AND SHAREHOLDERS' EQUITY *(in euro thousands)*

		12/31/04	12/31/03	12/31/02
Shareholders' equity (note 9)				
• Capital stock		1,363,952	1,391,300	1,364,043
• Additional paid-in capital		1,986,291	2,241,803	2,128,276
• Reserve for revaluation of assets		56,262	56,262	56,516
• Reserves:				
Legal reserve (a)		136,395	139,130	136,404
Untaxed reserves		2,831,482	2,541,092	2,548,798
Other reserves		106,415	106,415	106,415
• Unappropriated retained earnings		921,176	1,090,363	865,882
• Net income for the year		766,017	513,574	595,916
• Untaxed provisions (note 11)		6,444	6,615	6,807
	TOTAL I	**8,174,434**	**8,086,554**	**7,809,057**
Other equity (note 10)				
• Non-voting participating securities	TOTAL I bis	170,035	391,034	391,034
Provisions for contingencies and charges (note 11)				
• Provisions for contingencies		358,012	357,031	343,215
• Provisions for charges		10,976	10,474	10,020
	TOTAL II	**368,988**	**367,505**	**353,235**
Debt and payables (1) (note 12)				
• Other bonds		976,811	1,231,873	1,255,867
• Bank borrowings (2)		700,790	612,411	716,522
• Other short- and long-term debts		6,584,479	6,947,306	6,007,077
• Taxes and social charges payable		36,091	12,206	11,864
• Other payables		14,795	18,339	84,470
Accruals (1)				
• Deferred income				
	TOTAL III	**8,312,966**	**8,822,135**	**8,075,800**
Translation adjustments	TOTAL IV	-	-	-
TOTAL		**17,026,423**	**17,667,228**	**16,629,126**
(a) Of which reserve for long-term capital gains		14,225	14,225	14,225
(1) Due in over one year		5,055,899	6,157,132	6,054,189
Due within one year		3,257,067	2,665,003	2,021,611
(2) Of which short-term bank loans and overdrafts		382,540	280,397	234,419

4

Statements of cash flows

(in euro thousands)	2004	2003	2002
Net income	**766,017**	**513,574**	**595,916**
Depreciation and amortization	8,856	9,738	8,682
Changes in provisions	(9,713)	(22,380)	(61,658)
Profit on sales of non-current assets, net	(35,287)	(15,401)	257
Cash flows from operations	**729,873**	**485,531**	**543,197**
((Increase) decrease in other receivables	(5,057)	(11,622)	(53,051)
Increase (decrease) in taxes and social charges payable	23,885	342	(25,718)
Increase (decrease) in other payables	(3,544)	(66,131)	(189,571)
Net change in working capital	**15,284**	**(77,411)**	**(268,340)**
Cash flows from operating activities	**745,157**	**408,120**	**274,857**
Acquisitions of intangible assets	(9,725)	(4,147)	(1,923)
Purchases of property and equipment	(530)	(1,210)	(750)
Disposals of property and equipment and intangible assets	100	19	79
Acquisition of investments in subsidiaries and affiliates and other investment securities	(15)	3,059	(444,389)
Purchases of treasury stock	(280,036)	(238,190)	(162,051)
Disposals of investments in subsidiaries and affiliates and other investment securities	162,113	128,600	364,003
(Increase) decrease in investment-related receivables	451,716	749,781	841,245
((Increase) decrease in long-term loans	541,243	(107,316)	(649,680)
((Increase) decrease in other financial investments	568	(23)	86
Cash flows from (used in) investing activities/divestments	**865,434**	**530,573**	**(53,380)**
Issues of capital stock	135,906	143,509	163,596
Dividends paid	(387,384)	(379,141)	(378,364)
Increase (decrease) in unappropriated retained earnings	(4,988)	–	–
Increase (decrease) in reserves for revaluation of assets	–	–	–
Increase (decrease) in other equity	(220,999)	–	–
Increase (decrease) in provisions for contingencies and charges	(55)	–	–
Increase (decrease) in short- and long-term debt	(312,180)	356,015	586,068
Increase (decrease) in bank overdrafts and other short-term debt	(217,330)	456,109	(1,220,201)
Decrease (increase) in marketable securities	3,059	(1,137,775)	(74,903)
Cash flows from (used in) financing activities	**(1,003,971)**	**(561,283)**	**(923,804)**
Increase (decrease) in cash and cash equivalents	**606,620**	**377,410**	**(702,327)**
Cash and cash equivalents at beginning of year	1,681,339	1,303,929	2,006,256
Cash and cash equivalents at end of year	2,287,959	1,681,339	1,303,929

Notes to the parent company financial statements

The financial statements cover the twelve-month period from January 1 to December 31, 2004.
The following notes form an integral part of the annual financial statements.
These financial statements were approved by the Board of Directors on March 24, 2005.

NOTE 1 • ACCOUNTING PRINCIPLES AND METHODS

The financial statements of Compagnie de Saint-Gobain have been drawn up in accordance with accounting principles as set out in the 1999 French Chart of Accounts.
The financial statements of the German branch are included in those of Compagnie de Saint-Gobain's head office.
As from December 31, 2004 the statement of income is presented based on the guidelines set out by the French Chart of Accounts and not according to the rules applicable to holding companies. The presentation of the financial statements for 2002 and 2003 has therefore been adjusted.
Changes in provisions for impairment of investments in subsidiaries and affiliates, investment securities and provisions for contingencies and charges relating to treasury shares, which were recorded under exceptional items until 2003, are now included in net financial income. As a result, income of €49,581 thousand for 2003 and €1,673 thousand for 2002 were reclassified from exceptional income to financial income. Exceptional expenses of €15,991 thousand for 2003 and €42,401 thousand for 2002 were reclassified to financial expenses.
Except for the reclassifications mentioned above, the principle of consistent application of accounting principles from the previous year has been complied with.
In accordance with *CNC* Recommendation 2003 R.01, in 2004 Compagnie de Saint-Gobain recognized provisions for long-service awards in France for the first time. The impact of this change in accounting method resulting from these new regulatory requirements is set out in note 11.
Similarly, in accordance with opinion 2005-A issued by the *CNC*'s Urgent Issues Taskforce (*Comité d'Urgence*) relating to the treatment of the exceptional 2.5% tax on the special long-term capital gains reserve, at December 31, 2004 Compagnie de St-Gobain recorded this tax under retained earnings in the amount of €5 million as a contra-entry to amounts payable to the French State.

Intangible assets

Assigned goodwill not covered by any form of legal protection is amortized over twenty-five years. Other intangible assets are amortized over periods of between three and five years.

Property and equipment

Property and equipment are stated at cost (purchase price plus related costs, excluding expenses incurred on acquisition), except for assets acquired prior to December 31, 1976, which have been revalued.
Depreciation is based on the estimated useful life of assets using the straight-line or reducing-balance method. The most commonly used useful lives are as follows:

• Buildings	40 years	Straight-line
• Improvements and additions	12 years	Straight-line
• Installations and fittings	5 or 12 years	Straight-line
• Office furniture	10 years	Straight-line
• Office equipment	5 years	Straight-line
• Vehicles	4 years	Straight-line
• Computer equipment	3 years	Straight-line or reducing balance

Financial investments, investments in subsidiaries and affiliates and other investment securities

The gross value of these items represents cost excluding expenses.
The book value of investments in subsidiaries and affiliates is assessed based on revalued net assets. Provisions for impairment in value on other investments are generally recorded or written back based on the average of the values obtained between revalued net assets of the company concerned and capitalized average net cash flows.
Own shares held by Compagnie de Saint-Gobain for different purposes are classified as "Other investment securities" in the balance sheet. They are carried at the lower of cost, market price or the exercise price of options granted to employees when the shares have been allocated for attribution under stock options plans and when the exercise of the options is probable.

Marketable securities

Marketable securities mainly include units in SICAV and other mutual funds recorded at the lower of cost and market.

Receivables

Receivables are carried at their nominal value. A provision for impairment in value is recorded when their fair value falls below net book value.

Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate prevailing on the transaction date. Receivables and payables which are specifically hedged are recorded in the balance sheet at the hedging rate. Other receivables, payables and bank balances in foreign currencies, as well as the instruments used to hedge them, are converted at the year-end rate and the related exchange differences are recorded in the balance sheet under "Translation adjustments". Provisions are booked for exceptional unrealized exchange losses which are not hedged.

4

Financial instruments

Compagnie de Saint-Gobain manages, mainly on behalf of its subsidiaries, the hedging of foreign exchange and interest rate risks resulting from the Group's international activities.
Liquidity risk, which is also managed by Compagnie de Saint-Gobain, is not material.
Market risks exclusively concern investments held for strategic purposes.
The presentation of the financial statements for the year ended December 31, 2004 is unchanged from prior years.
The main financial instruments used to hedge foreign exchange risks are forward purchase and sale contracts and options. Hedged receivables and payables are recorded in the balance sheet at the hedging rate.
The portion representing the extrinsic (time) value of unrealized gains or losses on currency options used to hedge the above positions is taken to income, and the portion representing intrinsic value is recorded in the balance sheet. Unrealized losses on options which are not classified as hedges are recognized in the income statement, whereas unrealized gains are not taken into account.
Compagnie de Saint-Gobain uses interest rate swaps and swaptions (caps and floors) as well as forward rate agreements to hedge its exposure to increases in interest rates.
Income and expenses related to interest rate swaps are recognized on a symmetrical basis with the expenses and income on the hedged items.
The portion representing the extrinsic (time) value of unrealized gains or losses on interest rate options used to hedge the above positions is taken to income and the portion representing intrinsic value is recorded in the balance sheet. Interest rate options which are not classified as hedges are recognized in the income statement at market value.

Consolidated tax agreements

Compagnie de Saint-Gobain is assessed for income tax on its consolidated fiscal income as provided for under Article 209 quinquies of the French Tax Code (CGI), as well as the integrated tax (*Intégration Fiscale*) system as provided for under Article 223 A et seq. of the CGI. The current tax agreement covers the years 2004 to 2006.
The tax charge of Compagnie de Saint-Gobain includes its own tax liability as well as that resulting from the consolidated fiscal income of its tax group.
A provision for potential tax liabilities is booked for the income tax benefit to be transferred by Compagnie de Saint-Gobain to loss-making subsidiaries in the tax group when the subsidiaries concerned return to profit. Movements in this provision are recorded under exceptional items.

NOTE 2 • NET FINANCIAL INCOME

Net financial income increased by €264 million, due to the combined impact of:
• a €304 million increase in income from investments in subsidiaries and affiliates;
• a €42 million decrease in income from loans and investments and other interest income;
• a €37 million decrease in interest charges and related expenses;
• a €41 million increase in the amortization charge and net additions to provisions;
• a €6 million increase in income from sales of marketable securities.

NOTE 3 • EXCEPTIONAL ITEMS

Exceptional income (€199 million) corresponds to:
• income from revenue transactions in an amount of €20 million, relating to taxes received by the German branch from subsidiaries that were included in the tax group;
• proceeds from asset disposals in an amount of €162 million, including: Vivendi Universal for €121 million, treasury shares for €39 million and RTL Group and other disposals for €2 million;
• write-backs of provisions for contingencies and charges and impairment in value in an amount of €17 million, including €16 million relating to the provision for potential tax liabilities.
Exceptional expenses (€160 million) correspond to:
• expenses on revenue transactions of €20 million, including €19 million for taxes in arrears;
• assets sold representing a net book value of €127 million, including Vivendi Universal for €73 million, treasury shares for €52 million and software for €2 million;
• and a loss of €13 million arising from the cancellation of non-voting participating securities repurchased by the Company.

NOTE 4 • INCOME TAX

Under the consolidated tax regime and the integrated tax systems, the income tax benefit attributable to Compagnie de Saint-Gobain is estimated at €45 million for the year ended December 31, 2004, as follows:
• €37 million tax benefit for 2004;
• €8 million tax benefit due to an adjustment to the provision booked at December 31, 2003 for fiscal year 2003.
In the tax records filed by the Company with the French tax authorities for 2003, the charge to the special long-term capital gains reserve amounted to €278 million, whereas the provisional charge stood at €291 million. An amount of €14 million will therefore be written back in 2005.
Since the publication of Article 39 II A of the Amended Finance Act (*Loi de finance rectificative*) 2004-1485 of December 30, 2004, companies are no longer required to credit the special long-term capital gains reserve for capital gains relating to fiscal years beginning on or after January 1, 2004.

NOTE 5 • INTANGIBLE ASSETS

Intangible assets represent goodwill and other intangible assets which are amortized over periods of between three and five years.

(in euro thousands)	Non-current assets: Gross at beginning of year	Non-current assets: Increase	Non-current assets: Decrease	Non-current assets: Gross at end of year	Amortization: Accumulated at beginning of year	Amortization: Increase	Amortization: Decrease	Amortization: Accumulated at end of year
Goodwill	567	-	-	567	454	22	-	476
Other intangible assets	33,432	1,044	(259)	34,217	26,223	2,990	(259)	28,954
In progress	4,153	8,681	(1,887)	10,947	-	-	-	-
TOTAL	**38,152**	**9,725**	**(2,146)**	**45,731**	**26,677**	**3,012**	**(259)**	**29,430**

NOTE 6 • PROPERTY AND EQUIPMENT

(in euro thousands)	Non-current assets: Gross at beginning of year	Non-current assets: Increase	Non-current assets: Decrease	Non-current assets: Gross at end of year	Depreciation: Accumulated at beginning of year	Depreciation: Increase	Depreciation: Decrease	Depreciation: Accumulated at end of year
Land	620	-	-	620	-	-	-	-
Buildings	487	-	-	487	245	11	-	256
Other	11,389	531	(2,013)	9,907	8,479	841	(1,826)	7,494
In progress	-	-	-	-	-	-	-	-
TOTAL	**12,496**	**531**	**(2,013)**	**11,014**	**8,724**	**852**	**(1,826)**	**7,750**

During 2004, Compagnie de Saint-Gobain disposed of most of the computer equipment that was held at Saint-Gobain Système d'Information.

NOTE 7 • FINANCIAL INVESTMENTS

Financial investments

(in euro thousands)	Non-current assets: Gross at beginning of year	Non-current assets: Increase	Non-current assets: Decrease	Non-current assets: Gross at end of year
Investments in subsidiaries and affiliates	7,792,475	15	(72,508)	7,719,982
Investment-related receivables	4,790,181	4,041,054	(4,492,770)	4,338,465
Other investment securities	441,410	280,036	(473,845)	247,601
Loans	1,649,507	40,725,629	(41,266,873)	1,108,263
Other financial investments	1,103	177	(745)	535
TOTAL	**14,674,676**	**45,046,911**	**(46,306,741)**	**13,414,846**

Changes in investments in subsidiaries and affiliates

(in euro thousands)	Increase	Decrease
Purchase of S.G. Isover G + H shares (German branch)	15	
Disposal of Vivendi Universal shares (outstanding)		(72,508)
TOTAL	**15**	**(72,508)**

4

Changes in other investment securities

(in euro thousands)	Increase	Decrease
Purchase of treasury stock on the market	280,036	
Cancellation of treasury stock		(421,500)
Sales of treasury stock		(52,278)
Other sales of shares		(67)
TOTAL	**280,036**	**(473,845)**

Other financial investments

(in euro thousands)	Gross	Maturity within one year	Maturity over one year
Investment-related receivables	4,338,465	2,871,153	1,467,312
Loans (1)	1,108,263	1,107,998	265
Other	535	-	535
TOTAL	**5,447,263**	**3,979,151**	**1,468,112**

(1) Loans granted during the year	40,725,629
Loans repaid during the year	41,266,872

Changes in treasury stock

	Number of shares held	Gross *(in euro thousands)*	Net
At December 31, 2001	**4,818,352**	**206,829**	**179,181**
Acquisitions in 2002	5,403,148	162,051	162,051
Disposals in 2002	(107,976)	(4,635)	(3,136)
Cancellations in 2002	(4,953,708)	(148,572)	(148,572)
Adjustments to provision for impairment in value	-	-	(42,326)
At December 31, 2002	**5,159,816**	**215,673**	**147,198**
Acquisitions in 2003	6,784,000	238,190	238,190
Disposals in 2003	(304,430)	(13,068)	(8,843)
Cancellations in 2003	-	-	-
Adjustments to provision for impairment in value	-	-	27,586
At December 31, 2003	**11,639,386**	**440,795**	**404,131**
Acquisitions in 2004	6,730,702	280,036	280,036
Disposals in 2004	(1,227,819)	(52,278)	(38,963)
Cancellations in 2004	(11,281,859)	(421,501)	(421,501)
Adjustments to provision for impairment in value	-	-	(2,234)
At December 31, 2004	**5,860,410**	**247,052**	**221,469**

Further to the four-for-one stock split of June 27, 2002, the number of shares at December 31, 2001 has been multiplied by four in order to permit year-on-year comparisons.

NOTE 8 • CURRENT ASSETS

Current assets rose €606 million in 2004 to €3,613 million. This change reflects the combined impact of a €607 million increase in cash and cash equivalents, a €3 million rise in other receivables, a €3 million decrease in marketable securities and a €1 million decrease in prepayments.

Maturity of receivables

(in euro thousands)	Gross	Maturity within one year	Maturity over one year
Other receivables	112,107	107,879	4,228
Prepayments	1,543	944	599
TOTAL	**113,650**	**108,823**	**4,827**

NOTE 9 • SHAREHOLDERS' EQUITY

Changes in shareholders' equity

(in euro thousands)	Amounts
Shareholders' equity before appropriation of net income for 2003	**8,086,554**
Distribution in 2004 of the dividend relating to 2003	(387,384)
Employee share issue (capital and premiums including related expenses)	135,906
Changes in untaxed provisions	(171)
Net income for 2004	766,017
2.5% tax on the special long-term capital gains reserve in unappropriated retained earnings	(4,987)
Cancellation of 11,281,859 shares on January 29, 2004 and November 18, 2004	(421,501)
SHAREHOLDERS' EQUITY BEFORE APPROPRIATION OF NET INCOME FOR 2004	**8,174,434**

Movements in capital stock

Par value of shares at beginning of year: €4 Par value of shares at end of year: €4	Number of shares	Amounts *(in euro thousands)*
Capital stock at beginning of year	347,824,967	1,391,300
Shares issued under the Group Savings Plan	4,099,192	16,396
Shares issued on exercise of stock options granted in 1996 and 2003	345,700	1,383
Cancellation of shares	(11,281,859)	(45,127)
CAPITAL STOCK AT YEAR-END	**340,988,000**	**1,363,952**

Share issue premiums decreased by €256 million as a result of share cancellations mentioned above, whose negative impact amounted to €372 million and capital stock increases whose positive impact, net of related expenses amounted to €116 million. The reserve for the revaluation of assets remained unchanged at €56 million.

The following changes took place in retained earnings during the year:

- Balance at December 31, 2003: €1,090,363 thousand
- Changes resulting from the third resolution of the AGM of June 10, 2004 (income appropriation):
- Net income for 2003: €513,574 thousand
- Allocation to special long-term capital gains reserve: €(290,390) thousand
- Final dividend taking into account the actual number of treasury shares held: €(387,384) thousand
- 2.5% long-term capital gains tax charge: €(4,987) thousand
- Balance at December 31, 2004: €921,176 thousand

2004 net income increased by €253 million compared with 2003.

4

Stock option plans

Compagnie de Saint-Gobain has stock option plans available to certain employees, and a Group Savings Plan ("PEG"), or employee stock purchase plan.

The stock option plans allow the Board of Directors to grant options entitling the holder to obtain Saint-Gobain shares at a price based on the average share price for the 20-day period preceding the date of grant. Discounts of 10% and 5% on this average price were granted in 1997 and 1998 respectively. Such discounts were discontinued in 1999.

Options vest over a period of two, three, four or five years with full vesting occurring at the end of the vesting period. Options must be exercised within eight or ten years from the date of grant and all rights to options are forfeited if the employee terminates employment with the Group.

From 1997 to 2002, these plans involved purchase options on existing shares. In 2003 and 2004, the plans involved subscription options for new shares.

Further to the four-for-one stock split of June 27, 2002, the number of options at December 31, 2001 has been multiplied by four in order to permit meaningful year-on-year comparisons.

Data relating to stock options outstanding in 2002, 2003 and 2004 are listed below:

(in euros)	Shares (€4 par value)	Average exercise price
Options outstanding at January 1, 2002	**11,288,540**	**35.92**
Options granted	3,785,500	23.53
Options exercised	(334,456)	23.15
Options forfeited	(164,520)	39.87
Options outstanding at December 31, 2002	**14,575,064**	**32.95**
Options granted	3,717,700	35.67
Options exercised	(619,310)	24.14
Options forfeited	(80,000)	23.53
Options outstanding at December 31, 2003	**17,593,454**	**33.88**
Options granted	3,881,800	43.56
Options exercised	(1,573,519)	29.51
Options forfeited	(72,700)	32.89
OPTIONS OUTSTANDING AT DECEMBER 31, 2004	**19,829,035**	**36.12**

At December 31, 2004, 5,773,735 options were exercisable at an average exercise price of €37.80.

At December 31, 2004, 2,630,820 options were available for grant under the authorization given by the General Meeting of June 5, 2003.

The following table summarizes information about stock options outstanding at December 31, 2004:

Date of grant	Options exercisable			Options not exercisable		Total options outstanding	Type of options
	Exercise price	Number of options	Weighted average remaining contractual life (in months)	Exercise price (in euros)	Number of options	Number of options	
1997	28.47	374,580	11			374,580	Purchase
1998	29.54	576,965	23			576,965	Purchase
1999	40.63	1,562,890	59			1,562,890	Purchase
2000	37.69	1,607,500	71	37.69	859,000	2,466,500	Purchase
2001	40.22	1,651,800	83	40.22	1,980,200	3,632,000	Purchase
2002	23.53	0	95	23.53	3,679,300	3,679,300	Purchase
2003	35.67	0	107	35.67	3,655,000	3,655,000	Subscription
2004	43.56	0	119	43.56	3,881,800	3,881,800	Subscription
TOTAL	-	**5,773,735**	-	-	**14,055,300**	**19,829,035**	-

Group Savings Plan (PEG) of Compagnie de Saint-Gobain

the PEG employee stock purchase plan is open to all Group employees in France and in most other European countries who have completed a minimum of three months' service with the Group. The plan offers shares to eligible employees at a 20% discount from the average price quoted for the shares for the 20-day period preceding the date of the meeting of the Board of Directors at which the Plan is set.

Employees can invest for a five or ten-year term. Over this period, employees may not sell their shares, barring exceptional circumstances.

Under the PEG, the Group issued 4,099,192, 6,499,407 and 4,703,396 shares with a par value of €4 to employees in 2004, 2003 and 2002, respectively, at an average price per share of €31.41 in 2004, €21.14 in 2003 and €33.88 in 2002.

NOTE 10 • OTHER EQUITY

Other equity amounting to €170 million corresponds to 684,399 non-voting participating securities in French francs and ecus issued between 1983 and 1988, which were converted into euros in 1999.

At June 30, 2004 Compagnie Saint Gobain purchased 798,583 participating securities held by its subsidiaries Spafi and Saint-Gobain Nederland for an amount of €234 million. On the same date, these securities were cancelled for a face value of €221 million, leading to a €13 million loss recorded under exceptional expenses on capital transactions.

NOTE 11 • PROVISIONS

Provisions

(in euro thousands)	Opening balance	Additions	Reversals from provisions (utilized)	Reversals from surplus provisions	Other (transfers)	At year-end
Untaxed provisions:						
• Reinvested capital gains	6,427					6,427
• Other	188	12	(183)			17
	6,615	**12**	**(183)**	**0**	**0**	**6,444**
Provisions for contingencies:						
• Potential tax liabilities (1)	353,000		(12,723)	(3,277)		337,000
• Stock options (1)	2,869	17,473				20,342
• Other	1,162		(258)	(178)	(56)	670
	357,031	17,473	(12,981)	(3,455)	(56)	358,012
Provisions for charges:						
• Other (2)	10,474	517	(15)			10,976
	10,474	**517**	**(15)**	**0**	**0**	**10,976**
Provisions for impairment in value:						
• Financial investments	37,880	5,314	(13,315)	(3,080)		26,799
• Marketable securities	0	0				
	37,880	**5,314**	**(13,315)**	**(3,080)**	**0**	**26,799**
IMPACT ON NET FINANCIAL INCOME		**22,787**	**(13,315)**	**(3,080)**		
IMPACT ON NET EXCEPTIONAL INCOME		**529**	**(13,179)**	**(3,455)**		

(1) In connection with the integrated tax system and consolidated tax regime, €13 million of the provision for potential tax liabilities was used and an amount of €3 million was written back to reflect an adjustment in the level of risk of subsidiaries returning to profit.

(2) At the year-end, a provision was recorded for €0.1 million corresponding to Compagnie de Saint-Gobain's estimated liability for long-service awards. This provision results from the application of *CNC* Recommendation 2003-R.01. The impact of this change in method at January 1 has been recorded in exceptional items for the period.

NOTE 12 • DEBT AND PAYABLES

Total debt and payables decreased by €509 million to €8,313 million in 2004, mainly reflecting a decrease in debt (€529 million), an increase in taxes and social charges payable (€24 million) and a reduction in other payables (€4 million).

Maturities of debt and payables

(in euro thousands)	Gross	Maturity within one year	Maturity over one year
Bonds (1)	976,811	24,291	952,520
Bank borrowings (1) (2)	700,790	463,055	237,735
Other short- and long-term debt (1) - (3)	6,584,479	2,718,835	3,865,644
Taxes and social charges payable	36,091	36,091	-
Other payables (3)	14,795	14,795	-
Deferred income	-	-	-
TOTAL DEBT AND PAYABLES (4)	**8,312,966**	**3,257,067**	**5,055,899**

(1) Issued during the year	1,679,420
Repaid during the year	2,208,930
(2) Of which:	
• two years or less at inception	388,990
• over two years at inception	311,800
(3) Of which due to partners	None
(4) Of which debt due in over 5 years	1,502,011

Long-term and short-term debt

(in euro thousands)	**2004**	2003	2002
LONG-TERM AND SHORT-TERM DEBT			
Long-term portion of debt			
Due between January 1 and December 31:			
• 2004	-	-	546,053
• 2005	-	1,259,521	1,277,132
• 2006	447,551	488,360	699,813
• 2007	624,251	1,575,755	1,664,243
• 2008	1,507,896	828,648	846,206
• 2009	974,190	977,259	986,250
• 2010 and beyond	1,467,756	990,410	-
Unspecified	34,255	34,382	34,493
Total long-term portion of debt	**5,055,899**	**6,154,335**	**6,054,190**
Current portion of long-term debt	**1,267,905**	**481,328**	**225,781**
TOTAL LONG-TERM DEBT (INCLUDING CURRENT PORTION)	**6,323,804**	**6,635,663**	**6,279,971**
OTHER SHORT-TERM DEBT			
Billets de trésorerie (in euros)	-	152,500	235,500
Billets de trésorerie (in US dollars)	-	142,518	76,285
Euro Commercial Paper (in euros)	415,000	190,000	201,300
Euro Commercial Paper (in pounds sterling)	-	-	-
Euro Commercial Paper (in US dollars)	-	-	123,009
US Commercial Paper (in US dollars)	-	-	-
Borrowings from Group entities	1,131,904	1,374,045	810,563
Bank overdrafts and other short-term borrowings	382,540	280,397	234,419
Other	8,832	16,467	18,419
TOTAL OTHER SHORT-TERM DEBT	**1,938,276**	**2,155,927**	**1,699,495**
TOTAL LONG- AND SHORT-TERM DEBT	**8,262,080**	**8,791,590**	**7,979,466**

Long-term and short-term debt can be analyzed as follows by currency:

(in euro thousands)	2004	2003	2002
Euro	4,544,367	4,473,899	3,829,414
US dollars	827,805	946,960	1,160,482
Swiss francs	-	255,063	282,177
Pounds sterling	880,238	879,321	954,094
Czech koruna	65,893	75,035	47,576
Norwegian krone	5,501	5,385	6,228
TOTAL	**6,323,804**	**6,635,663**	**6,279,971**

On February 18, 2002, Compagnie de Saint-Gobain issued 4,380,953 Océane bonds convertible into new shares or exchangeable for existing shares. These bonds have a nominal value of €210 each, and the total issue came to €920 million. The annual interest rate for these Océane bonds is 2.625% payable in arrears on January 1 each year. The bonds will be redeemed in full on January 1, 2007 in cash at nominal value, i.e. €210 per bond, or they may be repurchased before maturity by Compagnie de Saint-Gobain on the market or in connection with a public buyback offer. The Company may also decide to carry out an early redemption of all outstanding Océane bonds, subject to certain conditions, which include share price thresholds.

Each Océane bond may be converted and/or exchanged for four Compagnie de Saint-Gobain shares. This ratio may, however, be adjusted if the Company carries out certain financial operations.

No Océane bonds were converted or exchanged during 2004.

If all of the bonds were converted at the rate initially provided for, the holders would thus receive a total of 17,523,812 shares, representing 5.1% of the Company's capital at December 31, 2004.

NOTE 13 • INFORMATION CONCERNING RELATED COMPANIES AND INVESTMENTS

	Net amount concerning			Net amount in the balance sheet
(in euro thousands)	Related companies	Companies in which Compagnie de Saint-Gobain has a direct holding	Other	
Investments in subsidiaries and affiliates	7,718,602	163	-	7,718,765
Investment-related receivables	4,336,212	-	2,253	4,338,465
Other investment securities	221,469	550	-	222,019
Loans	540,016	-	568,247	1,108,263
Other receivables	48,214	-	63,893	112,107
Marketable securities	-	-	1,211,659	1,211,659
Cash and cash equivalents	2,086,789	-	201,170	2,287,959
Bonds	-	-	976,811	976,811
Bank borrowings	-	-	700,790	700,790
Other borrowings	6,043,515	-	540,964	6,584,479
Other payables	9,376	-	5,419	14,795
Income from investments in subsidiaries and affiliates	719,037	1,226	-	720,263
Income from loans and other investments	312,271	-	3,306	315,577
Other interest income	12,316	-	114,922	127,238
Interest expense	(308,676)	-	(177,032)	(485,708)

NOTE 14 • INVESTMENT PORTFOLIO

(in euro thousands)	Country	Net book value	% interest	Number of shares
Spafi	France	2,726,540	100.00	116,289,805
Partidis	France	2,065,919	100.00	78,262,892
Saint-Gobain Matériaux de Construction	France	738,712	100.00	21,325,936
Vertec	France	491,039	100.00	8,008,999
Cie de Saint-Gobain (treasury shares)	France	221,470	1.72	5,860,410
Saint-Gobain Cristaleria	Spain	211,220	23.91	3,659,866
Raab Karcher Gmbh	Germany	194,609	100.00	100,000,000
Saint-Gobain Glass Benelux SA	Belgium	160,880	88.69	1,667,698
Saint-Gobain Isover G+H AB	Germany	153,685	99.89	3,196,382
Saint-Gobain Vetrotex Deutschland Gmbh	Germany	153,669	100.00	45,000,000
International Saint-Gobain	Switzerland	153,409	96.50	221,950
Saint-Gobain Vidros SA	Brazil	118,068	54.46	115,072,390
São Lourenço	Brazil	109,559	99.91	3,617,581
Saint-Gobain Glass Deutschland Gmbh	Germany	86,660	60.00	119,999,970
Saint-Gobain Autoglas Gmbh	Germany	72,833	60.00	120,000,000
Saint-Gobain Emballage	France	61,553	20.52	331,964
Saint-Gobain Schleifmittel-Beteiligungen Gmbh	Germany	61,151	100.00	20,000,000
SEPR	France	53,310	25.73	407,600
Société Financière des Miroirs	France	45,735	100.00	2,999,994
Saint-Gobain PAM	France	30,732	8.10	360,255
Saint-Gobain Nederland	Netherlands	13,621	100.00	66,100
Valfix Finanz A.G.	Switzerland	8,838	100.00	11,400
Various real-estate companies		3,428		
Various French companies		947		
Various non-French companies		3,197		
		7,940,784		

Analysis:	
Investments in subsidiaries and affiliates	7,718,765
Other investment securities	222,019
	7,940,784

4

NOTE 15 • INFORMATION ON DIRECT HOLDINGS OF THE PARENT COMPANY WHERE BOOK VALUE EXCEEDS 1% OF CAPITAL

(in thousands of euros or other currency)	Capital stock	Reserves	% interest	Book value of capital held		Loans and advances granted by the Company	Guarantees given by the Company	2004 sales	2004 net income/ (loss)	Dividends received by the Company in 2004
SUBSIDIARIES										(1)
50% or more of the capital held by Compagnie de Saint-Gobain										
Spafi										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	1,860,637	1,436,444	100,00	2,726,540	2,726,540			1,467	68,646	63,960
Partidis										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	1,193,509	359,541	100,00	2,065,919	2,065,919	1,233,401		7,174	87,245	6,261
S.G. Matériaux de construction										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	325,221	20,490	100,00	738,712	738,712	980		6,869	36,760	259,110
Vertec										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	128,144	368,982	100,00	491,039	491,039			-	177,515	168,189
Raab Karcher Baustoffe Gmbh										
Hanauer Landstrasse, 150	EUR	EUR						EUR	EUR	
D-60314 Frankfurt am Main	100,000	94,600	100,00	194,609	194,609			1,368,840	(11,766)	(11,766)
S. G. Glass Benelux SA										
Rue des Glaces Nationales, 169	EUR	EUR						EUR	EUR	
B-5060 Sambreville	70,900	90,633	88,69	160,880	160,880			140,845	21,046	15,943
S. G. Isover G+H AG										
1 Burgermeister-Grünzweig Strasse	EUR	EUR						EUR	EUR	
D-67059 Ludwigshafen	82,000	11,291	99,89	153,685	153,685			328,890	33,792	33,792
S. G. Vetrotex Deutschland Gmbh										
Bicheroux Strasse 61	EUR	EUR	EUR	EUR						
D-52134 Herzogenrath	23,008	132,936	100,00	153,669	153,669			59,607	15,559	15,559
International Saint-Gobain										
10, rue Saint-Pierre	CHF	CHF						CHF	CHF	
CH-1700 Fribourg	230,000	113,277	96,50	153,409	153,409			-	149,428	62,867
S.G. Vidros SA										
482,avenida Santa Marina										
Agua Branca	BRL	BRL						BRL	BRL	
05036-903 São Paulo-SP (Brésil)	420,000	359,682	54,46	118,068	118,068			1,086,088	143,738	11,025
São Lourenço Administradora										
482, avenida Santa Marina										
Agua Branca	BRL	BRL						BRL	BRL	
05036-903 São Paulo-SP (Brésil)	175,654	178,939	99,91	109,559	109,559			-	63,906	9,001
S. G. Glass Deutschland Gmbh										
Viktoria - Allee 3-5	EUR	EUR						EUR	EUR	
D-52066 Aachen	102,258	82,899	60,00	86,660	86,660			338,193	8,632	(7,565)
Saint-Gobain Autoglas Gmbh										
Viktoria - Allee 3-5	EUR	EUR						EUR	EUR	
D-52066 Aachen	102,258	19,130	60,00	72,833	72,833			-	29,054	29,054

(in thousands of euros or other currency)	Capital stock	Reserves	% interest	Book value of capital held		Loans and advances granted by the Company	Guarantees given by the Company	2004 sales	2004 net income/ (loss)	Dividends receivedby by the Company in 2004
Saint-Gobain Schleifmittel-Beteiligungen Gmbh										
Viktoria - Allee 3-5	EUR	EUR						EUR	EUR	
D-52066 Aachen	10,226	50,925	100,00	61,151	61,151	-			(1,543)	(1,543)
Société Financière des Miroirs										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	45,750	1,460	100,00	45,735	45,735	-			620	690
2 - INVESTMENTS										
10% to 50% of the capital held by Compagnie de Saint-Gobain										
S. G. Cristaleria										
Edificio Ederra Centro Azca										
Paseo de la Castellana 77	EUR	EUR						EUR	EUR	
28046 Madrid	91,988	402,947	23,91	211,220	211,220	113,913		493,755	93,037	28,408
Saint-Gobain Emballage										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	42,069	419,796	20,52	61,553	61,553	46,053		608,029	142,641	29,810
SEPR										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	63,361	4,145	25,73	53,310	53,310	71,478		224,658	18,891	-
OTHERS										
Subsidiaries over 50% owned										
• Total French companies				3,899	3,899	166,483	-			525
• Total foreign companies				26,032	24,816	345,171	4,869,455			2,479
Holdings of between 10% and 50%										
• Total French companies				-	-	-	-			-
• Total foreign companies				648	648	-	-			629
Other				278,453	252,870	94,600				3,835
TOTAL				**7,967,583**	**7,940,784**	**2,072,079**	**4,869,455**			**720,263**

(1) Regarding subsidiaries of the German branch, the amount shown relates to the net income or loss for the year within the scope of the integrated tax system.

4

NOTE 16 • FINANCIAL COMMITMENTS EXCLUDING LEASES

Commitments given *(in euro thousands)*	Amount
Guarantees [1]	5,277,800
Pensions and other post-retirement benefits [2]	40,304
Other commitments given:	
Concerning joint ventures	4,365
TOTAL	**5,322,469**
Including	
(1) Consolidated companies	5,273,243

(2) The amount in respect of pensions and other post-retirement benefits includes commitments for retirement indemnities and defined benefit schemes based on end-of-career salaries. These complementary schemes were closed to new employees between 1969 and 1994. Pension obligations are determined by actuarial valuations using a method based on projected end-of-career salaries (the projected unit credit method).

Commitments received *(in euro thousands)*	Amount
Other commitments received:	
Debt waivers with a clawback clause	3,720
TOTAL	**3,720**
Including: Consolidated companies	3,720

(in euro thousands)		Amount
Equivalent in euros of forward purchases and sales of foreign exchange	EUR	178,164
Options purchased	EUR	162,773
Options sold	EUR	162,773
Currency swaps	EUR	841,466

Commitments relating to financial instruments concerning interest rate risks are as follows:

Interest rate risks Equivalent amount in euro thousands		Amount
Swaps - borrowers at fixed rates/variable rate	EUR	3,049
Swaps - lenders at fixed rates/variable rate	EUR	1,820,637
Swaps - variable rate/variable rate	EUR	7,669
Swaps - fixed rate/fixed rate	EUR	-
Cross-currency swaps - borrowers at fixed rates/variable rate	EUR	293,664
Cross-currency swaps - lenders at fixed rates/variable rate	EUR	-
Cross-currency swaps variable rate/variable rate	EUR	-
Cross-currency swaps - fixed rate/fixed rate	EUR	143,161
Caps purchased/(sold), net	EUR	-
Swaps on raw materials - borrowers	EUR	54,361
Swaps on raw materials - lenders	EUR	54,804

The face value amount of commitments given and received in the form of swaptions and early repayments of borrowings amounted to €76 million and €37 million respectively.

NOTE 17 • LEASE COMMITMENTS

(in euro thousands)	Head office
Cost	80,798
Depreciation:	
• Accumulated at beginning of year	10,127
• Charge for the year	1,464
TOTAL	**11,591**
Installments paid:	
• Accumulated at beginning of year	62,672
• Paid during the year	9,266
TOTAL	**71,938**
Installments to be paid:	
• within one year	8,975
• between one and five years	27,700
• beyond five years	-
TOTAL	**36,675**
Residual values:	
• within one year	-
• between one and five years	12,120
• beyond five years	-
TOTAL	**12,120**

NOTE 18 • EMPLOYEES

Weighted average number of employees

Excluding the German branch	2004	2003	2002
Managers	164	162	166
Supervisors	66	65	67
Other employees	7	8	7
TOTAL	**237**	**235**	**240**
Of which fixed-term contracts	7	4	4

Remuneration of directors and corporate officers

The total direct and indirect remuneration received by corporate officers from Group companies in France and abroad amounted to €13.8 million in 2004, €12.7 million in 2003 and €13 million in 2002. The gross variable portion included in these remuneration amounts came to €5.1 million in 2004, €4.5 million in 2003 and € 4.6 million in 2002.
Attendance fees paid to Directors for 2004 amounted to €0.5 million (2003 and 2002: €0.5 million).

NOTE 19 • LITIGATION

In France, further lawsuits were filed in 2004 by former employees (or persons claiming through them) of Everite and Saint-Gobain PAM ("the employers") – which in the past had carried on fiber-cement operations – for asbestos-related occupational diseases, with the aim of obtaining supplementary compensation over and above the assumption of occupational diseases compensation by the French Social Security. A total of 512 such lawsuits have been issued against the two companies since 1997.
At the end of 2004, 267 of these 512 lawsuits had been completed both in relation to liability and quantum. In all of these cases, the employers were held liable on the grounds of "inexcusable fault". However, in 257 of these 267 rulings, the Social Security authorities were ordered to pay the compensation for the victims for procedural reasons (statute of limitations, liability issues ["*inopposabilité*"]).
Everite and Saint-Gobain PAM were held liable for the payment of €1.6 million in compensation in the 10 other lawsuits.
Out of the 245 lawsuits outstanding against Everite and Saint-Gobain PAM at December 31, 2004, the merits of 49 have been decided but the compensation awards have not yet been made, pending issue of medical reports.
In all these cases, the Social Security authorities were ordered to pay the compensation for the victims for the same procedural reasons described above (statute of limitations, liability issues, etc.).
Out of the 196 remaining lawsuits, 12 were dismissed in 2004 as a claim was made to the French Asbestos Victims Compensation Fund. At December 31, 2004 the procedures relating to the merits of the other 184 cases were at different stages: 27 are involved in administrative proceedings with the French Social Security authorities, 72 are pending with the Social Security courts, appeals have been issued to the Court of Appeal in 41 cases in which the employers were held liable for inexcusable fault (including 34 cases in which statute of limitations and/or liability issues have been raised as mentioned above) and 44 cases have been appealed to the *Cour de Cassation*, including 22 by the French Social Security authorities in relation to procedural matters and 22 by Everite against the decision of the Paris Court of Appeal dismissing certain liability issues.
The main development in 2004 was the decision handed down by the Orléans Court of Appeal on December 16, 2004 in relation to proceedings brought by Everite against its insurers with a view to obtaining insurance coverage. Such coverage had been expressly refused for each claim filed.
This ruling held that the insurers and co-insurers were to provide the coverage claimed by Everite to the extent of their liability, subject to no minimum or limits in the cases where claimants had been exposed to asbestos fibers between January 27, 1987 and July 1, 1992 and where the first medical diagnosis of their condition was given after January 27, 1987. In application of the above, the Orléans Court of Appeal ordered the insurance companies concerned to insure Everite for an amount equal to the claims filed up to October 14, 2003, representing a total of €337,367.
In addition, at December 31, 2004, 74 suits based on "inexcusable fault" had been filed by current or former employees of ten other French companies in the Group, in particular involving circumstances where equipment containing asbestos had been used to protect against heat from furnaces.
In 2004, 8 suits were dismissed at the request of employees or former employees further to claims made to the Asbestos Victims Compensation Fund.
At December 31, 2004, 17 lawsuits were completed: 9 through judgments by the *Cour de Cassation* which dismissed appeals issued by employees or former employees against Court of Appeal decisions dismissing the claims of "inexcusable fault", 4 through judgments issued by the Social Security courts and 3 by Court of Appeal decisions finally dismissing employees' claims. Only one ruling in 2004 held the employer liable for "inexcusable fault".
For the 49 suits outstanding at the end of 2004, 4 are in the investigation stage by the French Social Security authorities, 11 are pending before the Social Security courts and 34 before the Court of Appeal.

4

Asbestos-related litigation in the United States

In the United States, three Group companies that once manufactured products containing asbestos such as fiber-cement pipes, roofing products or specialized insulation, are facing legal action from persons other than the employees or former employees of the companies. The claims are based on alleged exposure to the products although in the vast majority of cases the claimants cannot demonstrate any specific exposure to one or more products, or any specific illness or physical disability. The majority of these claims are made simultaneously against many other non-Group entities which have been manufacturers, distributors, installers or users of products containing asbestos.

Developments in 2004

After three years marked by sharp increases in new lawsuits filed against CertainTeed (60,000 in 2001, 67,000 in 2002 and 62,000 in 2003, compared to 19,000 in 2000), approximately 18,000 new suits were filed in 2004, representing a fall in most States, particularly those reporting the highest number of claims in previous years. In Mississippi, for example, new claims filed fell from 29,000 in 2003 to 2,000 in 2004. The exceptional influx of lawsuits in 2003 arose further to the enactment of new legislation as from January 1, 2003. There was a fall-off in new claims at the end of the first half of 2003 and the trend did not recur in 2004. As in previous years, the vast majority of the 18,000 or so new claims are "mass" actions which can involve hundreds or even thousands of plaintiffs making claims for damages against dozens of companies operating in different economic sectors, without providing evidence of any specific exposure to any product allegedly manufactured by CertainTeed, or of any specific illness or physical disability. Only a very low proportion of these new lawsuits involve a serious illness, cancer or mesothelioma.

Almost all of the claims against CertainTeed are settled out of court. Approximately 20,000 claims were resolved in 2004 (compared with 54,000 in 2003 and 44,000 in 2002). Taking into account the 108,000 outstanding cases at the end of 2003 and the new cases having arisen in 2004, as well as claims resolved, some 106,000 claims were outstanding at December 31, 2004. These figures have remained stable since the end of 2002.

The average individual cost of settlement increased from approximately USD 2,100 in 2003 to around USD 2,900 in 2004. This trend mainly reflects the significantly fall in the number of mass actions as a proportion of total claims, as described above.

Impact on the Group's results

The Group recorded a €108 million charge in 2004 to cover future developments in relation to these claims. The charge is slightly more than the amount recognized in 2002 and 2003 (€100 million). At December 31, 2004, the Group's total cover for asbestos-related claims against CertainTeed in the United Stated amounted to €295 million (USD 402 million), compared with €341 million at December 31, 2003 (USD 431 million). The coverage is achieved almost entirely through the balance sheet provision, as most available insurance had been used at December 31, 2003.

Cash flow impact

Total compensation paid for these cases – including claims resolved prior to 2004 but only paid out in 2004, and those fully resolved and paid in 2004 – amounted to €113 million in 2004 (USD 140 million), versus €135 million (USD 153 million) in 2003.

Outlook for 2005

Although the number of new suits has been falling since the third quarter of 2003, the most significant drop has been in "mass claims" which generally have a lower average cost of settlement than the overall average figure. This has led to an increase in the average individual cost of settlement. No significant developments have been observed during the past few months, either in terms of new claims or in terms of the average cost of settlement.

If the bill currently being considered by the US Senate is adopted, claimants will no longer be able to file the sort of claims described above in the United States. If enacted the bill would prohibit employees who have been exposed to asbestos from bringing their claims to court. Instead, such employees would receive compensation for their exposure from a trust fund. An initial bill was adopted by the US Senate Judiciary Committee on July 10, 2003, but has not yet been put to the vote of the full Senate. Further to the presidential elections of November 2, 2004, the Chairman of the new Republican-majority Senate has publicly committed to drafting a new bill and to starting discussions on amendments to the bill during the first six months of 2005.

In Brazil, former Group employees suffering from asbestos-related occupational illness are offered either exclusively financial compensation or lifetime medical assistance combined with financial assistance. Only a small number of asbestos-related lawsuits were outstanding at December 31, 2004 and they do not represent a material risk for the companies concerned.

NOTE 20 • SUBSEQUENT EVENTS

No significant events occurred subsequent to year-end.

Statutory Auditors' report on the financial statements

For the year ended December 31, 2004

To the shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2004 on:

• the audit of the accompanying financial statements of Compagnie de Saint-Gobain;

• the justification of our assessments;

• the specific verifications and information required by the law.

These financial statements have been approved by the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

I - OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with the professional standards applied in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the Company's financial position and its assets and liabilities as of December 31, 2004, and of the results of its operations for the year then ended in accordance with French accounting principles and regulations.

Without qualifying the opinion expressed above, and in accordance with Article L. 232-6 of the French Commercial Code, we draw your attention to the following changes in accounting method in the year, as set out in Note 1 to the financial statements, relating to:

• the first-time application of *Conseil National de la Comptabilité* (French National Accounting Board) opinion no. 2004-05 on accounting for long-service awards;

• changes to the income statement presentation and the reclassification of movements in provisions for impairment of investments in subsidiaries and affiliates and other long-term investments and in provisions for contingencies and charges relating to treasury stock.

II - JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L. 225-235 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:

Changes in accounting method and presentation

As part of our assessments of the accounting principles and methods applied by the Company, we obtained assurance about the appropriateness of the changes in accounting methods set out above and of the description thereof provided in the Notes to the financial statements.

Value of financial investments and investments in subsidiaries and affiliates

As described in Note 1 to the financial statements on accounting principles and methods, the Company carries out impairment tests on a yearly basis for its financial investments and investments in subsidiaries and affiliates. Based on the information available at the time of our audit, we assessed the approach used by the Company and we ensured that the estimates made by the Company at December 31, 2004 were reasonable.

These assessments were made in the context of our audit of the financial statements, taken as a whole, and therefore contributed to the formation of the unqualified opinion expressed in the first part of this report.

III - SPECIFIC VERIFICATIONS AND INFORMATION

We have also performed the specific verifications required by the law, in accordance with the professional standards applied in France.

We have no comments to make as to the fair presentation and the conformity with the financial statements of the information given in the management report of the Board of Directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

In accordance with the law, we have verified that the management report contains the appropriate disclosures as to the identity of the principal shareholders.

Paris and Paris La Défense, March 24, 2005

The Statutory Auditors

PricewaterhouseCoopers Audit

Pierre Coll Christian Marcellin

KPMG Audit
Department of KPMG S.A.

Jean Gatinaud Gilles Salignon

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report, together with the Statutory Auditors' report addressing financial and accounting information in the Chairman's report on internal control, should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Fees paid by Saint-Gobain to Statutory Auditors and members of their networks in 2004

	PricewaterhouseCoopers 2004		PricewaterhouseCoopers 2003		KPMG 2004		KPMG 2003	
(in € millions)	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
Statutory audit and contractual audits								
France	3.0	27 %	2.8	20 %	2.5	35 %	0.3	10 %
Outside France	5.7	51 %	7.7	55 %	4.3	59 %	1.8	62 %
Total	**8.7**	**78 %**	**10.5**	**75 %**	**6.8**	**94 %**	**2.1**	**72 %**
Other engagements	**1.8**	**16 %**	**1.7**	**12 %**	**0.3**	**5 %**	**0.1**	**3 %**
Sub-total	**10.5**	**94 %**	**12.2**	**87 %**	**7.1**	**99 %**	**2.2**	**76 %**
Other services								
Legal and tax advisory services								
France	-	-	-	-	-	-	-	-
Outside France	0.6	6 %	1.7	12 %	0.1	1 %	0.4	14 %
Total	**0.6**	**6 %**	**1.7**	**12 %**	**-**	**-**	**-**	**-**
Other	-	-	0.1	1 %			0.3	10 %
Sub-total	**0.6**	**6 %**	**1.8**	**13 %**	**0.1**	**1 %**	**0.7**	**24 %**
TOTAL	**11.1**	**100 %**	**14.0**	**100 %**	**7.2**	**100 %**	**2.9**	**100 %**

Five-year financial summary

(in euro thousands)	2004	2003	2002	2001	2000
1 - Capital stock at year-end					
Capital stock	1,363,952	1,391,300	1,364,043	1,364,138	1,363,412
Number of common shares outstanding	340,988,000	347,824,967	341,010,680	85,258,628	85,213,263
2 - Operations and results for the year					
Sales excluding taxes	158,410	163,379	156,150	149,431	138,313
Earnings before tax, depreciation, amortization and provisions	719,758	430,896	507,093	1,115,028	1,087,460
Income tax	45,403	69,888	30,396	15,020	(46,464)
Net income after tax, depreciation, amortization and provisions	766,017	513,574	595,916	1,092,872	1,014,611
Dividend distribution	(1) 429,446	(2) 387,384	(3) 379,141	(4) 378,364	(5) 356,860
3 - Earnings per share (in euros)					
Earnings per share before tax, depreciation, amortization and provisions	2.11	1.24	1.49	13.08	12.76
Earnings per share after tax, depreciation, amortization and provisions	2.25	1.48	1.75	12.82	11.91
Net dividend per share	1.28	1.15	1.13	4.50	4.30
4 - Personnel (6)					
Average number of employees during the year	237	235	240	249	249
Total payroll cost for the year	25,140	24,991	25,094	24,389	20,525
Total benefits for the year	14,274	13,863	13,850	12,956	11,330

(1) On the basis of 340,988,000 shares (capital stock at December 31, 2004), less 5,483,270 treasury shares held at February 28, 2005, i.e. 335,504,730 shares.

(2) Reflects a €412 thousand adjustment due to the 357,874 treasury shares sold between February 29, 2004 and June 24, 2004, when payment of the dividend began.

(3) Reflects a €370 thousand adjustment due to the 336,000 treasury shares acquired and the 8,300 treasury shares sold between March 20, 2003, the date of the Board meeting approving the financial statements, and June 23, 2003, when payment of the dividend began.

(4) Reflects a €118 thousand adjustment due to the 26,150 treasury shares sold between March 28, 2002, the date of the Board meeting approving the financial statements, and June 24, 2002, when payment of the dividend began.

(5) Reflecting a €451 thousand adjustment due to the 104,854 treasury shares acquired between March 29, 2001, the date of the Board meeting approving the financial statements, and July 2, 2001, when payment of the dividend began.

(6) Personnel figures exclude the German branch.

5 MAIN SUBSIDIARIES, BY COUNTRY AND DELEGATION

All of the subsidiaries are wholly owned, unless otherwise stated.

France

Saint-Gobain Glass France: manufacturing and processing of flat glass. Sales: €245.8 million. Employees: 991. These figures include Eurofloat, a float glass plant. Holds:

• Saint-Gobain Produits Industriels (SGPI), M.O. Pays de Loire, Comptoir des Glaces et Produits Verriers, C.G.G. M.O. Atlantique, Les Vitrages de Saint-Gobain Normandie, M.O. Semiver-Climaver, M.O. Charentes-Limousin, M.O. Armorique, Miroiterie du Rhin, Société Verrière Française (SVF), Sovedys, Sivaq, Centre Est Vitrage (CEV), Charles André, Soprover, Société Verrière de l'Atlantique (SVA), Le Vitrage du Midi (LVM), Glassver, Gobba Vitrage, Auvergne Isolation, Vitrages Isolants d'Auvergne, Alp'Verre, Courbu Vitrages, Verreries d'Aurys, Pierre Pradel, Wehr Miroiterie, Emaillerie Alsacienne, Technifen, Techniverre: distribution and processing of flat glass products for the building industry. Employees: 3,224.

• Eurokera (50%). Keraglass (50%): production and sale of glass ceramic cooktops.

• Saint-Gobain Sovis: tempered glass for home appliances, industrial and scientific optics, radiation-proof glass. Employees: 199.

• Verrerie de Saint-Just: decorative glass. Employees: 83.

• Saint-Gobain Sully: flat glass for trains and the aeronautics industry. Employees: 438.

• Saint-Gobain Glass Logistics: transport.

• Saint-Gobain Recherche: glass and building materials research centers.

Saint-Gobain Sekurit France: processing for the automobile industry. Sales: €319.2 million. Employees: 1,103. These figures include those of Société Verrière d'Encapsulation: encapsulation of glass for the automobile industry. Holds Saint-Gobain Autover: distribution and processing of flat glass for the automobile industry.

Saint-Gobain Isover: production and processing of glass wool and rock wool insulation products. Sales: €253.7 million. Employees: 880. Holds:

• Saint-Gobain Eurocoustic: production of rock wool insulation products. Sales: €41.2 million. Employees: 172.

• Saint-Gobain Ecophon SA: acoustic ceilings.

Saint-Gobain Emballage: manufactures glass containers (industrial bottles and jars). Sales: €560 million. Employees: 2,037. Holds:

• VOA Verrerie d'Albi: glass containers (bottles). Sales: €63.4 million. Employees: 306.

• Samin: operates quarries. Employees: 158.

• Saga Decor (51%): decoration of bottles and jars. Employees: 205.

Saint-Gobain Desjonquères: manufactures small glass bottles used primarily in the perfume and pharmaceutical industries. Sales: €417.8 million. Employees: 1,831. Holds:

• Saint-Gobain VG Emballage: distribution of glass and plastic containers and fittings. Employees: 76.

• Verreries de l'Orne: decoration of glass containers. Employees: 265. Holds: Verreries de la Somme. Employees: 331.

Saint-Gobain Vetrotex France: manufactures and sells fiberglass for reinforcements. Sales: €89 million. Employees: 458. Holds:

• Saint-Gobain Vetrotex International: Research and Development center, export sales. Headquarters in Chambery (Savoie, southeastern France). Holds: Saint-Gobain Vetrotex Renforcement, Saint-Gobain Vetrotex Glass Mat: distribution companies.

Partidis: distribution of building materials. Sales: €7.1 billion. Employees: 32,610. Holds:

• Point.P: building materials distribution through 11 regional companies (Brittany, Central France, Eastern France, Paris region, Loire region, Languedoc Midi-Pyrénées, Northern France, Normandy, PACA, Rhône-Alpes, South-West France). 4 national companies (DSC, SFIC, Asturienne, Pum Plastiques). La Plateforme du Bâtiment banner (25 retail outlets in France and 7 in Spain). SG Point. P España + La Plateforme España - 1,600 retail outlets (1,550 in France, 34 in Spain, 1 in Belgium - Pum Plastiques, and 7 in Poland - Pum Plastiques).

• Lapeyre: distribution of home improvement products under the following banners: Lapeyre-La Maison, K par K, Gimm, Atlantique, Menuiseries Françaises, Oxxo, Les Zelles, Okfens (Poland) and Telhanorte (Brazil).

Saint-Gobain Matériaux de Construction: holding company. Holds:

• Saint-Gobain Weber: produces industrial mortars in 20 countries. Sales (including subsidiaries except in Brazil): €742.8 million. Employees (including subsidiaries except in Brazil): 3,237.

• Saint-Gobain Stradal: produces industrial cements at 25 production plants in France. Sales: €169 million. Employees: 1,030. Has holdings in: Tuyaux et Agglomérés Vendéens - France (49%)

Saint-Gobain PAM: ductile cast-iron pipes and hydraulic connectors for water-supply, irrigation and wastewater networks. Cast-iron products for the building industry. Sales: €687.4 million. Employees: 2,855. Holds Saint-Gobain Seva: industrial equipment, glass molds, fiberglass plates for insulation, door fittings. Employees: 353.

SEPR - Société Européenne des Produits Réfractaires: manufactures fused-cast refractory products used mainly for glass furnaces and various special products (pellets, grains and ceramic powders). Sales: €204.8 million. Employees: 1,099. Holds:

• Savoie Réfractaires: manufactures special refractories. Sales: €41.6 million. Employees: 208.

• Saint-Gobain Céramiques Avancées Desmarquest: manufactures fine ceramics for industrial uses. Sales: €33.4 million. Employees: 302.
• Saint-Gobain Cristaux & Détecteurs: manufactures optical crystals and synthetic monocrystals for chemical analysis. Sales: €26.4 million. Employees: 153.
• Saint-Gobain Quartz SAS: manufactures silica parts for the chemical industry, silica crucibles and reactor tubes for the semi-conductor industry, silica wool and yarn for the space industry, Micaver insulating materials, piezoelectric ceramics. Sales: €17.6 million. Employees: 175.
• Saint-Gobain Matériaux Céramiques: produces seeded gel.
• Saint-Gobain Centre de Recherche et d'Etudes Européennes: ceramics research center.
• Valoref SA: recycling.

Saint-Gobain Performance Plastics Europe: Holding company. Holds SG Performance Plastics Asti, SG Performance Plastics España, SG Performance Plastics Gessil, SG Performance Plastics Verneret: manufacture and sale of high-performance plastics.

Saint-Gobain Abrasifs (France): manufactures bonded abrasives, grinding wheels and superabrasives. Sales: €156.5 million. Employees: 955.

Spafi: Holding company. Holds SGPPI: holding company.

Vertec: Holding company.

Germany
Central and Eastern Europe

GERMANY

Saint-Gobain ZN Deutschland: holding company.

Saint-Gobain Glass Deutschland GmbH: manufacturing and processing of flat glass. Sales: €343.9 million. Employees: 1,123.

Saint-Gobain Deutsche Glas GmbH: a holding company controlling various subsidiaries which distribute and process flat glass for the building industry. Sales: €200 million (including subsidiaries). Employees: 1,741 (including subsidiaries).

Saint-Gobain Sekurit Deutschland Beteiligungen GmbH: company managing Saint-Gobain Sekurit Deutschland KG and holding other equity interests. Holds:
• Autoglas Hansa. Holds: Renz Autoglas GmbH, SG Autover Deutschland GmbH, Freudenberger Autoglas KG.
• Faba Autoglas Technik GmbH: processing of automobile glass.

Saint-Gobain Sekurit Deutschland KG: manufactures flat glass products for the automobile industry. Sales: €341.2 million. Employees: 1,822. These figures include those of Faba Autoglas Technik KG. Extrusion of laminated and coated flat glass. Holds: Saint-Gobain Sekurit Nutzfahrzeugglas GmbH. Manufactures flat glass for utility vehicles. Sales: €32.8 million. Employees: 199.

Saint-Gobain Isover G + H AG: manufactures and sells mineral fibers and foams for thermal, refrigeration and acoustic insulation as well as for fireproofing under the trademark G + H Isover. Sales: €329.7 million. Employees: 1,264. These figures include those of Superglass Dammstoffe GmbH: distribution of insulating materials.

Saint-Gobain Vetrotex Deutschland GmbH: manufactures and sells fiberglass for reinforcements. Sales: €59.6 million. Employees: 290.

Saint-Gobain Vetrotex Reinforcement GmbH: distribution company.

Halbergerhütte GmbH: holding company. Holds: Saint-Gobain Gussrohr KG - Germany (100%). Ductile cast-iron pipes. Sales: €137.1 million. Employees: 531.

SG HES GmbH: sale of piping systems for the building industry. Sales: €41.9 million. Employees: 43.

Saint-Gobain Oberland AG (96.7%): Company listed on the Frankfurt, Munich and Stuttgart Stock Exchanges. Manufactures glass containers (bottles, industrial jars and glass blocks). Sales: €328.5 million. Employees: 1,676. These figures include those of Westerwald Silikatindustrie. Holds GPS Glas Produktions Service: production of machines for the glass containers industry. Sales: €22.3 million. Employees: 71.

Saint-Gobain Kipfenberg GmbH: small glass bottles. Sales: €58 million. Employees: 212. Holds Saint-Gobain Calmar GmbH: manufactures plastic pumps. Sales: €69.4 million. Employees: 533.

SEPR Keramik GmbH & CO KG: holding company. Holds:
• Norton Beteiligungs: holding company. Holds Saint-Gobain Performance Plastics Pampus GmbH: manufactures and sells high-performance plastics for the medical and automobile industries and for other industrial equipment. Sales: €54.9 million. Employees: 329. Holds Norton HTK Vervaltungs GmbH and Saint-Gobain Advanced Ceramics Lauf GmbH: manufacture and sale of advanced ceramics. Sales: €17.1 million. Employees: 177. Holds:
• Saint-Gobain IndustrieKeramik Düsseldorf: produces refractory products. Employees: 98.
• Saint-Gobain Advanced Ceramics Mönchengladbach: manufactures and sells advanced ceramics. Employees: 83.

• Saint-Gobain IndustrieKeramik Roedental: produces high-performance refractory products. Sales: €53 million. Employees: 465.
• Saint-Gobain Performance Plastics Cologne. Employees: 38.
• Saint-Gobain Ceramic Materials Kuppenheim: silicon carbide processing.

Saint-Gobain Schleifmittel - Beteiligungen GmbH. Holds:
• Saint-Gobain Diamond Products GmbH and Saint-Gobain Diamantwerkzeuge KG: production of superabrasive tools for the mechanical and stone-cutting industries. Total sales: €74.5 million. Employees: 583.
• Saint-Gobain Abrasives GmbH: manufactures and sells grinding wheels and superabrasives. Sales: €86.5 million. Employees: 425.

Raab Karcher GmbH: distributes building materials in Germany and in Eastern Europe. Sales: €1.98 billion (including subsidiaries). Employees: 7,019 (including subsidiaries).

AUSTRIA

Eckelt Glas GmbH: flat glass processing. Sales: €55.8 million. Employees: 359.

Walter Kigler: distribution of replacement flat glass for the auto industry.

Saint-Gobain Isover Austria AG: manufactures and sells insulating materials. Sales: €49.2 million. Employees: 248.

CZECH REPUBLIC

€1 = CZK 31.905

Saint-Gobain Slevarna: foundry. Sales: CZK 188.5 million. Employees: 179.

Saint-Gobain Sekurit CR Spol SRO: produces laminated glass for the auto industry. Sales: CZK 1.27 billion. Employees: 439.

Saint-Gobain Trubni Systemy: Sales: CZK 258 million. Employees: 21.

Saint-Gobain Orsil: manufactures rock wool insulating materials. Sales: CZK 1.42 billion. Employees: 271.

SG Vertex AS (99.7%): Sales: CZK 5.22 billion. Employees: 1,431.

Vetrotex Reinforcement Bohemia: distribution company.

SLOVAKIA

Nitrasklo AS (40%), **Venisklo Spol:** processing and distribution of flat glass for the building industry.

Benelux

BELGIUM

Saint-Gobain Glass Benelux SA: manufacturing and processing of flat glass. Sales: €141.4 million. Employes: 523.
These figures include Saint-Gobain Glass Coating. Holds: Frankenglas NV, Boermans Glas Montage NV, Boermans Glasindustrie NV, Burniat Glass, Glorieux NV, Wagener Jowaco, Hanin Miroiterie, Techniver SA, Climaglass NV, Conforglass, Veiligheidsglas CGG NV, Mirover NV and Romato. Employees of subsidiaries: 599.

Saint-Gobain Glass Exprover: export company of the Flat Glass Division. Promotes and coordinates all exports of flat glass products manufactured by the Group outside areas where there are plants.

Saint-Gobain Sekurit Benelux SA: flat glass processing for the auto industry. Sales: €114.5 million. Employees: 430. Holds: Autover Distribution SA.

Saint-Gobain Pipe Systems Belgium. Sales: €26.8 million. Employees: 27.

Saint-Gobain Matériaux Céramiques Benelux SA: processing of silicon carbide and corundum for the refractory and abrasives industries. Employees: 31.

Saint-Gobain Diamond Products: produces diamond-tipped tools.

LUXEMBOURG

Saint-Gobain Diamond Products SA (Luxembourg): produces and sells diamond-tipped tools, disks and drills, as well as machines for cutting asphalt in the construction and civil engineering industries. Sales: €43.7 million. Employees: 158.

NETHERLANDS

Glasfabriek Sas Van Gent BV: manufactures reflecting glass, enameled glass and tempered glass. Sales: €18.2 million. Employees: 132.

Koninklijke Saint-Gobain Glass NV: sale and processing of glass products for the building industry. Sales: €105.2 million. Employees: 497.

Autover International BV: distribution of replacement flat glass for the auto industry. Sales: €29.9 million. Employees: 29.

Saint-Gobain Isover Benelux: production and sale of insulating products. Sales: €92.4 million. Employees: 334. These figures include those of SG Isover Benelux - Belgium.

Saint-Gobain Ecophon BV: production and sale of acoustic ceilings.

Saint-Gobain Cultilène BV: processes and sells glass wool and rock wool products for hydroponic (soil-less) cultivation. Sales: €20.3 million. Employees: 55.

Raab Karcher Holland: distribution of building materials in the Netherlands. Sales: €472.5 million. Employees: 1,357.

Saint-Gobain Abrasives Nederland: Holding company. Holds Saint-Gobain Abrasives BV: manufactures thin grinding wheels and coated abrasives. Sales: €101.4 million. Employees: 424.

Internationale Maatschappij Voor Het Beheer van Glasmaatschappijen BV (SGT): holding company.

Saint-Gobain Nederland: finance company.

Spain, Portugal and Morocco

SPAIN

Saint-Gobain Cristaleria SA: manufactures and processes flat glass for the building and automobile industries, as well as insulating materials (glass wool and rock wool). Sales: €488.8 million. Employees: 1,778. Holds:

- Autover Iberica: distribution of replacement automobile flat glass.
- Wanner y Vinyas: thermal and acoustic insulation. Sales: €49.4 million. Employees: 337.
- Industrias del Cuarzo (Incusa): sand quarry.
- Procustic: processing and distribution of acoustic insulation products.

La Veneciana: Sale, processing and installation of flat glass products and mirrors. Consolidated sales: €131.6 million. Employees (including subsidiaries): 948. Holds: La Veneciana Norte, La Veneciana Levante, La Veneciana Bética, La Veneciana Canarias, La Veneciana Balear SA, Cristaleria Industrial (CRISA), Vidrios de Seguridad Laminados - Vislam.

Saint-Gobain Vetrotex España: manufactures and sells fiberglass for reinforcements. Sales: €68.9 million. Employees: 357.

Saint-Gobain Canalizacion: ductile cast-iron pipes. Sales: €173.2 million. Employees: 269. Holds Saniplast: distribution of pipes and accessories. Sales: €44.9 million. Employees: 113.

Saint-Gobain Vicasa SA: manufactures glass containers (bottles, industrial jars and flasks). Sales: €238.9 million. Employees: 1,159. These figures include those of Saint-Gobain Montblanc SA: manufactures glass containers. Holds:

- Saint-Gobain La Granja SA: manufactures glass containers (flasks), insulators and moldings. Sales: €66.3 million. Employees: 342. Holds Saint-Gobain Calmar SA: produces plastic pumps. Sales: €44.8 million. Employees: 341.
- Vidrieras Canarias (41%). Glass containers.

Saint-Gobain Abrasivos: produces abrasive grinding wheels. Sales: €41.9 million. Employees: 237.

Saint-Gobain Ceramicas Industriales: manufactures technical ceramics and distributes high-performance plastics.

PORTUGAL

Saint-Gobain Glass Portugal: manufactures and processes flat glass for buildings and home appliances. Sales: €56.5 million. Employees: 149. Holds Covipor - CIA Vidreira do Norte and Covilis: processing of glass products for the building industry. Employees: 147.

SGSP Vidro Automovel: flat glass processing for the auto industry. Sales: €63.8 million. Employees: 281. Holds: Autoverlusa (60%): distribution of replacement flat glass parts for the auto industry.

Saint-Gobain Mondego: manufactures glass containers (industrial bottles and jars). Sales: €57.2 million. Employees: 250.

Saint-Gobain Abrasivos Lda: distributes abrasive products.

United Kingdom and Republic of Ireland

UNITED KINGDOM

€1 = £0.679

Saint-Gobain Plc: holding company. Holds:
• Orchardflint: holding company.
• Saint-Gobain Glass UK Ltd: production and processing of flat glass. Sales: £51.7 million. Employees: 157.
• Saint-Gobain Insulation UK. Holds 50% of British Gypsum Isover: production and sale of insulating products. Sales: £14 million. Employees: 151.

Solaglas Ltd.: processing and distribution of flat glass products for the building industry (tempered glass, laminated glass, mirrors, insulating glass). Network of 42 sites including 27 processing facilities throughout the UK. Sales: £157.9 million. Employees: 1,983. These figures include all subsidiaries held by Solaglas Ltd, the most important of which are: Hayes Group, Dockrell Glass Group: processing for the building industry; Thermax, Birmingham Build: processing for the automobile and building industries; Saint-Gobain Glass Ltd: UK distributor for the products of the Flat Glass and Packaging Divisions.

Saint-Gobain Building Distribution Ltd.: Distribution of building materials. Sales: £2.1 billion. Employees: 13,122.

Saint-Gobain Pipelines Plc: ductile cast-iron pipes and hydraulic connectors for water-supply and wastewater networks. Hydraulic valves. Cast-iron and steel supplies for roadworks, cast-iron supplies for the building industry. Sales: £110.5 million. Employees: 1,034. Holds Stanton Bonna Concrete Ltd (20%): concrete pipes.

Saint-Gobain Ceramics & Plastics Plc: manufactures and sells high-performance plastics and products for chemical processes. Holds:
• Saint-Gobain Industrial Ceramics Ltd: production and sale of high-temperature insulation fiber and refractory products. Employees: 70.
• Saint-Gobain Performance Plastics Corby: manufactures heat-resistant hose, tubing and bundles for beverage-dispensing applications.

Saint-Gobain Quartz Plc: produces silica parts for the chemical industry, fused quartz for the semi-conductor industry, optical fiber manufacturing, infrared heating and laboratory equipment. Sales: £14.3 million. Employees: 197:

Abrasives Plc.: holds: Unicorn Abrasives Ltd and Saint-Gobain Abrasives Ltd. Total sales: £70.3 million. Employees: 557. Through various subsidiaries, manufactures bonded and coated abrasives as well as superabrasives.

REPUBLIC OF IRELAND

Chemfab Holding: processing of coated fabrics (PTFE, silicon) and adhesive tapes. Holds: Chemfab Ireland Ltd. and Tygaflor Holdings. Holds: SG PPL Ireland. Sales: €24.5 million. Employees: 109.

Glasuld Ireland: production and distribution of insulating products.

SOUTH AFRICA

€1 = ZAR 8.013

Saint-Gobain Pipelines South Africa: manufactures cast-iron parts. Sales: ZAR 163.4 million. Employees: 442.

Saint-Gobain Abrasives Pty: manufactures coated abrasives, super abrasives and grinding wheels. Sales: ZAR 114.8 million. Employees: 192.

Italy and Greece

ITALY

Saint-Gobain Glass Italia: manufactures and processes flat glass. Sales: €130.3 million. Employees: 333. Holds:
• Flovetro (50%): manufactures and processes flat glass (float).
• SGGI Logistica Servizi: road transport.
• Gruppo Fontana: processing and sale of glass. Sales: €52.8 million. Employees: 61.
• Vetreira Industriale Saint-Gobain (V.I.S.) SRL. Employees: 44.

Saint-Gobain Sekurit Italia: flat glass processing for the auto industry. Sales: €59.9 million. Employees: 267. Holds: SG Autover Italia SRL, SG Sicurglass SRL. Employees: 90. Vetro Sud SRL (50%). Sales: €27.4 million. Employees: 139.

Saint-Gobain Euroveder Italia: tempered glass for home appliances. Sales: €40 million. Employees: 300.

Saint-Gobain Isover Italia: manufactures insulating materials and sealing products (roofing materials, bonded fiberglass sidings). Sales: €58.7 million. Employees: 233.

Saint-Gobain Vetrotex Italia: manufactures and sells fiberglass for reinforcements. Sales: €142.8 million. Employees: 506.

Saint-Gobain Condotte SpA: ductile cast-iron pipes. Sales: €81.5 million. Employees: 181.

Saint-Gobain Vetri: manufactures glass containers (industrial bottles and jars). Sales: €368.8 million. Employees: 1,206. These figures include those of Ecoglass: collection and processing of cullet.

Saint-Gobain Abrasivi SpA: manufactures abrasive grinding wheels. Sales: €95.5 million. Employees: 460.

SEPR Italia: manufactures fused-cast refractory products. Sales: €33 million. Employees: 214.

Poland, Russia and Ukraine

POLAND

€1 = PLZ 4.532

Saint-Gobain Glass Polska Sp ZOO: manufactures and processes flat glass. Sales: PLZ 357.3 million. Employees: 246. Holds:
• Glaspol: processing and distribution of flat glass for the building industry. Sales: PLZ 138 million. Employees: 383.
• Hsj Jaroszowiec. Sales: PLZ 91.5 million. Employees: 324.
• Aurys Lustra Sp ZOO. Sales: PLZ 33.7 million. Employees: 124.
• SG Euroveder Polska Sp ZOO. Employees: 101.

Saint-Gobain Sekurit Hanglas Polska: produces automotive glass. Sales: PLZ 368 million. Employees: 978.

Saint-Gobain Isover Polska Sp ZOO: production and distribution of insulating products. Sales: PLZ 269.6 million. Employees: 268.

Saint-Gobain Velimat Polska Sp ZOO: production and distribution of bonded fiberglass. Sales: PLZ 35 million. Employees: 72.

Saint-Gobain Abrasives Sp ZOO: production and distribution of abrasive grinding wheels. Sales: PLZ 152.1 million. Employees: 686.

SG Dystrybucja Budowlana Sp ZOO: distribution of products for the building industry. Sales: PLZ 47.6 million. Employees: 119.

RUSSIA

€1 = RUR 35.823

Zao SG Isover: distribution of insulating products. Sales: RUR 1.32 billion. Employees: 84.

SG Isover Yegorievsk (73.8%): production and distribution of insulating products. Sales: RUR 674.5 million. Employees: 133.

UKRAINE

€1 = UAH 6.622

Zat SG Isover: distribution of insulating materials. Sales: UAH 44.5 million. Employees: 16.

Nordic Countries and Baltic States

DENMARK

€1 = DKK 7.440

Saint-Gobain Glass Nordic A/S: Sales: DKK 207.3 million. Holds:
• Scanglas A/S: produces insulating and tempered glass. Sales: DKK 243.5 million. Employees: 223.
• Scanglas Regionalgruppen A/S: processing and distribution of flat glass for the building industry. Sales: DKK 157.8 million. Employees: 132.

Saint-Gobain Isover A/S: production and sale of insulating products. Sales: DKK 373.5 million. Employees: 196.

Saint-Gobain Ecophon Production A/S: manufactures acoustic products.

FINLAND

SG Sekurit Finland Oy: processing of flat glass for the auto industry. Sales: €13 million. Employees: 114.

SG Autover Finland Oy: replacement flat glass.

Finnglass Oy and **Verinvest Oy:** processing and distribution of flat glass for the building industry.

Saint-Gobain Isover Oy: production and distribution of insulating products. Sales: €89 million. Employees: 304.

NORWAY

€1 = NOK 8.372

Brodrene Böckmann A/S: produces insulating glass. Sales: NOK 319.7 million. Employees: 234.

Scandi-Glass A/S: produces insulating glass. Sales: NOK 62.2 million. Employees: 32.

SI-Glass A/S: produces laminated and tempered glass. Sales: NOK 64 million. Employees: 60.

SG Autover Bilglas A/S: replacement flat glass. Sales: NOK 78.5 million. Employees: 39.

Saint-Gobain Ceramic Materials A/S: manufactures and sells silicon carbide products. Sales: NOK 478.3 million. Employees: 286.

SWEDEN
€1 = SEK 9.125

Emmaboda Glas AB: produces insulating and tempered glass. Sales: SEK 230 million. Employees: 226. Holds Glashuset I Sverige AB: glass distribution. Sales: SEK 90.8 million. Employees: 41.

Saint-Gobain Sekurit Scandinavia AB: manufactures tempered and laminated glass for the automobile industry. Sales: SEK 460.3 million. Employees: 244.

Saint-Gobain Isover AB: production and sale of insulating products. Sales: SEK 823.9 million. Employees: 467.

Saint-Gobain Ecophon AB: production and sale of acoustic ceilings. Sales: SEK 730 million. Employees: 374. These figures include those of SG Ecophon Product A/S - Denmark.

Saint-Gobain Abrasives AB: abrasives. Sales: SEK 173.2 million. Employees: 46.

Dahl International AB: distributes bathroom and heating products in Sweden, Norway, Denmark, Finland, Poland and Estonia. Sales: SEK 9.58 billion. Employees: 3,440.

ESTONIA

Saint-Gobain Sekurit Eesti A/S: manufactures replacement windscreens. Employees: 180.

Saint-Gobain Isover Eesti A/S: distribution of insulating products. Employees: 23.

AS Baltiklaas: processing and distribution of flat glass for the building industry. Employees: 74.

LATVIA

SIA Saint-Gobain Isover: distribution of insulating products.

LITHUANIA

UAB Saint-Gobain Isover: distribution of insulating products.

Other European countries

SWITZERLAND
€1 = CHF 1.544

Saint-Gobain Isover SA: production and sale of insulating products. Distribution of fiber reinforcements. Sales: CHF 54.2 million. Employees: 165.

International Saint-Gobain: holding company.

United States and Canada

UNITED STATES
€1 = USD 1.243

Saint-Gobain Corporation: holding company.

CertainTeed Corporation: insulating products and building materials. This division includes the following business lines:
• Solid vinyl siding and windows.
• Residential roofing (shingles).
• Commercial roofing.
• Roofing granules.
• PVC pipe and outdoor living products (fencing, decking and railing).
• Fiber cement siding.
Holds:
• Saint-Gobain Vetrotex America Inc.: manufactures and sells fiberglass for reinforcements.
• Saint-Gobain Technical Fabrics America Inc.: production and sale of industrial products for reinforcements. Holds Saint-Gobain BTI Inc. Holds Saint-Gobain BayForm America Inc.: production and sale of industrial products and parts for door and window manufacturing.
• Ecophon C.T.T: sale of acoustic ceilings.
• Bird Inc.: manufactures shingles and roofing granules. Holds GS Roofing. Sales: $3 billion. Employees: 8,112. The sales and the employees of CertainTeed Corporation include those of Saint-Gobain Vetrotex America Inc., Saint-Gobain Technical Fabrics America, Saint-Gobain BayForm America Inc., Saint-Gobain BTI Inc.

Saint-Gobain Abrasives Inc.: manufactures bonded abrasives, coated abrasives and superabrasives. Sales: $697.7 million. Employees: 3,590. These figures include those of SG Universal Superabrasives Inc. Main subsidiaries in the U. S., Canada, Mexico, and New Zealand.

Saint-Gobain Ceramics & Plastics Inc.: through its own activities or through its subsidiaries, manufactures engineered and advanced ceramics, chemical process products, high-performance plastics, fused-cast refractory products and special ceramic grains and silicon carbide products. Sales: $1.47 billion. Employees: 6,261. These figures include those of consolidated subsidiaries.

Saint-Gobain Glass Corporation: holding company. Holds: Saint-Gobain Sully NA Inc. SG Sekurit USA Inc. Total sales: $52.5 million. Employees: 188. Also holds: HCS Corporation, Sovis North America Inc, Vetrotech Saint-Gobain North America Inc.

Eurokera North America (50%): produces and distributes glass ceramic cooktops. Sales: $54.8 million. Employees: 69.

Saint-Gobain Containers Inc.: manufactures glass containers (bottles and jars). Sales: $1.42 billion. Employees: 4,865.

SGD Manufacturing Inc.: perfume flasks. Sales: $47.1 million. Employees: 256.

Saint-Gobain Calmar Inc.: manufactures plastic pumps. Sales: $207.8 million. Employees: 1,021.

Meyer International Inc.: Sales: $79.5 million. Employees: 248. These figures include Meyer Decorative Surface USA: building materials distribution, Meyer Laminates Inc. and W.C. Real Estate Holdings Inc.

CANADA

€1 = CAD 1.617

Saint-Gobain Technical Fabrics Canada Ltd.: Holds Saint-Gobain BayForm Canada: production and sale of industrial products and parts for door and window manufacturing. Total sales: CAD 80.5 million. Employees: 343.

Saint-Gobain Pyramid Ltd.: flat glass for trains industry.

Decoustics: acoustic products. Sales: CAD 32 million. Employees: 203.

Saint-Gobain Calmar Canada Ltd.: distribution company. Sales: CAD 13.7 million.

Mexico, Colombia and Venezuela

COLOMBIA

€1 = COP 3,267.2

Saint-Gobain de Colombia: manufactures flat glass for the automobile and building industries. Sales: COP 63.6 billion. Employees: 220.

PAM Colombia SA: manufactures water supply pipes. Sales: COP 29.7 billion. Employees: 136.

Pabsa: manufactures coated abrasives and grinding wheels. Sales: COP 31.4 billion. Employees: 90.

MEXICO

€1 = MXN 14.04

Saint-Gobain Glass Mexico: manufacture and processing of flat glass. Sales: MXN 950.8 million. Employees: 247.

Saint-Gobain Sekurit Mexico: manufactures flat glass products for the auto industry. Sales: MXN 839.6 million. Employees: 714.

Saint-Gobain Vetrotex America (Mexico): manufactures and sells fiberglass reinforcements. Sales: MXN 596.8 million. Employees: 397.

Saint-Gobain Abrasivos de Mexico: manufactures non-woven abrasives and grinding wheels.

Saint-Gobain Technical Fabrics SA de Mexico: produces insect screens. Sales: MXN 212.8 million. Employees: 163.

Saint-Gobain Calmar SA de CV: distribution company.

La Plataforma Para La Construccion: distribution of building materials. Sales: MXN 178 million. Employees (including subsidiary): 158.

VENEZUELA

€1 =VEB 2,341.8

Saint-Gobain Abrasivos: manufactures coated abrasives and grinding wheels.

Saint-Gobain Materiales Ceramicos: produces silicon carbide. Sales: VEB 46.7 billion. Employees: 26.

Brazil and Argentina

ARGENTINA

€1 = ARS 3.666

Vidrieria Argentina (VASA) (49%): manufactures flat glass for the building industry. Sales: ARS 111.2 million. Employees: 139.

Rayen Cura Saic (60%): manufactures glass containers (bottles). Sales: ARS 120.5 million. Employees: 287.

Saint-Gobain Calmar Argentina: distribution company.

Saint-Gobain Isover Argentina: produces fiberglass for insulation and reinforcements. Sales: ARS 31.9 million. Employees: 126.

Saint-Gobain Abrasivos Argentina: production and distribution of bonded abrasives.

BRAZIL

€1 = BRL 3.638

São Lourenço: holding company.

Saint-Gobain Vidros SA: manufactures and processes flat glass for the auto and building industries, glass containers (bottles, flasks, industrial jars), household glassware, glass fiber insulation and glass fibers for reinforcement. Sales: BRL 1 billion. Employees: 3,122. Holds: Santa Marina Vitrage Ltda. Sales: BRL 26.9 million. Employees: 105.

Cebrace (50%): manufacturing and processing of flat glass. Sales: BRL 611 million. Employees: 714.

Brasilit: manufactures fiber-cement sheets and moldings. Sales: BRL 186.2 million. Employees: 829. Holds:
• Santa Veronica. Holds Mineraçao Jundu (50%): operates quarries. Employees: 291. Also holds: Carborundum Holding which holds Saint-Gobain Cerâmicas & Plásticos: manufacture and sale of high-temperature insulation fibers and refractory products. Sales: BRL 143.8 million. Employees: 443.
• Saint-Gobain Materiais Cerâmicos: produces silicon carbide. Sales: BRL 154.1 million. Employees: 366.
• Saint-Gobain Weber Brésil (Quartzolit): produces tile glues. Sales: BRL 264.8 million. Employees: 557.

Saint-Gobain Canalização: manufactures ductile cast-iron pipes and connectors. Sales: BRL 275.4 million. Employees: 1,303.

Saint-Gobain Abrasivos Ltda: manufactures bonded and coated abrasives. Sales: BRL 361.8 million. Employees: 1,274.

CHILE

Inversiones Float Chile Ltda (49%): manufacturing and processing of flat glass.

Asia-Pacific

SOUTH KOREA

€1 = KRW 1.423

Hankuk Glass Industries Inc. (46%): Company listed on the Seoul Stock Exchange. Produces flat glass. Sales: KRW 142.6 billion. Employees: 375. Holds:
• Hankuk Sekurit Limited: flat glass processing for the auto industry. Sales: KRW 200.7 billion. Employees: 703.
• Hankuk Processed Glass Inc., Hankuk Lighting Glass, Hankuk Haniso and 60% of Hankuk Specialty Glass. Total sales: KRW 43.1 billion. Employees: 211.

Saint-Gobain Vetrotex Korea Ltd: manufactures and sells fiberglass for reinforcements. Sales KRW 100.4 billion. Employees: 384.

INDONESIA

SG Norton Hamplas (50%): Sales: €7 million. Employees: 208.

JAPAN

€1 = JPY 134.397

Saint-Gobain KK: produces superabrasives, technical ceramics, high-performance plastics. Sales: JPY 8.34 billion. Employees: 194.

NSG Vetrotex KK: manufactures and sells fiberglass for reinforcements. Sales: JPY 5.9 billion. Employees: 194. Holds GRP Co., Ltd: distributes products for the reinforced plastics industry. Sales: JPY 4.3 billion. Employees: 18.

Saint-Gobain Ceramics Materials KK: produces ceramic powders and grains. Sales: JPY 4.7 billion. Employees: 70.

SINGAPORE

Saint-Gobain Quartz Pte: manufactures tubes for the semi-conductor industry.

THAILAND

€1 = THB 50.064

Saint-Gobain Sekurit Thailand: processing for the automobile industry. Sales: THB 2.25 billion. Employees: 634.

Saint-Gobain Vetrotex Thailand: Sales: THB 505.7 million. Employees: 220.

China

€1 = CNY 10.296

Saint-Gobain Hanglas Safety Shanghai: processing for the automobile industry. Sales: CNY 177.8 million. Employees: 746.

Saint-Gobain Sekurit Shanghai: processing for the automobile industry. Sales: CNY 182.7 million. Employees: 161.

Nanjing Saint-Gobain Hanglas (73.5%): Sales: CNY 252.7 million. Employees: 645.

Zhanjiang Saint-Hua-Glass (70%): manufactures glass containers (bottles). Sales: CNY 112.1 million. Employees: 420.

SG Calmar Wuxi Dispensing Systems Ltd.: assembly of plastic pumps. Employees: 155.

Saint-Gobain Isover Beijing (59%): glasswool insulation products. Sales: CNY 60.4 million. Employees: 141.

Beijing Saint-Gobain Vetrotex Glass Fiber (80%): fiberglass for reinforcements. Sales: CNY 71.9 million. Employees: 118.

Hangzhou Saint-Gobain Vetrotex: Sales: CNY 294.2 million. Employees: 373.

SEPR Beijing (87.8%): manufactures fused-cast refractory products. Sales: CNY 164 million. Employees: 246.

Saint-Gobain Abrasives Shangai: produces abrasive grinding wheels. Sales: CNY 282.4 million. Employees: 443.

Saint-Gobain Pipelines Co Ltd.: ductile cast iron pipes. Sales: CNY 210.9 million. Employees: 500.

SG Xuzhou Pipelines Co. Ltd. (75%): Sales: CNY 320.4 million. Employees: 415.

SG Foundry Co. Ltd.: Employees: 111.

INDIA

€1 = INR 56.287

Grindwell Norton Ltd. (51.3%). Company listed on the Mumbai Stock Exchange. Manufactures and sells abrasives and ceramics. Sales: INR 2.65 billion. Employees: 1,304.

Saint-Gobain Glass India Ltd.: Sales: INR 3.61 billion. Employees: 458.

Saint-Gobain Sekurit India (85.8%). Company listed on the Mumbai Stock Exchange. Processing for the automobile industry. Sales: INR 721.8 million. Employees: 347.

Saint-Gobain Vetrotex India Pty Ltd.: Sales: INR 858.5 million. Employees: 331.

SEPR Refractories India Ltd.: manufactures fused-cast refractory products. Employees: 177.

Other countries

SADIP - Saudi Arabia (20%): produces ductile cast-iron pipes.

Egyptian Concrete Pipe Company - Egypt (30%): produces concrete pipes.

6 Person responsible for the "Document de référence" and Statutory Auditors

Person responsible for the *"Document de référence"*

Jean-Louis Beffa, Chairman and Chief Executive Officer

STATEMENT BY THE PERSON RESPONSIBLE FOR THE *"DOCUMENT DE RÉFÉRENCE"*

To the best of my knowledge, the information contained in the *"Document de Référence"* is correct and includes all the information required by investors to form an opinion on the assets, operations, financial position, results and outlook of the issuer. No information has been omitted that would be likely to alter an investor's opinion.

La Défense, April 6, 2005

Chairman and Chief Executive Officer
Jean-Louis Beffa

Statutory Auditors

The Statutory Auditors of the Company are:

• PricewaterhouseCoopers Audit, 32 rue Guersant, 75017 Paris, France, represented by Pierre Coll and Christian Marcellin, reappointed on June 10, 2004 for a term of six years expiring at the close of the 2010 Annual General Meeting; and

• KPMG Audit, a Department of KPMG S.A., 1 Cours Valmy 92923 Paris-La-Défense, represented by Jean Gatinaud and Gilles Salignon, appointed on June 10, 2004 for the remaining term of office of SECEF, the auditors they are replacing. Their appointment thus expires at the 2006 Annual General Meeting.

STATEMENT BY THE STATUTORY AUDITORS

In our capacity as Statutory Auditors of Compagnie de Saint-Gobain (the Company) and as required by Article 211-5-2 of the General Regulations issued by the *Autorité des Marchés Financiers,* we have examined in accordance with French professional standards, the information about the financial position and the historical accounts included in the *"Document de Référence"*.

The *"Document de Référence"* is the responsibility of the Chairman of the Board of Directors of the Company. Our responsibility is to express an opinion on the fairness of the information about the financial position and the accounts contained in the *"Document de Référence"*.

Our procedures, which were performed in accordance with French professional standards, consisted of assessing the fairness of the information about the financial position and the accounts and verifying that this information agrees with the audited financial statements, reading the other information contained in the *"Document de Référence"* in order to identify any material inconsistencies with the information about the financial position and the accounts, and reporting any manifestly incorrect information that came to our attention, based on our overall knowledge of the Company, as acquired during our audit. The *"Document de Référence"* does not contain any forward looking information determined in accordance with a structured process.

The financial statements of the Company and the Group for the years ended December 31, 2002 and 2003, as approved by the Board of Directors, were audited by PricewaterhouseCoopers Audit and SECEF in accordance with French generally accepted auditing standards. Our reports on these financial statements were free of qualifications or observations.

We also audited in accordance with French generally accepted auditing standards the financial statements of the Company for the year ended December 31, 2004, which were prepared in accordance with French generally accepted accounting principles and regulations, and approved by the Board of Directors. Our reports on these financial statements were free of qualifications, but contained an observation with respect to the change in accounting methods during the year resulting from:
• First-time application of *Conseil National de la Comptabilité* opinion no. 2004-05 on accounting for long-service awards;
• Changes to the income statement presentation and the reclassification of movements in provisions for impairment of investments in subsidiaries and affiliates, and other long-term investment securities and in provisions for contingencies and charges relating to treasury stock.
We audited in accordance with French generally accepted auditing standards the financial statements of the Group for the year ended December 31, 2004, as approved by the Board of Directors. Our reports on these financial statements were free of qualifications, but contained an observation with respect to the change in accounting methods during the year resulting from:
• First-time application of *Conseil National de la Comptabilité* opinion no. 2004-05 on accounting for long-service awards in France;
• Introduction of an actuarial method for calculating provisions for workers' compensation in the United States.
Based on the procedures described above, we have nothing to report with respect to the fairness of the information about the financial position and the historical accounts contained in the *"Document de Référence"*.

Paris and Paris La Défense, April 6, 2005

ADDITIONAL INFORMATION

This *"Document de Référence"* includes:
• The Statutory Auditors' reports on the financial statements of the company and the Group for the year ended December 31, 2004 which include, on pages 219 and 220 respectively, the justification of the assessments established in accordance with paragraphs 1 and 2 of Article L. 225-235 of the French Commercial Code;
• The Statutory Auditors' report prepared in accordance with the final paragraph of Article L. 225-235 of the French Commercial Code, on the report of the Chairman of the Board of Directors on the internal control procedures relating to the preparation and processing of financial and accounting information.

The Statutory Auditors

PricewaterhouseCoopers Audit

Pierre Coll   Christian Marcellin

KPMG Audit
Department of KPMG S.A.

Jean Gatinaud   Gilles Salignon

This is a free translation into English of the Statutory Auditors' statement issued in the French language and is provided solely for the convenience of English speaking readers. It should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

7 Checklist

A document filed as a *"Document de Référence"* in France must include certain information. The table below provides details of the pages of the Annual Report on which said information can be found.

The Combined Ordinary and Extraordinary Shareholders' Meeting of June 9, 2005

A - Presentation of the resolutions put to the Shareholders' Meeting

The resolutions that you are invited to vote upon are governed by the quorum and majority voting rules applicable to Ordinary General Meetings in relation to resolutions 1 to 10 and are governed by the quorum and majority voting rules applicable to Extraordinary General Meetings in relation to resolutions 11 to 18.

I - FINANCIAL STATEMENTS OF THE PARENT COMPANY AND THE GROUP - DIVIDEND

The financial statements of Compagnie de Saint-Gobain and the consolidated financial statements of the Saint-Gobain Group are set out in the 2004 Annual Report.
Shareholders are invited to approve the financial statements of Compagnie de Saint-Gobain **(1st resolution)** and the consolidated financial statements of the Saint-Gobain Group **(2nd resolution)** for the year ended December 31, 2004.
A description of the financial position, business activity and income of Compagnie de Saint-Gobain and the Group over the year that has just ended, as well as the information required by applicable legislation and regulations are also included in the 2004 Annual Report, to which the Shareholders are asked to refer.

Appropriation of income

Net income for Compagnie de Saint-Gobain in 2004 came to €766,017 million, compared with €513,574 million in 2003.
Taking account of the retained earnings of €921,176 thousand (after deduction of the special 2.5% tax of €4,987,500 provided for in Article 30 of the 2004 Amended Finance Act), the Shareholders are invited **(3rd resolution)** to approve:
• the adjustment of €13,725 thousand with regard to the amount temporarily allocated in respect of 2003 to the special long-term capital gains reserve so as to decrease its total amount from €291,929 thousand to €278,204 thousand;
• retained earnings of €1,271,471 thousand;
• and to distribute to Shareholders **a total of €429,446,054.40** corresponding to **a net dividend per share of €1.28.** In accordance with Article 243 bis of the French Tax Code, this dividend is eligible to benefit from the 50% tax deduction provided for in Article 158-3 of the same Code.
• to authorize the Board of Directors in accordance with Article 39 of the 2004 Amended Finance Act to transfer, prior to December 31, 2005, €200,000 thousand from the Special long-term capital gains reserve account to the Other Reserves account and to transfer €4,987,500, corresponding to the special tax levied on the amount transferred, from the Other Reserves account to Retained earnings, from which this tax was paid at December 31, 2004.

The net dividend of €1.28 which **has increased by 11.3 %** when compared with the net dividend paid in 2004 (€1.15), will be paid on all outstanding shares as of the date the coupon is detached, that is June 23, 2005. Payment will be made entirely in cash.

II - APPROVAL OF REGULATED RELATED-PARTY AGREEMENTS

In relation to new agreements governed by Articles L. 225-38 et seq. of the French Commercial Code, the agreements described in the Auditors' special report (set out on page 40 of the 2004 Annual Report) are submitted for your approval, such agreements having already been authorized by the Board of Directors (the director concerned: Mr. Sehoon Lee). These agreements, which were entered into on April 6, 2005 relate to the acquisition by Saint-Gobain of a controlling interest in the Korean glass company Hankuk Glass Industries, in which it already held 46% of the share capital at the end of 2004.

III - AUTHORIZATION TO BUY BACK AND POSSIBLY RESELL SAINT-GOBAIN SHARES

The purpose of the **5th resolution** is to renew the authorization to the Board of Directors to buy back and possibly resell Saint-Gobain shares. The maximum purchase price under this authorization is set at €55 per share and the minimum sale price at €23 per share.
This authorization is intended to enable Compagnie de Saint-Gobain to continue, as the case may be, to buy back and resell its own shares, within the limits specified in the European Regulation of December 22, 2003, which came into effect on October 13, 2004, and Articles 241-1 to 241-8 of the General Regulation of the Autorité des Marchés Financiers (the French Financial Markets Authority). These purchases are, therefore, principally made to enable the Company to honor its commitments in relation to the stock option plan and the program for the grant of free shares, the allocation of shares in the context of employee share ownership to promote profit sharing, the allocation of shares upon the exercise of rights attached to securities, for financing any external growth transactions and also with a view to their cancellation (subject to approval of the 17th resolution).
The maximum number of shares bought back may not exceed 10% of the total number of shares making up the share capital at the date when the buy-back takes place.
For information purposes, at March 1, 2005, the theoretical maximum amount of funds that the Company would have been able to invest in relation to these operations would have been €1,875,434,000 which corresponds to 34,098,800 shares bought at a price of €55 each.
The authorization to buy back shares that was granted by the Shareholders' Meeting on June 10, 2004 has been used. A report on this is set out at page 16 of the 2004 Annual Report.

IV - RENEWAL OF TERMS OF OFFICE OF THREE DIRECTORS - APPOINTMENT OF TWO NEW DIRECTORS

• On the recommendation of the Appointments Committee, at its meeting held on March 24, 2005, the Board of Directors approved the proposed renewal of the terms of office of the following three directors whose terms of office expire at the end of this Shareholders' Meeting:

• Renewal of the term of office of Mr. Gianpaolo Caccini **(6th resolution),**

• Renewal of the term of office of Mr. Jean-Martin Folz **(7th resolution),**

• Renewal of the term of office of Mr. Michel Pébereau, **(8th resolution).**

The Shareholders are asked to approve the renewal of these three terms of office.

If the Shareholders approve these proposals, the three appointments will each be made for a term of four years, that is, until the 2009 Shareholders' Meeting.

• In addition, and on the recommendation of the Appointments Committee, at its meeting held on March 24, 2005, the Board of Directors approved the proposed appointments as directors of:

• Mr. Gerhard Cromme, replacing Mr. Rolf-E. Breuer, whose term of office expires at the end of this Shareholders' Meeting **(9th resolution),**

• Mr. Jean-Cyril Spinetta, replacing Mr. Bruno Roger, whose term of office expires at the end of this Shareholders' Meeting **(10th resolution),**

The Shareholders are asked to approve these two appointments.

If the Shareholders approve these proposals, the two appointments will each be made for a term of four years, that is, until the 2009 Shareholders' Meeting.

Further details relating to the appointees are provided on pages 23 to 24 of the 2004 Annual Report.

V - RENEWAL OF FINANCIAL AUTHORIZATIONS GIVEN TO THE BOARD OF DIRECTORS WITH A VIEW TO INCREASING THE SHARE CAPITAL OF COMPAGNIE DE SAINT-GOBAIN

In view of the powers that the law now gives the Board of Directors to decide upon or authorize the issue of bonds, the Shareholders are asked to vote on three resolutions which give the Board of Directors the power to increase, where applicable, the share capital of the Company, during a limited period of 26 months.

Pursuant to the **11th resolution,** Shareholders are asked to authorize the Board of Directors to increase the share capital, where applicable, through the issue of ordinary shares, with pre-emptive subscription rights for existing shareholders and/or all forms of securities which are redeemable, convertible, exchangeable or otherwise exercisable for shares in the Company or its subsidiaries, up to a maximum par value of €680 million (that is a maximum of 170 million shares) and €3 billion (debt securities), the amounts specified in the twelfth and thirteenth resolutions being set off against these sums.

Pursuant to the **12th resolution,** Shareholders are asked to authorize the Board of Directors to increase the share capital, where applicable, through the issue, without pre-emptive subscription rights for existing shareholders, of ordinary shares and/or all forms of securities which are redeemable, convertible, exchangeable or otherwise exercisable for shares in the Company or its subsidiaries, or to shares of the Company to which entitlement would be granted by securities to be issued, where applicable, by the subsidiaries, up to a maximum par value of €270 million (that is a maximum of 67.5 million shares) and €1.2 billion (debt securities), such amounts being respectively set off against those specified in the eleventh resolution.

Pursuant to the **13th resolution,** Shareholders are asked to authorize the Board of Directors to increase the share capital, through the capitalization of share premiums, reserves, profits or other amounts, up to a maximum par value of €84 million (that is a maximum of 21 million shares), such amount being set off against that specified at the eleventh resolution in respect of ordinary shares,

The purpose of these financial authorizations which you are asked to renew and approve is to give the Board of Directors a large degree of flexibility in the choice of securities to be issued and to enable it to tailor the form of marketable securities issued to market opportunities and conditions prevailing either in France or abroad at the time of the issue. The Board of Directors is asking for the possibility to make issues where Shareholders waive their pre-emptive subscription rights to cover situations where the speed of transactions is vital to their success, or where it is preferable to obtain financing from a wide range of investors, as well as to be able to carry out issues on foreign markets where appropriate.

The possibility to increase the share capital through the capitalization of share premiums, reserves, profits or other amounts (13th resolution), will enable the Board of Directors to grant free shares to be issued, subject to Shareholders' approval and to the extent allowed under the 16th resolution.

Shareholders' attention is drawn to the fact that the issuance of preferred shares is not provided for under these three authorizations.

VI - CONTINUED DEVELOPMENT OF EMPLOYEE SHARE OWNERSHIP

The **14th resolution** is part of the continued development of employee share ownership in Compagnie de Saint-Gobain which has been the ongoing aim of the Board of Directors for the past seventeen years.

The purpose of this resolution is to renew the authorization granted to the Board of Directors at the Combined Ordinary and Extraordinary Shareholders' Meeting of June 5, 2003 to carry out employee share issues reserved for members of the Group Savings Plan. This Plan offers the possibility to current and former employees of Group companies in France and abroad, subject to certain conditions, to directly or indirectly subscribe for Saint-Gobain shares offered at a discount not exceeding 20% of the average stock market price prior to the date of the decision of the Board of Directors setting the price of the shares (or 30% when the period during which the shares must be retained is equal to or greater than 10 years). Due to its nature, this resolution entails the automatic waiver of pre-emptive subscription rights by existing shareholders. As in 2003, the authorization will be granted for the maximum par value of issued shares of €64 million (representing a maximum of 16 million shares) and the authorization will be valid for 26 months.

VII - RENEWAL OF THE AUTHORIZATION TO THE BOARD OF DIRECTORS TO GRANT STOCK OPTIONS AND AUTHORIZATION TO THE BOARD OF DIRECTORS TO POSSIBLY GRANT FREE SHARES

In relation to the stock options specified under the **15th resolution,** Shareholders are asked to renew the authorization to grant stock options to certain employees and corporate officers of the Saint-Gobain Group given to the Board of Directors at the Combined Ordinary and Extraordinary Shareholders' Meeting of June 5, 2003. The resolution provides that the exercise price of the stock options will be set by the Board of Directors, without any discount, and will be calculated by reference to the average of the stock market prices prior to the date of the decision of the Board of Directors.
Moreover, the Shareholders are asked to enable the Board of Directors, under the **16th resolution,** to make use of the new possibilities offered by the 2005 Finance Act and to authorize them to issue free ordinary shares which exist or are to be issued in future to employees or categories of employees and corporate officers of the Saint-Gobain Group. The period of validity of these two authorizations may not exceed 26 months, and the aggregate limit for both resolutions will be 3% of the share capital, so that the total number of stock options and shares is not greater than the maximum limit set in the previous authorizations for the options alone.

VIII - CANCELLATION OF SHARES

In the **17th resolution,** Shareholders are invited to renew the authorization given to the Board of Directors at the Combined Ordinary and Extraordinary Shareholders' Meeting of June 5, 2003, for a period of 26 months, to cancel shares of the Company acquired under authorizations given by the Shareholders, representing up to a maximum of 10% of the Company's shares capital per 24–month period.
The **18th resolution** gives full powers to carry out the formalities associated with the Shareholders' Meeting.

B - Additional Information required by Law

EMPLOYEE SHARE OWNERSHIP

In accordance with Article L. 225-102 of the French Commercial Code, the Shareholders are hereby informed that, at December 31, 2004, the percentage of the share capital and voting rights in Compagnie de Saint-Gobain held collectively by the employees under the Group Savings Plan was respectively 6.7 % of the share capital and 11.6 % of the voting rights. In this respect, Saint-Gobain employee shareholders are represented on the Board of Directors of the Company by a director, Mr. Pierre Kerhuel, appointed by the Combined Ordinary and Extraordinary Shareholders' Meeting of June 5, 2003 under Article 9, paragraph 3 of the bylaws, for a term of four years.

REMUNERATION OF CORPORATE OFFICERS

The information required under Article L. 225-102-1 of the French Commercial Code is provided on pages 28 to 29 of the 2004 Annual Report.

TERMS OF OFFICE AND FUNCTIONS OF DIRECTORS

The information required under Article L. 225-102-1 of the French Commercial Code is provided on pages 21 to 22 of the 2004 Annual Report.

2004 PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS

The parent company and consolidated financial statements are set out on pages 106 to 154 of the 2004 Annual Report. The analysis provided for in Article L. 225-100, paragraph 3 of the French Commercial Code concerning earnings and financial positions, in particular in relation to debt, is set out on pages 127 to 130.

SOCIAL AND ENVIRONMENTAL INFORMATION

The information required under Article L. 225-102-1, paragraph 4 of the French Commercial Code is provided on pages 66 to 99 of the 2004 Annual Report.

REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Drawn up in accordance with Article L. 225-37, paragraph 6 of the French Commercial Code, the report of the Chairman of the Board of Directors, which is attached to this report, concerning the presentation and organization of the work by the Board of Directors, in relation to the internal control procedures implemented by Compagnie de Saint-Gobain and in relation to the possible limitations on the powers of the Chief Executive Officer, is set out on pages 31 to 35 of the 2004 Annual Report.

BUY-BACK OF SHARES

The information required under Article L. 225-211, paragraph 2 of the French Commercial Code is provided on page 19 of the 2004 Annual Report.

CURRENT AUTHORIZATIONS GRANTED BY THE SHAREHOLDERS' MEETING IN RELATION TO SHARE ISSUES

The table provided for under Article L. 225-100, paragraph 7 of the French Commercial Code which sets out the authorizations currently in force until this Shareholders' Meeting and which shows the use that has been made of such authorizations over the last year, is set out on page XXX of the 2004 Annual Report.

DISCLOSURE THRESHOLDS

During 2004, Compagnie de Saint-Gobain did not cross any disclosure thresholds in terms of share ownership or voting rights.

The Combined Ordinary and Extraordinary Shareholders' Meeting of June 9, 2005

Ordinary Meeting

1 - Approval of the parent company financial statements for 2004,

2 - Approval of the consolidated financial statements for 2004,

3 - Approval of the appropriation of income and the proposed dividend,

4 - Approval of regulated related-party agreements,

5 - Authorization of the Board of Directors to buy back and possibly resell the Company's shares,

6 - Renewal of the term of office as Director of Mr. Gianpaolo Caccini,

7 - Renewal of the term of office as Director of Mr. Jean-Martin Folz,

8 - Renewal of the term of office as Director of Mr. Michel Pébereau,

9 - Appointment of Mr. Gerhard Cromme as Director, to replace Mr. Rolf-E. Breuer,

10 - Appointment of Mr. Jean-Cyril Spinetta as Director, to replace Mr. Bruno Roger.

Extraordinary Meeting

11 - Authorization of the Board of Directors to increase the share capital, through the issue of ordinary shares, with pre-emptive subscription rights for existing shareholders and/or all securities which are redeemable, convertible, exchangeable or otherwise exercisable for shares in the Company or its subsidiaries, up to a maximum of €680 million (par value of ordinary shares) and €3 billion (debt securities), the amounts specified in the twelfth and thirteenth resolutions being set off against these sums,

12 - Authorization of the Board of Directors to increase the share capital, through the issue of ordinary shares, without pre-emptive subscription rights for existing shareholders and/or all securities which are redeemable, convertible, exchangeable or otherwise exercisable for shares in the Company or its subsidiaries, or to shares of the Company to which entitlement would be granted by securities to be issued, where applicable, by the subsidiaries, up to a maximum of €270 million (par value of ordinary shares) and €1.2 billion (debt securities), such amounts being respectively set off against those specified in the eleventh resolution,

13 - Authorization of the Board of Directors to increase the share capital, through the capitalization of share premiums, reserves, profits or other amounts, up to a maximum par value of €84 million, such amount being set off against that specified at the eleventh resolution, in respect of ordinary shares,

14 - Authorization of the Board of Directors to carry out employee share issues reserved for members of the Group Savings Plan up to a maximum aggregate par value of €64 million,

15 - Authorization of the Board of Directors to grant stock options up to a maximum of 3% of the share capital, this 3% limit being the aggregate limit for both this resolution and the sixteenth resolution,

16 - Authorization of the Board of Directors to grant free ordinary shares, which exist or are to be issued in future, up to a maximum of 3% of the share capital, this 3% limit being the aggregate limit for both this resolution and the fifteenth resolution,

17 - Authorization of the Board of Directors to cancel, where applicable, shares representing up to a maximum of 10% of the Company's share capital,

18 - Powers to carry out formalities.

Resolutions

Ordinary Meeting

FIRST RESOLUTION

Approval of the parent company financial statements for 2004

The Shareholders in Ordinary Meeting, after reviewing the report of the Board of Directors and the report of the Statutory Auditors, approve the parent company financial statements for 2004 as presented, as well as the transactions reflected in these financial statements and summarized in these reports.

SECOND RESOLUTION

Approval of the consolidated financial statements for 2004

The Shareholders in Ordinary Meeting, after reviewing the report of the Board of Directors and the report of the Statutory Auditors, approve the consolidated financial statements for 2004 as presented, as well as the transactions reflected in these financial statements and summarized in these reports.

THIRD RESOLUTION

Appropriation of earnings and approval of dividend

The Shareholders in Ordinary Meeting, having noted that net income for 2004 amounts to €766,016,813.60 and retained earnings at December 31, 2004 amount to €921,175,685.49 (after deduction of the special tax of €4,987,500 on the special long-term capital gains reserve), giving a total of €1,687,192,499.09, approve the proposals made by the Board of Directors with respect to the appropriation of earnings and resolve:

• to adjust by €13,724,965 the amount temporarily allocated in respect of 2003 to the special long-term capital gains reserve, so as to decrease its total amount from €291,929,000 to €278,204,035,
• to carry forward €1,271,471,409.69 as retained earnings,
• to appropriate for distribution to the Shareholders:
• a first dividend of €67,100,946
• an additional dividend of €362,345,108.40
• giving a total amount of €429,446,054.40.

Consequently, the dividend paid on each share which carries dividend rights will be €1.28.

In accordance with Article 243 bis of the French Tax Code, the dividend is eligible for the 50% tax deduction provided for in Article 158-3 of said Code.

In accordance with legal requirements, dividends paid in the last three years are presented in the table below:

Year	No. of shares on which dividend paid	Net dividend	Tax credit**	Total revenue
2001	84,080,890 *	4.50 *	2.25 *	6.75 *
	336,323,560	1.125	0.5625	1.6875
2002	335,523,164	1.13	0.565	1.695
2003	336,855,335	1.15	0.575	1.725

* Before the four-for-one share split decided upon by the Combined Ordinary and Extraordinary Shareholders' Meeting of June 6, 2002, under the 8th resolution.

** The 50% tax credit has been included for the purposes of this table

The Shareholders' Meeting authorizes the Board of Directors, pursuant to Article 39 of the Amended Finance Act of December 30, 2004:
• to transfer €200,000,000 before December 31, 2005 from the Special long-term capital gains reserve account to the Other reserves account;
• to transfer €4,987,500 in relation to the special tax levied on the amount thus transferred from the Other reserves account to Retained Earnings, from which this tax was paid at December 31, 2004.

FOURTH RESOLUTION

Report on regulated related-party agreements

The Shareholders in Ordinary Meeting note the terms of the Statutory Auditors' special report on regulated related-party agreements, drawn up in accordance with Article L. 225-40 of the French Commercial Code, and approve the agreements authorized by the Board of Directors which are set out therein.

FIFTH RESOLUTION

Authorization to the Board of Directors to buy back and possibly resell the Company's shares

The Shareholders in Ordinary Meeting, having reviewed the report of the Board of Directors and the prospectus approved by the Autorité des Marchés Financiers, authorizes the Board of Directors to buy back and possibly resell the Company's own shares, in accordance with Articles L. 225-209 et seq. of the French Commercial Code with a view to the grant of stock options and/or the grant of free shares within the scope of Articles L. 225-197-1 et seq. of the French Commercial Code, the grant of shares in the context of employee share ownership to promote profit sharing, the allocation of shares upon the exercise of rights attached to securities which are redeemable, convertible, exchangeable or otherwise exercisable for shares in the Company, the cancellation of shares subject to the authorization of the Extraordinary Shareholders' Meeting (17th resolution), the retention, transfer by any means, notably via the exchange or sale of securities, in external growth transactions, and more generally in relation to any other transaction allowed by current regulations.

Shares may be purchased, sold, transferred or exchanged at any time, by any means, on one or more occasions including during a public offering, provided that regulations in force are complied with, on the stock exchange or over-the-counter, in blocks of shares or using options or derivatives.

The Shareholders' Meeting sets the following limits:
• maximum purchase price: €55 per share
• minimum sale price: €23 per share
• maximum number of shares to be purchased: 10% of the total number of shares making up the Company's share capital at the date of completion of the purchases.

For information purposes, at March 1, 2005, the theoretical maximum amount of funds that the Company would have been able to invest in such an operation would have been €1,875,434,000, which corresponds to 34,098,800 shares acquired for €55 each.

In the event of an increase in capital by capitalizing reserves, or a grant of free shares, a stock split or reverse stock split, the above prices per share will be adjusted arithmetically based on the ratio between the total number of shares issued and outstanding before and after the transaction.

The Shareholders' Meeting gives full powers to the Board of Directors, and by delegation, to any person, under the conditions required by law, to implement this authorization, to carry out trades on or off the stock exchange, to enter into any and all agreements, carry out any and all formalities and make all appropriate declarations to the authorities and generally do all that is necessary.

This authorization is granted for a period of eighteen months from the date of this Meeting. It supersedes, for the unexpired period, the unused portion of the authorization granted in the fifth resolution of the Combined Ordinary and Extraordinary Shareholders' Meeting of June 10, 2004.

SIXTH RESOLUTION

Renewal of the term of office of Mr. Gianpaolo Caccini as Director

The Shareholders' Meeting, in light of the Board of Directors' Report, having noted that this term of office expires at the end of this Shareholders' Meeting, renews the appointment of Mr. Gianpaolo Caccini as Director.

This appointment is made for a term of four years, expiring at the close of the Shareholders' Meeting called to approve the 2008 financial statements.

SEVENTH RESOLUTION

Renewal of the term of office of Mr. Jean-Martin Folz as Director

The Shareholders' Meeting, in light of the Board of Directors' Report, having noted that this term of office expires at the end of this Shareholders' Meeting, renews the appointment of Mr. Jean-Martin Folz as Director.

This appointment is made for a term of four years, expiring at the close of the Shareholders' Meeting called to approve the 2008 financial statements.

EIGHTH RESOLUTION

Renewal of the term of office of Mr. Michel Pébereau as Director

The Shareholders' Meeting, in light of the Board of Directors' Report, having noted that this term of office expires at the end of this Shareholders' Meeting, renews the appointment of Mr. Michel Pébereau as Director.

This appointment is made for a term of four years, expiring at the close of the Shareholders' Meeting called to approve the 2008 financial statements.

NINTH RESOLUTION

Appointment of Mr. Gerhard Cromme as Director, to replace Mr. Rolf-E. Breuer

The Shareholders' Meeting, in light of the Board of Directors' Report, appoints Mr. Gerhard Cromme as Director to replace M. Rolf-E. Breuer, whose term of office ends after this Shareholders' Meeting.

This appointment is made for a term of four years, expiring at the close of the Shareholders' Meeting called to approve the 2008 financial statements.

TENTH RESOLUTION

Appointment of Mr. Jean-Cyril Spinetta as Director, to replace Mr. Bruno Roger

The Shareholders' Meeting, in light of the Board of Directors' Report, appoints Mr. Jean-Cyril Spinetta as Director to replace Mr. Bruno Roger, whose term of office ends after this Shareholders' Meeting.

This appointment is made for a term of four years, expiring at the close of the Shareholders' Meeting called to approve the 2008 financial statements.

Extraordinary Meeting

ELEVENTH RESOLUTION

Authorization of the Board of Directors to increase the share capital, through the issue of ordinary shares, with pre-emptive subscription rights for existing shareholders and/or all securities which are redeemable, convertible, exchangeable or otherwise exercisable for shares in the Company or its subsidiaries, up to a maximum of €680 million (par value of ordinary shares) and €3 billion (debt securities), the amounts specified in the twelfth and thirteenth resolutions being set off against these sums

The Shareholders in Extraordinary Meeting, in light of the report of the Board of Directors and the special report of the Statutory Auditors, and in accordance with French Company law, including in particular Articles L. 225-129-2, L. 225-132, L. 228-92 and L. 228-93 of the French Commercial Code:

1/ Authorize the Board of Directors to carry out capital increases on one or more occasions, the amounts and timing of which will be decided at the Board of Directors' discretion, through the issue on the French, foreign and/or international markets of:

a) ordinary shares in the Company,

b) and/or any securities whether or not in the form of debt securities which are or may be, now or in the future, at any time or on a fixed date, subscribed for, convertible, exchangeable, redeemable, or otherwise exercisable on the presentation of a coupon or otherwise, for ordinary shares which exist or are to be issued in future by the Company or any company in which the Company directly or indirectly owns more than half the share capital, and these securities other than the ordinary shares may be denominated in euros, foreign currencies or in any monetary unit defined by reference to a basket of currencies.

2/ Resolve that this authorization is valid for a period of 26 months from the date of this Shareholders' Meeting.

3/ Resolve that the following conditions will apply if the Board of Directors uses this authorization:

a) the maximum par value of ordinary shares which may be issued, now or in the future, either directly or on the presentation of securities, whether debt securities or otherwise, is €680 million, plus the total par value of any ordinary shares that may be issued to maintain, in accordance with the law, the rights of the holders of these securities which are convertible, exchangeable, redeemable, or otherwise exercisable for ordinary shares. The par value of any ordinary shares issued either directly or indirectly under the terms of the twelfth and thirteenth resolutions of this Shareholders' Meeting will be set off against this total,

b) the maximum nominal value of debt securities of the Company which may be issued under this resolution is set at €3 billion, or the foreign currency equivalent thereof, on the date of the decisions to issue the securities. The par value of any debt securities issued, where applicable, under the terms of the twelfth resolution of this Shareholders' Meeting will be set off against this total.

4/ Resolve that the following conditions will apply if the Board of Directors uses this authorization:

a) the Shareholders will have a pre-emptive right to subscribe for securities issued under this resolution, pro rata to their existing holdings in the Company's capital,

b) if the subscriptions by Shareholders pursuant to their priority rights pro rata to their existing holdings as well as for any shares not taken up by other Shareholders, do not cover the total value of the issue of ordinary shares or securities referred to at 1/ above, the Board of Directors may, at its discretion, freely allot all or part of the unsubscribed shares, offer them to the public or limit the issue to the amount of shares that has been subscribed for, provided that such amount is at least equal to three-quarters of the number of shares which were to be issued,

c) in accordance with Article L. 225-135-1 of the French Commercial Code, if the Board of Directors notes there to be excess demand for shares, the number of shares issued may be increased, at its discretion, within 30 days of the closing date for the subscription period, up to a maximum of 15% of the initial issue amount, at the same price as the initial issue, and up to the maximum limit specified in 3/a) above,

d) note, as necessary, that this authorization automatically entails the waiver by the Shareholders, in favor of the holders of above issued securities, of their pre-emptive right to subscribe for the ordinary shares to which the issued securities give entitlement.

5/ Grant full powers to the Board of Directors to use this authorization or to subdelegate in accordance with the conditions provided by law and in particular to:

• set the amount of the issue within the limits specified at 3/ above, the issue price and the amount of the share premium,

• set the conditions of any issue or issues,

• decide or otherwise that where shares that have not been subscribed for by Shareholders pursuant to their pre-emptive rights, they will be allotted to Shareholders that have subscribed for shares in excess of their entitlement under their own pre-emptive subscription rights, in proportion to the subscription rights that they hold, and in any event, within the limit of the number of shares requested,

• decide on the timing and other terms of the issue, the nature, the form and characteristics of the securities to be issued, which may be subordinated or unsubordinated, and may or may not have a fixed maturity date,

• set the terms of payment for the ordinary shares and/or the securities issued or to be issued in the future,

• define, where appropriate, the terms and conditions for the exercise of any rights attached to the securities issued or to be issued and, in particular, set the date from which the new ordinary shares will carry dividend or interest rights, which may be set retroactively, as well as all other terms and conditions relating to the issue,

• set the conditions under which the securities issued or to be issued, may be bought back or exchanged by the Company on the stock exchange, at any time or during fixed periods,

• provide that the rights attached to the securities giving entitlement to ordinary shares may be suspended for a period not exceeding three months,
• make, where applicable, the adjustments relating to any financial transactions in respect of the Company's share capital,
• at its sole discretion, charge issue costs to the related premiums and credit all or part of the remaining premiums to the legal reserve as needed in order to raise this reserve to one-tenth of the new share capital after each increase,
• and generally, enter into all and any agreements, take any action or carry out any formalities necessary in connection with the issue, the listing of the shares, the due completion and the financial servicing of the securities issued under this authorization as well as in relation to the exercise of all rights attached to such securities, record completion of each capital increase and make the related amendments to the bylaws.

6/ Note that this authorization supersedes, for the unexpired period, the unused portion of the authorization granted in the eleventh resolution of the Combined Ordinary and Extraordinary Shareholders' Meeting of June 5, 2003 in relation to that part having the same subject matter.

TWELFTH RESOLUTION

Authorization of the Board of Directors to increase the share capital, through the issue of ordinary shares, without pre-emptive subscription rights for existing shareholders and/or all securities which are redeemable, convertible, exchangeable or otherwise exercisable for shares in the Company or its subsidiaries, or to shares of the Company to which entitlement would be granted by securities to be issued, where applicable, by the subsidiaries, up to a maximum of €270 million (par value of ordinary shares) and €1.2 billion (debt securities), such amounts being respectively set off against those specified in the eleventh resolution

The Shareholders in Extraordinary Meeting, in light of the report of the Board of Directors and the special report of the Statutory Auditors, and in accordance with French Company law, including Articles L. 225-129-2, L. 225-135, L. 225-136, L. 228-92 and L. 228- 93 of the French Commercial Code:

1/ Authorize the Board of Directors to carry out capital increases on one or more occasions, the amounts and timing of which will be decided at the Board of Directors' discretion, through the issue on the French, foreign and/or international markets of:

a) ordinary shares in the Company, and/or any securities whether or not debt securities which, now or in the future, at any time or on a fixed date, may be subscribed for, converted, exchanged, redeemed, or otherwise exercised on the presentation of a coupon or otherwise, for ordinary shares which exist or are to be issued in future by the Company or any company in which the Company directly or indirectly owns more than half the share capital, it being specified that:
• these securities, other than ordinary shares, may be denominated in euros, foreign currencies or in any monetary unit defined by reference to a basket of currencies,
• ordinary shares and/or securities which are redeemable, convertible, exchangeable or otherwise exercisable for ordinary shares, that exist or will exist in future, may be issued in payment for shares of another company tendered to a stock-for-stock exchange offer made by the Company, subject to compliance with the provisions of Article L. 225-148 of the French Commercial Code, or, having regard to the contribution auditor's report and up to a maximum of 10% of the share capital of the Company as of the date of this Shareholders' meeting, in relation to contributions in kind made to the Company in the form of shares or securities which are redeemable, convertible, exchangeable or otherwise exercisable for shares, provided that the conditions specified in Article L. 225-148 do not apply.

b) the ordinary shares in the Company and/or securities as specified at a) above, following the issue by one of the companies in which the Company either directly or indirectly holds more than half the share capital, subject to authorization from the Shareholders' Meeting of such company, of the securities specified at Article L. 228-93 of the French Commercial Code which are immediately or after a given period, redeemable, convertible, exchangeable or otherwise exercisable for shares in the Company.

2/ Resolve that this authorization is valid for a period of 26 months from the date of this Shareholders' Meeting.

3/ Resolve that the following conditions will apply if the Board of Directors uses this authorization:

a) the maximum par value of ordinary shares that may be issued now or in future, whether directly or by presenting securities whether debt securities or otherwise, is set at €270 million, increased by the aggregate par value of the ordinary shares that may be issued in order to maintain, in accordance with the law, the rights belonging to the holders of securities that are convertible, exchangeable, redeemable or otherwise exercisable for ordinary shares, it being specified that the par value of the ordinary shares issued directly or otherwise under this authorization will be set off against the limit specified in 3/a) of the eleventh resolution of this Shareholders' Meeting.

b) and the maximum par value of debt securities of the Company will be €1.2 billion or the foreign currency equivalent thereof, on the date of the decisions to issue the securities, it being specified that the par value of these securities issued under this authorization will be set off against the limit specified in 3/b) of the eleventh resolution of this Shareholders' Meeting.

4/ Resolve to cancel the pre-emptive subscription rights of Shareholders to securities which are the subject matter of this resolution, these securities either being issued by the Company itself or by a company in which it directly or indirectly holds more than half the share capital, and to authorize the Board of Directors, in accordance with the provisions of Article L. 225-135, paragraph 2 of the French Commercial Code to decide that Shareholders shall have during a time period and in accordance with terms and conditions to be set by

the Board of Directors and in respect of all or part of the securities issued, a priority period for subscription which shall not be less than three stock exchange trading days, and which does not give rise to the creation of negotiable rights, and which shall be exercised pro rata to the number of ordinary shares held by each Shareholder and which may be increased by a subscription for shares that have not been taken up by other Shareholders if the Board of Directors so decides.
5/ Note, as necessary, that this authorization automatically entails the waiver by the Shareholders, in favor of the holders of issued securities, of their pre-emptive right to subscribe for the ordinary shares to which the issued securities give entitlement.
6/ Resolve that the amount of the valuable consideration which is payable or may ultimately be payable to the Company in respect of each ordinary share issued or to be issued in future under this authorization, having taken into account, in the event of an issue of standalone warrants, the issue price of such warrants, shall be at least equal to the minimum price specified in the legal and/or regulatory provisions applicable on the date of issue, whether or not the securities to be issued now or in the future rank pari passu with the securities already issued, and after adjusting this amount to take account, where applicable, of the difference in the date as from which these securities will carry dividend and interest rights.
7/ Resolve that if the subscriptions do not cover the total value of the issue of ordinary shares or securities specified at 1/ above, the Board of Directors may limit the issue, in accordance with the law.
8/ Resolve, in accordance with Article L. 225-135-1 of the French Commercial Code, if the Board of Directors notes there to be excess demand for shares, that the number of shares issued may be increased, at its discretion, within 30 days of the closing date for the subscription period, up to a maximum of 15% of the initial issue amount, at the same price as the initial issue, and up to the maximum limit specified in 3/a) above.
9/ Grant full powers to the Board of Directors to use this authorization or to subdelegate in accordance with the conditions provided by law and in particular to:
• set the conditions of any issue or issues, in agreement, where applicable, with the managing bodies of the companies in question,
• set the amount of the issue, the issue price in accordance with the conditions specified at 6/ above and within the limits specified at 3/ above, together with the amount of the share premium,
• decide on the timing and other terms of the issue, the nature, the form and characteristics of the securities to be issued, which may be subordinated or unsubordinated, and may or may not have a fixed maturity date,
• set the terms of payment for the ordinary shares and/or the securities issued or to be issued in future,
• define, where appropriate, the terms and conditions for the exercise of any rights attached to the securities issued or to be issued and, in particular, set the date from which the new ordinary shares will carry dividend or interest rights, which may be set retroactively, as well as all other terms and conditions relating to the issue,
• set the conditions under which the securities issued or to be issued may be bought back or exchanged by the Company on the stock exchange, at any time or during fixed periods,
• provide that the rights attached to these issued securities may be suspended for a period not exceeding three months,
• make, where applicable, the adjustments relating to any financial transactions in respect of the Company's share capital,
• at its sole discretion, charge issue costs to the related premiums and credit all or part of the remaining premiums to the legal reserve as needed in order to raise this reserve to one-tenth of the new share capital after each increase,
• and generally, enter into all and any agreements, take any action or carry out any formalities necessary in connection with the issue, the listing of the shares, the due completion and the financial servicing of the securities issued under this authorization as well as in relation to the exercise of all rights attached to such securities, record completion of each capital increase and make the related amendments to the bylaws.
10/ Note that this authorization supersedes, for the unexpired period, the unused portion of the authorization granted in the twelfth resolution of the Combined Shareholders' Meeting of June 5, 2003.

THIRTEENTH RESOLUTION

Authorization of the Board of Directors to increase the share capital, through the capitalization of share premiums, reserves, profits or other amounts, up to a maximum par value of €84 million, such amount being set off against that specified at the eleventh resolution, in respect of ordinary shares

The Shareholders in Extraordinary meeting, in light of the report of the Board of Directors and in accordance with French Company law, including Article L. 225-130 of the French Commercial Code:
1/ Authorize the Board of Directors to carry out capital increases on one or more occasions, the amounts and timing of which will be decided at the Board of Directors' discretion, through the capitalization of share premiums, reserves, profits or other amounts, as possible in accordance with the law and the bylaws, by the grant of free ordinary shares or by increasing the par value of existing ordinary shares, or by a combination of the two.
2/ Resolve that this authorization is valid for a period of 26 months from the date of this Shareholders' Meeting.
3/ Resolve that the following conditions will apply if the Board of Directors uses this authorization:
a) the total amount of the share capital increases that take place as a result of capitalization of share premiums, reserves, profits or other amounts, increased by the aggregate par value of the ordinary shares that may be issued to maintain, in accordance with the law, the rights of the holders of securities which give entitlement to ordinary shares, shall not be greater than the amounts in the share premium, reserve,

profit or other accounts which exist at the time of the capital increase, up to a maximum of €84 million, it being specified that the par value of the ordinary shares issued or the amount of the shares whose par value has been increased under this authorization will be set off against the limit specified in 3/a) of the eleventh resolution of this Shareholders' Meeting,

b) in accordance with the provisions of Article L. 225-130 of the French Commercial Code, the rights to fractions of shares shall be neither negotiable nor transferable and the corresponding shares shall be sold, the sums being paid in respect thereof being allocated to the holders of rights to such fractions of shares, at the latest thirty days after the date on which their shareholdings (in respect of a whole number of shares) are recorded in respect of the allotted securities.

4/ Grant full powers to the Board of Directors to use this authorization or to subdelegate in accordance with the conditions provided by law and in particular to:

a) set the conditions of any issue or issues,

b) set, within the limits specified at 3/a) above, the amount and the nature of the sums to be capitalized, the number of new ordinary shares to be issued or the amount by which the par value of existing shares making up the share capital shall be increased, and set the date from which the new ordinary shares will carry dividend or interest rights and the date from which the par value increase shall be effective, both of which may be set retroactively,

c) make, where applicable, the adjustments relating to any financial transactions in respect of the Company's share capital,

d) at its sole discretion, charge issue costs to the related premiums and credit all or part of the remaining premiums to the legal reserve as needed in order to raise this reserve to one-tenth of the new share capital after each increase,

e) and generally, enter into all and any agreements, take any action or carry out any formalities necessary in connection with the issue, the listing of the shares, the due completion and the financial servicing of the securities issued under this authorization as well as in relation to the exercise of all rights attached to such securities, record completion of each capital increase and make the related amendments to the bylaws.

5/ Note that this authorization supersedes, for the unexpired period, the unused portion of the authorization granted in the eleventh resolution of the Combined Ordinary and Extraordinary Shareholders' Meeting of June 5, 2003 in relation to that part having the same subject matter.

FOURTEENTH RESOLUTION

Authorization of the Board of Directors to carry out employee share issues reserved for members of the Group Savings Plan up to a maximum aggregate par value of €64 million

The Shareholders in Extraordinary Meeting, in light of the report of the Board of Directors and the special report of the Statutory Auditors and in accordance with both French Company law, including Articles L. 225-129-6 and L. 225-138-1 of the French Commercial Code, and Articles L. 443-1 et seq. of the French Labor Code:

1/ Authorize the Board of Directors to carry out capital increases on one or more occasions, at the Board of Directors' discretion, in relation to the issue of shares reserved for members of the Group Savings Plan. This authorization entails the waiver by the Shareholders of their pre-emptive right to subscribe for shares issued to the members of the Group Savings Plan.

2/ Resolve that the beneficiaries of the capital increases hereby authorized will be the members of the Savings Plan of Compagnie de Saint-Gobain and of all or some of the companies or groupings that are related to it, as specified in Articles L. 225-180 of the French Commercial Code and L. 444-3 of the French Labor Code, and which comply, in addition, with any criteria that may be set by the Board of Directors.

3/ Resolve that this authorization is valid for a period of 26 months from the date of this Shareholders' Meeting.

4/ Resolve to set at €64 million the maximum par value of shares that may be issued hereunder.

5/ Resolve that the subscription price of the issued shares under this authorization will be set in accordance with the conditions specified in Article L. 433-5 of the French Labor Code and cannot be greater than the average of the opening prices for the Saint-Gobain share on the Eurolist of Euronext during the 20 stock exchange sessions preceding the decision of the Board of Directors which sets the date for the opening of the subscription period, nor more than 20% less than this average or 30% when the period during which they are to be frozen under the Plan under Article L. 443-6 of the French Labor Code is greater than or equal to 10 years.

6/ Grant full powers to the Board of Directors to use this authorization or to subdelegate in accordance with the conditions provided by law and in particular to:

• define the type of shares to be issued,

• set the conditions that the beneficiaries of the shares that will result from the share capital increases that are the subject matter of this resolution must fulfill,

• set the terms and conditions of the issue,
• set the amount of the issue within the limits specified at 4/ above, the issue price and the date and conditions of each issue,
• set the timing for the payment of the shares by members,
• make, where applicable, the adjustments relating to any financial transactions in respect of the Company's share capital,
• set the date, even retroactively, from which the new securities will carry dividend or interest rights,
• record or arrange for the recording of the completion of the share capital increase for the amount of securities that are actually subscribed or decide to increase the amounts issued within the limits specified in 4/ above so that shares may be issued in respect of the total amount of subscriptions received, set the terms and conditions in relation to the reduction of subscriptions in the event that they exceed the amount of the issue,
• at its sole discretion, charge issue costs to the related premiums and credit all or part of the remaining premiums to the legal reserve as needed in order to raise this reserve to one-tenth of the new share capital after each increase,
• take all action necessary to carry out the capital increases, carry out the related formalities, in particular, in connection with the listing of any shares thus issued and amend the bylaws accordingly.

7/ Note that this authorization supersedes, for the unexpired period, the unused portion of the authorization granted in the thirteenth resolution of the Combined Ordinary and Extraordinary Shareholders' Meeting of June 5, 2003 in relation to that part having the same subject matter.

FIFTEENTH RESOLUTION

Authorization of the Board of Directors to grant stock options in relation to ordinary shares up to a maximum of 3% of the share capital, this 3% limit being the aggregate limit for both this resolution and the sixteenth resolution

The Shareholders in Extraordinary Meeting, in light of the report of the Board of Directors and the special report of the Statutory Auditors and in accordance with French Company law, including Articles L. 225-177 to L. 225-185, L. 225-208 and L. 225-209 of the French Commercial Code:

1/ Authorize the Board of Directors to grant on one or more occasions, the proportion and timing of which will be decided at the Board of Directors' discretion, to the beneficiaries specified below, stock options that give the right either to purchase existing ordinary shares in the Company bought back by it in accordance with the law, or to the subscription for new ordinary shares in the Company to be issued by it pursuant to an increase in capital.

2/ Resolve that this authorization is valid for a period of 26 months from the date of this Shareholders' Meeting.

3/ Resolve that the beneficiaries of these options can only be, on the one hand, employees or some of them or certain categories of employees and, on the other hand, corporate officers, as defined by law, both of Compagnie de Saint-Gobain and companies and economic interest groupings which are directly or indirectly related thereto as specified in Article L. 225-180 of the French Commercial Code.

4/ Resolve that the total number of options that will be granted under this authorization, cannot give entitlement to purchase or subscribe for a number of ordinary shares which represent more than three percent of the share capital of Compagnie de Saint-Gobain on the date of this Shareholders' Meeting. This number of shares will be set off against the limit set in the sixteenth resolution in relation to the grant of free shares and this percentage will constitute an aggregate limit which shall apply to the allotments carried out under both this resolution and the sixteenth resolution.

5/ Resolve that in the event of the grant of stock purchase options, the beneficiaries' purchase price will be set on the date when the options are allotted by the Board of Directors, without any discount, by reference to the average of the opening prices for the Saint-Gobain shares on the Eurolist of Euronext during the 20 stock exchange sessions preceding that date and cannot in any event be less than the average purchase price for shares held by the Company pursuant to Articles L. 225-208 and L. 225-209 of the French Commercial Code.

6/ Resolve that in the event of the grant of stock subscription options, the beneficiaries' subscription price will be set on the date when the options are allotted by the Board of Directors, without any discount, by reference to the average of the opening prices for the Saint-Gobain shares on the Eurolist of Euronext during the 20 stock exchange sessions preceding that date.

7/ Note, as necessary, that this authorization entails the express waiver by the Shareholders, in favor of the beneficiaries of the stock subscription options of the Shareholders' pre-emptive right to subscribe for the ordinary shares which will be issued from time to time on the exercise of the options.

8/ Grant full powers to the Board of Directors to use this authorization or to subdelegate in accordance with the conditions provided by law and in particular to:
• set the terms and conditions under which the stock options will be granted and define the list or the categories of beneficiaries of the options as provided above,
• set, in accordance with the law, the terms and conditions under which the price and the number of shares may be adjusted, in particular in the event of any financial transactions in respect of the Company,
• set the period or periods during which the options thus granted can be exercised, it being specified that the duration of validity of the options may not exceed a period of ten years as from the date of their allotment,

• provide that the exercise of the stock options may be temporarily suspended for a period not exceeding three months, in the event that financial transactions are carried out entailing the exercise of rights attached to ordinary shares,
• carry out or arrange for the carrying out of all actions and formalities for the purposes of recording and finalizing the capital increase or increases which may take place under the authorization which is the subject matter of this resolution, make the related amendments to the bylaws and generally do all that is necessary.
• at its sole discretion, charge issue costs to the related premiums and credit all or part of the remaining premiums to the legal reserve as needed in order to raise this reserve to one-tenth of the new share capital after each increase.
9/ Note that this authorization supersedes, for the unexpired period, the unused portion of the authorization granted in the fourteenth resolution of the Combined Ordinary and Extraordinary Shareholders' Meeting of June 5, 2003.

SIXTEENTH RESOLUTION

Authorization of the Board of Directors to grant free ordinary shares, which exist or are to be issued in future, up to a maximum of 3% of the share capital, this 3% limit being the aggregate limit for both this resolution and the fifteenth resolution

The Shareholders in Extraordinary Meeting, in light of the report of the Board of Directors and the special report of the Statutory Auditors, and in accordance with French Company law, including Articles L. 225-197-1 et seq., L. 225-208 and L. 225-209 of the French Commercial Code:
1/ Authorize the Board of Directors on one or more occasions, the proportion and timing of which will be decided at the Board of Directors' discretion, to grant free ordinary shares, which exist or are to be issued in future to the beneficiaries set out below.
2/ Resolve that this authorization is valid for a period of 26 months from the date of this Shareholders' Meeting.
3/ Resolve that the sole beneficiaries of these free shares will be, on the one hand, employees or some of them or certain categories of employees and, on the other hand, corporate officers, as defined by law, both of Compagnie de Saint-Gobain and companies and economic interest groupings which are directly or indirectly related thereto as specified in Article L. 225-197-2 of the French Commercial Code.
4/ Resolve that the Board of Directors will set the terms and conditions together with, where applicable, the criteria for the grant of the shares, define the beneficiaries as specified above and identify them together with the number of free shares to be granted.
5/ Resolve that the total number of free ordinary shares granted under this authorization, whether in relation to existing shares or shares to be issued in future, may not represent more than three percent of the share capital of Compagnie de Saint-Gobain on the date of this Shareholders' Meeting. This number of shares will be set off against the limit set in the fifteenth resolution in relation to stock options and this percentage will constitute an aggregate limit which shall apply to the allotments carried out under both this resolution and the fifteenth resolution.
6/ Resolve that the grant of free ordinary shares will only be final at the end of a vesting period of a minimum of two years as from the decision of the Board of Directors, that the obligation for the beneficiaries to retain the ordinary shares is set at a minimum of two years as from the end of the vesting period in respect of the ordinary shares, and that the Board of Directors will be entitled to increase the duration of either of these two periods.
7/Note, as necessary, that this authorization automatically entails for the beneficiaries of the free ordinary shares to be issued, a capital increase by capitalizing premiums, reserves, profits or other amounts, at the end of the vesting period and the related waiver by Shareholders of their rights to part of the reserves, profits or premiums so capitalized and used for the purposes of the issue of new shares, and accordingly entails the grant of full powers to the Board of Directors for the purposes of carrying out this or these increases in capital.
8/ Grant full powers to the Board of Directors to use this authorization or to subdelegate in accordance with the conditions provided by law and in particular to:
• determine if the grant of free shares is to be made with existing shares or shares to be issued in future,
• define, in accordance with the law, the terms and conditions whereby the number of free ordinary shares may be adjusted, in particular in relation to the financial transactions of the Company,
• set the conditions for the grant of free shares,
• set in the event of the grant of free ordinary shares to be issued, the amount and the nature of the reserves, profits or premiums that will be capitalized for these purposes,
• provide that the rights to the grant may be suspended temporarily,
• carry out or arrange for the carrying out of all actions and formalities for the purposes of recording or finalizing the capital increase or increases which may take place under the authorization which is the subject matter of this resolution, in particular, in connection with the listing of any securities thus issued, amending the bylaws accordingly and generally doing all the is necessary,
• at its sole discretion, charge issue costs to the related premiums and credit all or part of the remaining premiums to the legal reserve as needed in order to raise this reserve to one-tenth of the new share capital after each increase.

SEVENTEENTH RESOLUTION

Authorization given to the Board of Directors to cancel, where applicable, shares representing a maximum of 10% of the Company's capital stock

The Shareholders in Extraordinary Meeting, in light of the report of the Board of Directors and the special report of the Statutory Auditors and in accordance with French Corporate Law, and in particular Article L. 225-209 of the French Commercial Code:

1/ Resolve to authorize the Board of Directors to cancel the shares of the Company acquired under the authorizations given by the Shareholders' Meetings, as follows:

• the Board shall have full discretionary authority to cancel, on one or more occasions, all or some of the shares purchased under Shareholder-approved buy-back programs, provided that the total number of shares cancelled in a 24-month period does not exceed 10% of the total number of shares outstanding at the date of the cancellation, and to reduce the Company's capital accordingly,

• any difference between the price paid for the cancelled shares and their par value will be partly charged to the Legal Reserve up to a total of 10% of the capital cancelled, with the remainder being deducted from the share premium,

• this authorization is given for a period of 26 months from the date of this Meeting. The Board of Directors shall have full power, with the possibility to subdelegate, to carry out any and all actions, formalities and filings required to cancel the shares, finalize the reductions in share capital and amend the bylaws accordingly.

2/ Note that this authorization supersedes, for the unexpired period, the unused portion of the authorization granted in the fifteenth resolution of the Combined Shareholders' Meeting of June 5, 2003.

EIGHTEENTH RESOLUTION

Powers to carry out formalities resulting from the decisions made by the Shareholders' Meeting

The Shareholders in Extraordinary Meeting give full powers to the bearer of an original, copy or extract of the minutes of this Meeting, to carry out all necessary formalities.

Statutory Auditors' special report
on the share transactions specified in the 11th, 12th, 14th, 15th, 16th and 17th resolutions

To the shareholders of Compagnie de Saint-Gobain

In our capacity as Statutory Auditors of Compagnie de Saint-Gobain, and in accordance with the obligations placed upon us by the French Commercial Code, we hereby present our special report on the following transactions covered by the 11th, 12th, 14th, 15th, 16th and 17th resolutions, which you are being asked to approve.

Delegation to the Board of Directors of authority to issue securities with or without cancellation of pre-emptive subscription rights (11th and 12th resolutions)

In accordance with the obligations placed upon us by the French Commercial Code, and in particular by Articles L. 225-135, L. 225-136 and L. 228-92 thereof, we hereby present our report on the proposed issuance of securities as set out in the 11th and 12th resolutions.
Based on its report, the Board of Directors is proposing that you delegate to it, for a period of 26 months, authority to decide upon the issuance with or without cancellation of pre-emptive subscription rights, ordinary shares and/or securities, whether or not in the form of debt securities, giving immediate or future access to existing or future ordinary shares in the Company or in other companies of which the Company directly or indirectly owns more than half of the share capital.
The 12th resolution states that such securities may also be issued in payment for shares of another company tendered to a stock-for-stock exchange offer made by the Company on the terms stipulated in Article L. 225-148 of the French Commercial Code.
This resolution also allows for the issuance of shares in the Company as a result of entitlement to such shares arising from securities issued by subsidiaries.
Under the 11th resolution, the aggregate par value of capital increases made immediately or in the future may not exceed a ceiling of €680 million (it being stipulated that this amount will be aggregated with the par value of any ordinary shares issued under the 12th and 13th resolutions), and the aggregate nominal value of debt securities issued may not exceed a ceiling of €3 billion (it being stipulated that this amount will be aggregated with the nominal value of any debt securities issued under the 12th resolution). Any additional shares issued at the same price as the initial issue within 30 days of the closing date of the subscription period up to a maximum of 15% of the initial issue are included in the aforementioned ceiling of €680 million.
Under the 12th resolution, the aggregate par value of capital increases made immediately or in the future may not exceed a ceiling of €270 million (it being stipulated that the aggregate par value of any ordinary shares issued under this resolution will count towards the €680 million ceiling set in the 11th resolution), and the aggregate nominal value of debt securities issued may not exceed a ceiling of €1.2 billion (it being stipulated that the aggregate nominal value of such securities issued under this resolution will count towards the €3 billion ceiling set in the 11th resolution). Any additional shares issued at the same price as the initial issue within 30 days of the closing date of the subscription period up to a maximum of 15% of the initial issue are included in the aforementioned ceiling of €270 million.
We carried out our procedures in accordance with French auditing standards. These standards require us to carry out procedures to check the terms for determining the issue price.
Neither the terms for determining the issue price nor the issue price of the shares to be issued have been set. We therefore do not express an opinion either on the final terms on which the issue will be carried out, or on the cancellation of your pre-emptive subscription rights as contained in the 12th resolution, the principle of which is nonetheless consistent with the transaction you are being requested to approve.
In accordance with Article 155-2 of the Decree of March 23, 1967, we will issue a further report when the issue in question is carried out by the Board of Directors.

Authorization for the Board of Directors to carry out issues of shares reserved for members of the Group Savings Plan up to a maximum aggregate par value of €64 million (14th resolution)

In accordance with the obligations placed upon us by Article L. 225-138 of the French Commercial Code, we hereby present our report on the proposed reserved capital increase of a maximum amount of €64 million, which you are being asked to approve.
This capital increase is submitted for your approval in accordance with Article L. 225-129-6 of the French Commercial Code and Article L. 443-5 of the French Labor Code.
Based on its report, the Board of Directors is proposing that you delegate to it authority to set the terms of this transaction, and also that you cancel your pre-emptive subscription rights.
We carried out our procedures in accordance with French auditing standards. These standards require us to carry out procedures to check the terms for determining the issue price.
Subject to subsequent examination of the terms of the proposed capital increase, we have no comment to make on the terms for determining the issue price as stated in the report of the Board of Directors.
Because the issue price has not been set, we do not express an opinion either on the final terms under which the capital increase will be carried out, or on the proposal to cancel your pre-emptive subscription rights, the principle of which is nonetheless consistent with the transaction you are being requested to approve.
In accordance with Article 155-2 of the Decree of March 23, 1967, we will issue a further report when the issue in question is carried out by the Board of Directors.

Authorization to the Board of Directors to grant employees or corporate officers options giving the right to purchase existing ordinary shares or subscribe for new ordinary shares (15th resolution)

In accordance with the obligations placed upon us by Article L. 225-177 of the French Commercial Code and Article 174-19 of the Decree of

March 23, 1967, we have prepared the present report on the granting of options giving the right to purchase or subscribe for shares in favor of some or all employees or certain categories of employee and corporate officers (as defined by law) of Compagnie de Saint-Gobain and of companies and economic interest groupings directly or indirectly related to Compagnie de Saint-Gobain as defined in Article L. 225-180 of the French Commercial Code, up to a maximum of 3%, representing an overall ceiling applying to both the 15th and the 16th resolutions.

It is the responsibility of the Board of Directors to prepare a report on the reasons for the granting of options giving the right to purchase or subscribe for shares and on the proposed terms for determining the subscription price or purchase price. Our responsibility is to express an opinion on the proposed terms for determining the subscription price or purchase price.

We carried out our procedures in accordance with French auditing standards. These standards require us to check that the proposed terms for determining the subscription price or purchase price are disclosed in the report of the Board of Directors, comply with the law, provide adequate explanations to shareholders and are not manifestly inappropriate.

We have no comment to make on the proposed terms.

Authorization for the Board of Directors to allot ordinary shares (existing or to be issued) free of charge to employees and corporate officers (16th resolution)

In accordance with the obligations placed upon us by Article L. 225-197-1 of the French Commercial Code, we have prepared the present report on the proposal to allot ordinary shares (existing or to be issued) free of charge to some or all employees or certain categories of employees and to corporate officers of the Company and of related companies as defined in Article L. 225-197-2 of the French Commercial Code, up to a maximum of 3% of the share capital, representing an overall ceiling applying to both the 15th and the 16th resolutions.

The Board of Directors is proposing that you authorize it to allot, free of charge, ordinary shares that exist or are issued in future. It is the responsibility of the Board of Directors to prepare a report on this transaction which it wishes to carry out. Our responsibility is to inform you of any comments that we may have about the information disclosed to you about the proposed transaction.

In the absence of any professional standards applicable to this type of transaction, which is derived from legislation enacted on December 30, 2004, we carried out the procedures we believed to be necessary. In particular, we checked that the proposed terms, as disclosed in the report of the Board of Directors, comply with the law.

We have no comment to make on the information disclosed in the report of the Board of Directors on the proposed allotment of shares free of charge.

Authorization for the Board of Directors to reduce the share capital by cancellation of repurchased shares (17th resolution)

In accordance with the obligations placed upon us by Article L. 225-209, paragraph 5 of the French Commercial Code in the event of reductions in the share capital by cancellation of repurchased shares, we have prepared the present report to inform you of our assessment of the reasons for and terms of the proposed reduction in the share capital.

We carried out our procedures in accordance with French auditing standards. These standards require us to carry out procedures to examine the propriety of the reasons for and terms of the proposed reduction in the share capital.

This transaction is connected with the repurchase by the Company of its own shares, up to a maximum of 10% of its share capital, on the terms specified in Article L. 225-209, paragraph 5 of the French Commercial Code. This authorization to repurchase the Company's own shares is also being submitted for approval by the General Meeting, and would be granted for a period of eighteen months.

The Board of Directors is requesting you to delegate to it, for a period of twenty-six months, in order to implement the authorization granted for the Company to repurchase its own shares, full powers to cancel shares thereby repurchased up to a maximum of 10% of the share capital per twenty-four-month period.

We have no comment to make on the reasons for and terms of the proposed reduction in the share capital, it being reiterated that such reduction may only be made if the Meeting has previously approved the repurchase by the Company of its own shares.

Paris and Paris La Défense, April 18, 2005

The Statutory Auditors

PricewaterhouseCoopers Audit

Pierre Coll — Christian Marcellin

KPMG Audit
Department of KPMG S.A.

Jean Gatinaud — Gilles Salignon

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Statutory Auditors' special report
on regulated agreements

To the shareholders,

In our capacity as Statutory Auditors of Compagnie de Saint-Gobain, we hereby present our report on the regulated agreements relating to the year ended December 31, 2004 on the one hand, and on an agreement approved subsequently to the December 31, 2004 year-end on the other hand.

REGULATED AGREEMENTS RELATING TO THE YEAR ENDED DECEMBER 31, 2004

In our capacity as Statutory Auditors of Compagnie de Saint-Gobain, we are required to report on the regulated agreements of which we have been advised. Our responsibility does not include identifying any undisclosed agreements.
We have not been advised of any new agreements governed by Article L. 225-38 of the French Commercial Code.

AGREEMENTS AUTHORIZED BY THE BOARD OF DIRECTORS SUBSEQUENT TO THE DECEMBER 31, 2004 YEAR-END

In accordance with Article L. 225-40 of the French Commercial Code, we have been advised of the following preliminary agreement which was authorized by the Board of Directors subsequent to the December 31, 2004 year-end.
Our responsibility does not include identifying any undisclosed agreements. We are required to report to shareholders, based on the information provided, about the main terms and conditions of the agreements that have been disclosed to us, without commenting on their relevance or substance. Under the provisions of Article 92 of the March 23, 1967 decree, it is the responsibility of shareholders to determine whether the agreements are appropriate and should be approved.

We carried out our work in accordance with the professional standards applicable in France. These standards require that we perform procedures to verify that the information given to us agrees with the underlying documents.

ACQUISITION OF ADDITIONAL INTERESTS IN HANKUK GLASS INDUSTRIES (HGI) BY THE SAINT-GOBAIN GROUP IN APRIL 2005

Director concerned: Sehoon Lee

In its meeting of March 24, 2005 the Board of Directors authorized Sofiag – a wholly-owned subsidiary of Compagnie de Saint-Gobain – to acquire 50% plus one share of the holding company NAI from Cameleo Investments, a company held by Messrs. Sehoon and Seheon Lee. The price of the transaction was set at €78 million. Nai Holding holds a 34.5% interest in HGI.
Furthermore, the Board of Directors has approved a call option in favor of Sofiag and a put option in favor of the vendor – Cameleo Investments – on the remaining share capital of Nai Holding. The options are exercisable in April of each year of the period running from 2007 to 2012, and the exercise price is calculated on the basis of HGI's future earnings, within a range of between €78 million and €95 million. Additional earn-out may be payable under certain conditions on any capital gains realized by HGI on the sale of identifiable, non-operating assets. In the event that neither the call option nor the put option has been exercised at the close of the exercise period on April 30, 2012, the parties are invited to revise the terms of this agreement.
Finally, Nai shareholders have been authorized to draw up a shareholders' pact relating to the management of this company.

Paris and Paris La Défense, April 6, 2005

The Statutory Auditors

PricewaterhouseCoopers Audit

Pierre Coll   Christian Marcellin

KPMG Audit
Department of KPMG S.A.

Jean Gatinaud   Gilles Salignon

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