2005
annual report

SAINT-GOBAIN

SAINT-GOBAIN

Saint-Gobain specializes in the design, production and distribution of functional materials, including glass for the automotive and construction industries, bottles, pipes, mortars, plaster, refractory ceramics, and crystals. The Group is organized into five business sectors: Flat Glass, Packaging, Construction Products, Building Distribution, and High-Performance Materials.

Established in more than 50 countries, Saint-Gobain is the market leader in each of its core businesses.

2005 key figures

Net sales:
€35,110 million

Operating income:
€2,860 million

Net income:
€1,264 million

Cash flow from operations:
€2,735 million

Capital expenditure:
€1,777 million

199,630 employees

FLAT GLASS
No. 1 in Europe **No. 3** worldwide

PACKAGING
No. 1 in Europe **No. 2** worldwide

CONSTRUCTION PRODUCTS
No. 1 wordwide accross the board

BUILDING DISTRIBUTION
NO. 1 In Europe

HIGH-PERFORMANCE MATERIALS
No. 1 or **No. 2** worldwide for most business lines

Chairman's statement

Jean-Louis Beffa
Chairman and Chief Executive Officer

Another year of bumper growth

Saint-Gobain today offers a comprehensive range of products for the construction industry, manufactured by its Flat Glass, Insulation, Industrial Mortars, Exterior Products and Gypsum operations. These products are all able to capitalize on sustained economic growth in emerging countries – as the Pipe Division has shown in the field of infrastructures – as well as surging demand and diversified applications in industrialized regions. They are not only easier to put into service, but also contribute to lower energy consumption and improved user comfort.

During 2005, Saint-Gobain bolstered its position in construction-related businesses, adding one new material, Gypsum, and one new product, plasterboard. Both have immense growth potential and dovetail perfectly with the Group's existing business activities. The purchase of British Plaster Board in 2005 – the Group's largest ever acquisition – will boost synergies with the other business lines, especially the Insulation Division. Saint-Gobain is now the world's foremost producer of interior fittings.

The Building Distribution Sector turned in a highly satisfactory performance in 2005, with operating income soaring 16.5% and sales jumping 13.3%, ushered on by favorable economic conditions that should persist through 2006.

The efforts undertaken to strengthen Saint-Gobain's business structure are therefore set to mould its future progress. The Building Distribution Sector, for example, once again demonstrated its outstanding development potential in 2005, most notably through the acquisitions of Swiss-based Sanitas Troesch and Optimera in Norway.

However, emerging countries are also key avenues for development, and Saint-Gobain has invested substantial resources across all of its businesses in these regions. Consequently, the acquisitions and startups of a large number of production plants in these countries in 2005 have helped the Group to build solid foundations in these attractive markets.

Expenditure on research and development also rose during the year, and will again jump sharply in 2006, particularly in the Flat Glass and High-Performance Materials Sectors. This large-scale investment program confirms the precedence Saint-Gobain accords to innovation.

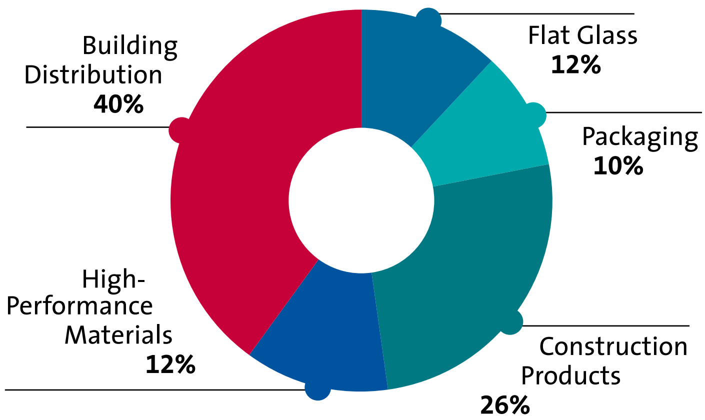
Our new business lineup is set to open up a remarkable scope of opportunities, as well as offering major potential for profitability and growth. The good results in 2005 bear testimony to the expertise and initiative of our teams: these same qualities will allow us to exploit the Group's development potential to the full going forward.

Against this backdrop, Saint-Gobain's target for 2006 is a 23%-25% increase in operating income, and a 18%-20% rise (excluding gains and losses on sales of non-current assets) in net income.

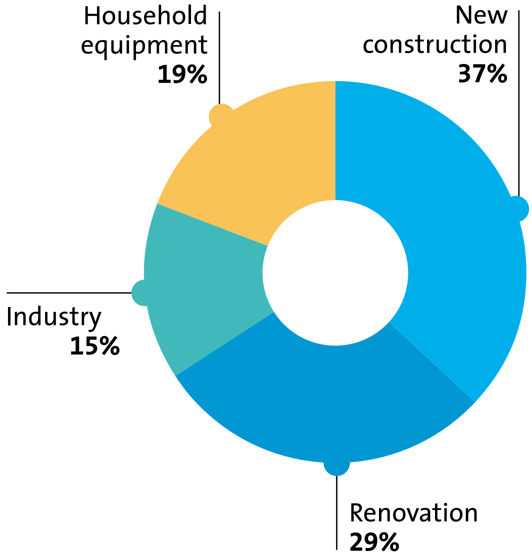
A Group on the move

Our sectors

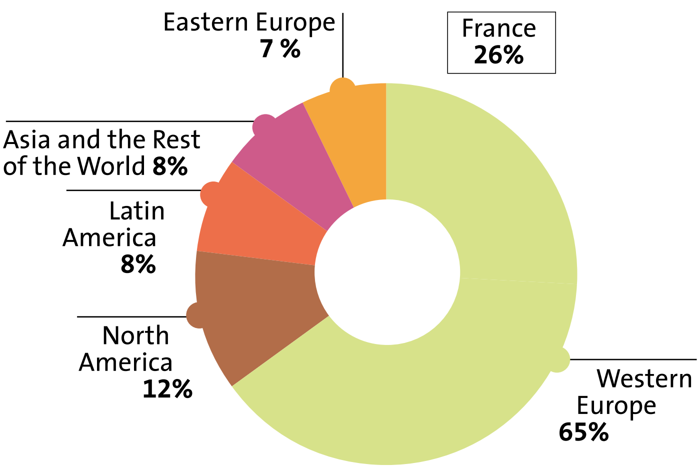
Breakdown of net sales per sector
(following the acquisition of BPB))



Our markets

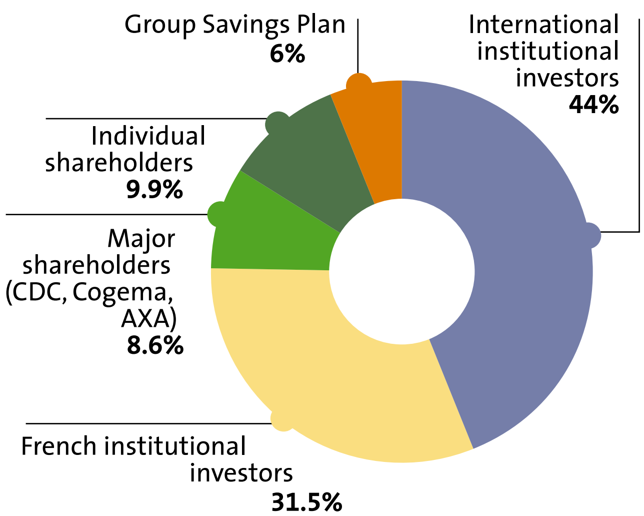


Our employees



Our shareholders

At December 31, 2005



2005 Annual Report

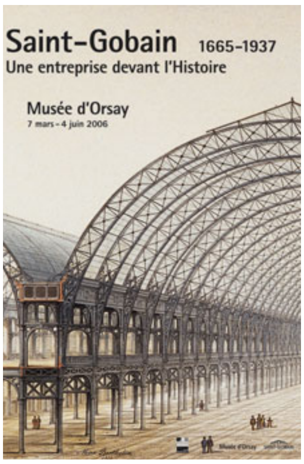
This *“Document de Référence”* was filed with the *Autorité des Marchés Financiers (AMF)* on March 30, 2006 (D.06-0184), in accordance with Articles 211-1 to 211-42 of the *AMF*’s General Regulations. It may be used a supporting document for a financial operation, but only alongside an information memorandum approved by the *Autorité des Marchés Financiers*.

Contents

Saint-Gobain today

A strategy based on development, growth and profitability

The origins of the Saint-Gobain Group go back to the founding in France of the *Manufacture 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 – begun in the 1990s – of its core business lineup put together in the 1970s, which has fundamentally reshaped the Group's focus in line with its long-term business model.



From March 7 to June 4, 206, the Musée d'Orsay in Paris will be hosting the exhibition: *Saint-Gobain (1665-1937): An Enterprise in the Face of History.*
The exhibits chart the Group's glassmaking activities across the centuries, from its creation under Louis XIV to the 1937 International Exhibition, where its stunning glass pavilion attracted record crowds.
Bringing together 250 works of art, objects and documents, the exhibition reveals the glorius history of glass, spanning the *Galeries des Glaces* in Versailles and major International Exhibitions to its use in railway stations, department stores, libraries and other public buildings.
A special focus is given to technical and aesthetic innovations, such as the famous glass house designed by Pierre Chareau or René Coulon's extraordinary glass furniture, which featured in Saint-Gobain's pavilion at the 1937 International Exhibition in Paris.

Today, Saint-Gobain operates as a designer, manufacturer and distributor of functional materials addressing the needs of industrial and trade clients. In recent years, a growing emphasis has been placed on providing solutions and services in connection with the Group's high-technology materials.
Saint-Gobain's mission is underpinned by a commitment to delivering steady, profitable growth by leveraging strong leadership positions.

A coherent, sustainable model

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 with Saint-Gobain's existing business and strong growth prospects (through diversification or geographical expansion). At the same time, non-strategic businesses have been shed.

Since the emergence of a core-business coverage in glass and cast-iron during the 1970s, the Group has undergone reorganization in several phases. The original core of glass businesses (flat glass, glass fibers, glass wools, packaging, refractory products) provided a sound basis for both geographical expansion (primarily into emerging countries) and local diversification. The activities originally covering glass refractories, glass strands and quartz grew into today's High-Performance Materials Sector, with the acquisition of Norton in 1990, Carborundum in 1996, Bicron (crystals) in 1990, and Furon (plastics) in 1999. Likewise, the original core of cast-iron businesses (chiefly, construction materials) branched out in two main directions, with the 1996 acquisition of the Poliet group marking an entry into building distribution, and the very recent acquisition of British Plaster Board (see text box), the biggest acquisition in the history of the Group, bringing an excellent illustration of the quest for synergies that underlies the Saint-Gobain growth policy.

A vigorous development strategy has radically transformed the Group's geographical outreach, product coverage, identity and culture. The move into businesses with a higher technological content has helped to refocus Saint-Gobain's traditional innovation policy. Its new role in specialized distribution has revitalized the Group's approach to marketing and services. Sustained external growth in Building Distribution, High-Performance Materials and, more recently, in Construction Products, shows through clearly in the figures for the end of 2005 (after consolidation of BPB). The extent of the transformation undergone by the Saint-Gobain Group is very apparent, in both diversity and size (over €35 billion in net sales in 2005, compared to €12 billion in 1986). Saint-Gobain's new businesses account for 58% of overall net sales: 44% in Building Distribution and 14% in High-Performance Materials, a sector in which net sales have increased eight-fold over the same period. Thanks to its strategic growth operations, particularly large-scale investments such as the BPB acquisition, Saint-Gobain has built up prominent positions to emerge as French industry champion on construction and housing markets.

Diversified risk

The reorganization begun in 2004 was completed in 2005, with five sectors – Flat Glass, Packaging, High-Performance Materials, Construction Products and Building Distribution – forming a basic operational management framework for implementation of the Group's business model. This structure is well matched to the current profile of the Group, which has undergone far-reaching changes and reorganization measures over the last 20 years, in an attempt to spread the Group's business focus more evenly. This is apparent across Saint-Gobain's four main end-markets: construction and renovation (each accounting for 28% of net sales), industry (28% of net sales, down from more than 42% in 1996) and consumer goods (20% of net sales, down from around 28% in 1996). Because these markets have different characteristics, the balanced business mix affords good protection against economic fluctuations. Consumer markets are basically acyclic, experiencing short-term fluctuations in response to variations in purchasing power, while civil engineering and public works, construction and housing markets (65% of net sales, including Building Distribution, Flat Glass, Insulation, Gypsum, Industrial Mortars and Pipe) rely on sales agreements and strong commercial relations. Cyclical fluctuations are only really found on industrial markets, in which research and development, new product launches, and technological synergies – such as added-value flat glass and the products made by Saint-Gobain's High-Performance Materials Sector – take on a leading role.

This balanced structure is further reinforced by business diversification and geographical expansion (especially with regard to the risks and constraints of globalization). Most Saint-Gobain businesses (75%) today are multi-regional, covering major economic regions less vulnerable to low-cost worldwide competition. This is particularly the case for Building Distribution, Construction Products, and Flat Glass supplies of basic products to the construction industry. Just over 20% of Saint-Gobain businesses (compared to 35% as recently as 1999) are exposed to fierce competition from rivals that can include low-cost international suppliers. Here, Saint-Gobain pursues a two-pronged strategy, based on (i) product differentiation and renewal, with an emphasis on joint development with major clients; and (ii) the development of industrial facilities in emerging countries.

Saint-Gobain net sales in emerging countries have risen by 42% over the last three years. Annual average growth on these markets stands at 25%, compared to 4% in developed countries. Growth forecasts for 2005-2010 are 6.5% for emerging Asian countries, 3.7% for Latin America and 4.3% for Eastern Europe.

Consistent strategy

Saint-Gobain pursues a consistent strategy based on its proven business model. Its new business sectors (Building Distribution, High-Performance Materials) continue to hold substantial potential for external expansion and organic growth. Here, Saint-Gobain targets sustained leadership through innovation and service. In its other business sectors (Flat Glass, Construction Products, Packaging), Saint-Gobain draws strength from a long experience curve, backed by an impressive ongoing track-record in technological know-how, high free cash flow, and a strong potential for development in emerging countries.

Priorities and objectives for Group businesses are set consistent with initiatives undertaken and results achieved. Building Distribution continues to strengthen its European leadership through organic and external growth. Acquisitions in 2005 included both specialist chains (Sanitas Troesch, Swiss number one in fitted bathrooms) and general merchants (Optimera, covering the Norwegian and Swedish markets). In parallel, market coverage is also developing in emerging countries. By the end of 2005, the Building Distribution Sector boasted a total of 3,600 outlets, up from 3,300 in 2004. The High-Performance Materials Sector is pushing ahead with wide-reaching proprietary innovation initiatives, and pursuing growth opportunities in emerging countries. It aims to refocus and restructure around 40% of its production bases over the next two or three years, with a focus on emerging Asian countries, Latin America and Eastern Europe. Worldwide businesses draw from extensive experience to achieve or sustain competitive lead. Development, faster in emerging countries, is always based on industrial excellence, with a strong emphasis on differentiation, especially apparent, for example, in the Pipe Division.

Saint-Gobain has also defined an innovation policy capable of realizing the potential built up through extensive Group-wide know-how and specialist skills. This policy is inspired by three observations: first, historical experience shows that new businesses are innovation-driven; second, the Group's most innovative businesses open prospects that rivals cannot aspire to; third, the Group enjoys strong positions in high-growth markets such as energy and the environment. These are the reasons behind Saint-Gobain's commitment to substantial and increasing R&D investment. New research centers have been set up (at Cavaillon in 2004 and Shanghai in 2005), and Group-wide R&D spending rose from 1.5% of net sales in 2002 to around 1.8% in 2005.

Saint-Gobain continues to carry out bolt-on acquisitions, an excellent example – if somewhat atypical in sheer magnitude – being that of British Plaster Board (BPB) in late 2005, following a takeover bid launched in July. Saint-Gobain had been interested in BPB for around a decade, but had put the project on hold until other debt and commitment priorities (diversification in Distribution, and asbestos issues) had been met.

The arrival of BPB is an exemplary case of bolt-on acquisitions benefiting existing businesses. The strategic decision to acquire the world's leading supplier of plasterboard was based on three criteria: favorable business growth profile; products complementary to those already offered by Saint-Gobain; and a good strategic fit with existing Saint-Gobain businesses.

With the plasterboard business facing favorable prospects for organic growth in developed and emerging countries, important synergies are set to be unlocked between Isover and BPB (which now forms the Gypsum Division within the Group's Construction Products Sector) on markets that display similar dynamics. Geographical synergies will also be leveraged through complementary sites, and extend to joint development prospects for emerging countries (Eastern Europe, China). The products are highly complementary, on both new construction and renovation markets, since plasterboard is often used with acoustic or thermal insulating material in drylining and partition-wall applications.

The Insulation and Gypsum Divisions belong to the same category of multi-regional businesses and share a number of similar characteristics, as regards, for example, the importance of construction techniques, customer service, and relationships with product recommenders and installers. The notion of market leadership is also fulfilled, with the alliance between BPB (the world's leading supplier of plasterboard, with operations evenly spread across the geographical spectrum) and Saint-Gobain's Insulation business giving rise to the world number-one in interior building solutions. The acquisition also meets the profitability criterion, with both businesses showing annual average growth of 7% to 8% since 1998 and high free cash flow, up by more than 13% on average over the same period.

The acquisition of BPB, which was rapidly integrated into the Group organization, further strengthened Saint-Gobain's positions in multi-regional businesses, which now account for over three quarters of Group operations, a weighting which helps to protect against globalization exposure. At the same time, Saint-Gobain keeps its strong anchor in high-innovation industrial businesses such as those forming its High-Performance Materials Sector. Finally, the Group also shows a healthy business mix: two-thirds of Saint-Gobain business today is construction-related (including one-third related to renovation).

Ten-year consolidated financial summary

(€ million)	**2005** (1)	2004 (IFRS)	2004	2003	2002	2001	2000	1999	1998	1997	1996
Net sales (2)	**35,110**	32,172	32,025	29,590	30,274	30,390	28,815	22,952	17,821	16,324	13,931
Operating income	**2,860**	2,743	2,632	2,442	2,582	2,681	2,693	2,314	1,776	1,593	1,434
Net income	**1,294**	1,275	1,120	1,065	1,074	1,174	1,642	1,389	1,182	970	767
Net income attributable to equity holders of the parent	**1,264**	1,239	1,083	1,039	1,040	1,134	1,517	1,226	1,097	858	659
Earnings per share(€)	**3.66**	3.63	3.18	2.99	12.20 3.05*	13.30	17.80	14.05	12.15	9.62	7.61
Net income excluding profit (or loss) on sale of current assets	**1,284**	1,289	1,122	1,020	1,051	1,057	1,026	883	790	656	636
Earnings per share excluding profit (loss) on sales of non-current assets (€)	**3.72**	3.78	3.29	2.93	12.32 3.08*	12.40	12.04	10.12	8.75	7.35	7.34
Cash flow from operations	**2,735**	2,639	2,612	2,471	2,673	2,733	2,643	2,360	1,912	1,693	1,628
Capital expenditure (3)	**1,777**	1,568	1,537	1,351	1,431	1,430	1,722	1,712	1,288	1,353	1,169
Total investment outlay (4)	**8,747**	2,197	2,194	1,911	2,061	2,246	4,694	3,479	3,019	2,447	3,034
Net equity	**12,593**	10,910	11,806	11,310	11,542	12,348	11,724	11,151	9,924	9,959	9,082
Net debt	**12,850**	6,218	5,566	5,657	7,012	7,792	8,217	6,306	3,885	2,668	2,249
Non-current assets	**26,327**	16,851	17,515	17,237	18,840	19,678	19,530	16,909	14,033	13,139	12,103
Working capital	**2,263**	3,224	4,943	5,247	3,951	3,075	3,222	2,612	1,838	2,262	1,757
Workforce (December 31)	**199,630**	181,228	181,228	172,811	172,357	173,329	171,125	164,698	117,287	107,968	111,701

(1) With BPB consolidated from December 1, 2005.
(2) Including ancillary revenue for €250 million in 2005 and €190 million in 2004.
(3) Including new finance leases for €21 million in 2005.
(4) Capital expenditure on plant and equipment plus investments in securities, excluding Saint-Gobain shares bought back.
(*) After the four-for-one stock split of June 27, 2002.

Saint-Gobain businesses

After the full-year consolidation of BPB, Group sales break down as 40% for Building Distribution, 26% for Construction Products, 12% for Flat Glass, 10% for Packaging and 12% for High-Performance Materials.

Three of Saint-Gobain's five sectors grew from historical glass and cast-iron businesses, while the other two arose from new developments over the last 15 years.

The Saint-Gobain Flat Glass Sector covers four major business lines: flat glass manufacturing; processing and distribution of glass for the construction industry; production of glass for the automotive industry; and production of specialty glass, which includes products for home appliances, fireproof glass, nuclear safety glass and glass for electronic devices. Operations currently extend to 37 countries, including Brazil and many emerging countries. Vigorous international development continues apace, with recent expansion in China, and construction projects for a new automotive plant in India and new float-glass lines in Mexico, Romania and Poland.

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

The Saint-Gobain Construction Products Sector comprises the Insulation, Gypsum, Exterior Products, Pipe and Industrial Mortars Divisions, which serve both the new construction and renovation markets. The sector provides external fittings such as wall facings, roofing, roadwork and utility connection components, as well as interior solutions including glass wool, plasterboard, rock wool and soundproof ceilings. In addition, the Pipe Division manufactures products used in road-building, and is the world's leading supplier of ductile cast-iron pipes for water supply networks. The Construction Products Sector incorporates both regional businesses (Insulation and Building Materials) and global businesses (Pipe).

The Saint-Gobain Building Distribution Sector is Europe's leading distributor of building materials and the world's number-one distributor of ceramic tiles. It emerged from the acquisition of Poliet Group subsidiaries Point.P and Lapeyre, and has since developed considerably, through both organic growth and external expansion. The firm grip on 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; Dahl in Scandinavia (2004); Optimera in Norway and Sweden (2005); and Sanitas Troesch in Switzerland (2005). International expansion also extends to Brazil, through the Telhanorte chain.

The Saint-Gobain High-Performance Materials Sector is made up of the Ceramics & Plastics, Abrasives, and (since 2004) Reinforcements Divisions. It ranks number-one worldwide* in abrasives, high-performance plastics and thermal & mechanical ceramics applications. The Reinforcements Division, world number-one* in glass strands, fields a strong international network spanning 23 countries. Around three quarters of sales across the High-Performance Materials Sector come from global joint-development businesses involving prime technological know-how. Around a quarter of sales are generated by specialty lines and businesses in areas exposed to competition from low-cost countries.

* *Source: Saint-Gobain*

British Plaster Board (BPB)

Plasterboard dates back to 1894, when Augustine Sackett filed a US patent for a new wall covering consisting of a plaster panel in a cardboard sandwich. The company British Plaster Board was founded in 1917 to make plasterboard in the UK. The product was taken up in France during the economic reconstruction boom after the Second World War. These three markets would provide the basis for subsequent development of British Plaster Board (BPB).

In 2004/2005, BPB reported net sales of €3.4 billion: 57% in Western Europe, 15% in Eastern Europe, 22% in North America and 6% in the rest of the world. The breakdown by product range was 65% for plasterboard, 16% for building and special plasters, and 19% for construction materials (insulation products, fastening systems and ceiling tiles).

With operations extending to 50 countries, BPB is the world's leading supplier of plasterboard. It enjoys high growth potential in emerging countries (where ease of use is an important factor) and high substitution potential in developed countries, owing to the product's safety, thermal and acoustic properties. BPB products are highly complementary with those of the Saint-Gobain Insulation Division, because plasterboard is often used with an acoustic or thermal insulating material in partition-wall and drylining applications.

The link-up between Isover and BPB (which had already united to form two joint companies in the UK and Ireland) gives rise to the world number-one in interior building solutions, with highly complementary geographical coverage and substantial opportunities for synergetic growth in emerging countries, capable of providing valuable support for the Group's multi-regional businesses. The Gypsum Division (formerly BPB) and Insulation business will be integrated into the Construction Products Sector during the first quarter of 2006, each with its own Vice-President. Joint local managers will be assigned to handle operational management and development of synergies, though the two businesses will be run as separate divisions, consistent with the specific commercial and industrial approaches required.

Flat Glass

Businesses and products	Main applications	Key competitors	Competitive ranking*
• Basic glass products Flat glass	• Plain & tinted glass, glass, with special coatings	• Pilkington (UK) • Asahi (Japan) • Guardian (USA) • PPG (USA)	
• Processing & distribution of glass for construction industry	• Glass for construction, interior building solutions & furniture industries		• No. 1 in Europe • No. 3 worldwide
• Automotive glass	• Clear & safety products for the automotive industry, and glass for replacement parts • Aerospace & mass transit industries		
• Specialty glass	• Fireproof glass, nuclear safety glass, industrial optical systems, industrial refrigeration, glass for electronic devices	• Schott (Germany)	

Packaging

Businesses and products	Main applications	Key competitors	Competitive ranking*
• Bottles & jars	• Packaging for foodstuffs & beverages	• Owens Illinois (USA, Europe, Asia, Latin America) • Rexam (Europe) • Anchor Glass (USA) • Ardagh (Europe) • Vetropack (Europe) • Vidrala (Europe)	• Joint world leader (all businesses combined)
• Glass flasks	• Packaging for perfumes, cosmetic & pharmaceutical products	• Pochet (France) • Rocco Bormioli (Europe) • Gerresheimer (Europe, USA) • Luigi Bormioli (Europe) • Heinz (Europe)	• No. 1 worldwide
• Plastic pumps & dispensers	• Packaging for beauty, personal care, perfume, pharmaceutical & cleaning products	• Aptar (Europe, USA) • Rexam (Europe) • Continental AFA (USA) • Coster (Europe)	• No. 1 or joint no. 1 worldwide for all business lines

Construction Products

Insulation

Businesses and products	Main applications	Key competitors	Competitive ranking*
• Glass wool • Rock wool • Soundproof ceilings • Insulating foam • Metal frames & ceilings	• Thermal & acoustic building insulation, technical installations, rolling stock • Hydroponic cultivation	• Owens Corning (USA, China) • Johns-Manville (USA) • Rockwool (Europe) • Ursa (Europe) • Knauf (USA, Europe) • Armstrong (USA, Europe)	• World leader

* *Source: Saint-Gobain.*

Construction Products

Exterior products

Businesses and products	Main applications	Key competitors	Competitive ranking*
• Façade products: weatherboarding, windows	• Individual homes • New housing and renovation work	• Owens Corning (USA) • Elk (USA)	• No. 1 in USA for weatherboarding
• PVC outdoor products: fences, decks, balustrades		• GAF (USA) • Trex (USA) • LP (USA)	• No. 1 in USA for roofing materials
• Roofing materials: asphalt shingles		• Alcoa (USA) • James Hardie (USA) • Fortune Brands (USA)	

Pipe

Businesses and products	Main applications	Key competitors	Competitive ranking*
• Full piping systems in ductile cast iron, & fittings for pipes in any material	• Drinking water supply systems • Irrigation • Drainage • Fire prevention • Rainwater drainage	• US Pipe (USA) • Mac Wane (USA) • Kubota (Japan) • Xinxing (China) • Buderus (Germany) • Tyco (USA)	• World leader in ductile cast-iron pipe
• Roadworks equipment in steel & ductile cast iron	• Utility access	• East Jordan/Norinco (USA/France)	• European leader in ductile cast-iron roadwork components
• Full piping systems for wastewater & rainwater drainage in construction industry	• Construction industry piping		• European leader in cast-iron components for the construction industry

Industrial mortars

Businesses and products	Main applications	Key competitors	Competitive ranking*
• Wall rendering products • Tile adhesive & grouting products • Technical mortars	• Façade decoration & protection • Exterior thermal insulation • Stonework renovation • Decorative & technical pointing • Tile cleaning & protection	• Degussa (Germany) • Mapei (Italy) • Sto (Germany) • Materis (France) • Heidelberger (Germany)	• World leader in wall rendering products & tile adhesives

Gypsum

Businesses and products	Main applications	Key competitors	Competitive ranking*
• Plasterboard • Plaster: construction & plasters • Other building materials: EPS insulation, fastening systems, ceiling tiles	• Partitions, ceilings & flooring for residential and non-residential buildings • Exterior thermal insulation • Interior decoration • Fire protection solutions • Ceramic & metal molds	• Lafarge (France) • Knauf (Germany) • USG (USA) • National Gypsum (USA) • Georgia Pacific (USA) • Yoshino (Japan)	• World leader

Building Distribution

Businesses and products	Main applications	Key competitors	Competitive ranking*
• Distribution of construction materials for new buildings & renovation work • Industrial doors & windows	• Individual & collective housing market • Home fittings: fitted kitchens, doors & windows, fitted bathrooms, heating	• Wolseley (UK, France) • CRH (UK/Ireland, Netherlands/France) • Travis Perkins (UK) • SIG (UK, France, Germany, Netherlands, Poland) • Grafton (UK) • BSS (UK)	• No. 1 in Europe in the distribution of building materials, and world leader in distribution of ceramic tiles

* *Source: Saint-Gobain.*

High-Performance Materials

Ceramics

Businesses and products	Main applications	Key competitors	Competitive ranking*
• Ceramic pellets & powders	• Raw materials for abrasives & ceramics industries • Ceramic balls for micro-grinding applications • Mineral pigments • Catalyst substrates for petrochemical industry • Proppants for petroleum industry	• Carboceramics (USA) • Imerys (France)	• No. 1 worldwide in silicon carbide • No. 1 worldwide in zirconium-based abrasives • No. 1 worldwide in ceramic balls • No. 2 worldwide in proppants
• Refractories	• Refractories for glass, ceramic, metallurgy & energy applications (including special glass for LCD & PDP screens) • Armor plating for defense industry	• Cookson Vesuvius (UK) • Asahi (Japan)	• No. 1 worldwide in refractory for glass & non-ferrous metal industries
• Advanced ceramics	• Fine ceramics for automotive, home appliance, aeronautics, aerospace, electronics, nuclear, petroleum & petrochemical industries	• Morgan Crucible (UK) • NGK Insulators (Japan) • Kyocera (Japan) • CeramTec (Germany)	• No. 1 or no. 2 worldwide, depending on application
• Diesel particulate filters	• Pollution-control filters to reduce soot & nitrogen oxide emissions from diesel vehicles	• Ibiden (Japan) • NGK (Japan)	
• Crystals	• Sensors for security, oil prospecting & medical imaging applications • Substrates, components & equipments for semiconductor & optic industries	• Kyocera (Japan) • II-VI (USA) • Heraeus (Germany)	• No. 1 worldwide in scintillation systems

High-Performance Plastics

Businesses and products	Main applications	Key competitors	Competitive ranking*
• Bearings & gaskets	• Friction parts for automotive, aeronautics and industrial machinery applications	• Trelleborg (Sweden) • Glacier Garlock (USA)	• No. 1 worldwide in bearings for automotive applications
• Fluid control systems	• Pipes & fittings for fluid control systems in agro-food, bio-medical, automotive & semiconductor industries	• Entegris (USA) • Stedim (France) • Parker Hannifin (USA) • Kuriyama (Japan)	• No. 2 worldwide in specialty pipes
• Films, foams & coated textiles	• Adhesive coatings, architectural units, radomes, protective gear, cooking surfaces, composite material molds, metal-glass seals for automotive and construction industries	• 3M (USA) • Rogers (USA) • DuPont (USA) • Nitto Denko (Japan)	• No. 1 worldwide in fluoro-polymer textile coatings

** Source: Saint-Gobain*

Reinforcements & Composites

Businesses and products	Main applications	Key competitors	Competitive ranking*
• Glass strands	• Cut strands, mats, continuous strands & rovings for reinforcement of composite materials	• Owens Corning (USA) • PPG (USA) • Nippon Electric Glass (Japan) • Jushi, Taishan, CPIC (China)	• Joint no. 1 worldwide in glass strands
• Composite material reinforcement textiles	• Composite material reinforcement textiles in glass, kevlar or carbon strands, for automotive, mass transport, construction, leisure goods, electrical & electronics industries	• Owens Corning (USA) • Hexcel (USA)	• No. 1 worldwide in reinforcement textiles for windmill blades

Textile Solutions

Businesses and products	Main applications	Key competitors	Competitive ranking*
• Glass threads	• Glass thread on reels for the textile industry	• AGY (USA) • Nittobo (Japan) • PPG (USA)	• No. 1 worldwide in textiles for the construction industry
• Reinforcement textiles for construction and industry	• Reinforcements for construction sector (wall facing reinforcement, paintable textiles, geotextiles, mosquito netting)	• Johns Manville (USA) • Phifer (USA) • New York Wire (USA)	• No. 1 worldwide in paintable textiles

Abrasives

Businesses and products	Main applications	Key competitors	Competitive ranking*
• Grinding tools	• Roughing, grinding and sharpening of materials and tools in aerospace, automotive, metal processing, steelworks & bearings industries	• Noritake (Japan) • Tyrolit (Austria)	• World leader in all abrasive businesses
• Thin grinding wheels	• Cutting, deburring, metal processing, maintenance, energy, steelworks, construction & DIY applications	• SAIT (Italie, USA) • Tyrolit (Austria) • Comet (Slovenia)	
• Coated abrasives	• Surface treatment and sanding applications in aeronautics, automotive, furniture, hand tools, steelworks, jewelry, watchmaking & biomedical industries	• 3 M (USA) • Hermes (Germany) • Klingspor (Germany) • SIA (Switzerland)	
• Superabrasives	• Precision tools for aeronautics, automotive, bearings, cutting tools, electronics & composite materials industries • Glass • Construction materials	• Asahi (Japan) • Diamant Boart (Belgium) • Noritake (Japan) • Wendt Boart (Belgium)	

** Source: Saint-Gobain*

The Saint-Gobain share

Stock exchange information

At December 31, 2005, Saint-Gobain ranked twentieth in France as regards market capitalization (€17,349 million) and sixteenth as regards the volume of shares traded on the Eurolist of Euronext Paris (ISIN code: FR 0000 125007), with an average of 1,724,003 shares traded daily in 2005. 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 on the Dow Jones "Sustainable Development" indexes (DJS World Index and DJS European Index) and on 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 1,896,016 lots in 2005, against 2,518,383 in 2004.

Highest and lowest share prices (source: Euronext Paris SA)

Year (in euros)	High	Low	Year-end price
2003	39.10	22.40	38.81
2004	45.11	38.00	44.32
2005	51.55	43.20	50.25

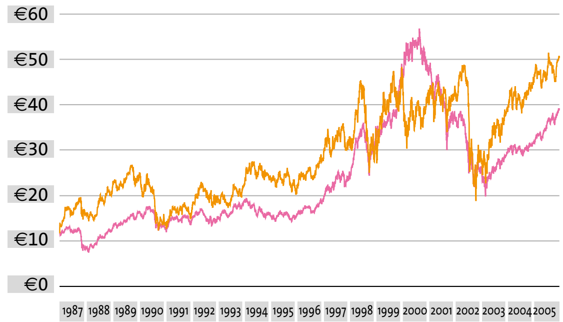
Dividends

Year	Number of shares on which dividends are paid	Dividend per share (in euros)	Yield based on closing price for the year
2003	347,824,967 shares	1.15	2.96%
2004	340,988,000 shares	1.28	2.89%
2005	345,256,270 shares	1.36	2.71%

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

Share price

Share performance after the four-for-one stock split of June 27, 2002.



Total Shareholder Return

- **Since the Company's privatization in December 1986:12.0% per year of which:**

  +7.9% in share price gains

  + 4.1% in gross dividends (including the 50% *avoir fiscal* tax credit in 2004)

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
- payment of dividends in cash between 1998 and 2004 inclusive
- share price at December 30, 2005: €50.25

- **Over 10 years - from December 29, 1995 to December 30, 2005: 14.1% per year of which:**

  +9.5% in share price gains

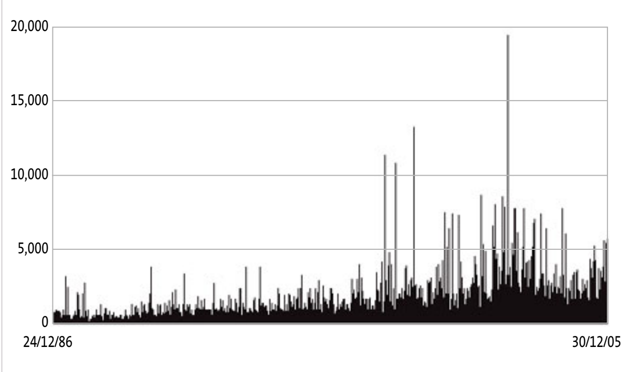
  +4.6% in gross dividends (including the 50% *avoir fiscal* tax credit in 2004)

The calculation breaks down as follows:

- share price at December 29, 1995: FRF534, or €20.35 per share (after the four-for-one stock split of June 27, 2002)
- "reinvestment" of dividends in shares between 1995 and 1997
- payment of dividends in cash between 1998 and 2005 inclusive
- share price at December 30, 2005: €50.25

Number of shares traded

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



Transactions since October 2004

(source: Euronext Paris SA)

Paris Stock Exchange	Volume of shares	Value (in €)	High (in €)	Low (in €)
2004				
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	**91,111,093**	**3,961,068,733**		
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
April	35,870,191	1,638,735,773	48.80	43.20
May	30,466,825	1,399,692,538	47.80	43.81
June	38,785,243	1,801,864,791	47.65	44.94
July	47,212,977	2,233,639,055	49.89	44.13
August	36,251,906	1,795,455,091	51.55	48.20
September	35,078,476	1,683,428,342	49.84	46.61
October	39,535,289	1,849,504,686	48.82	44.44
November	50,542,672	2,384,706,356	49.70	44.75
December	40,091,711	1,995,317,275	50.80	49.10
TOTAL	**443,068,846**	**20,951,177,164**		
2006				
January	42,697,084	2,213,777,086	55.25	49.80
February	30,396,098	1,688,623,300	57.50	54.00
Until March 24	27,566,095	1,539,043,807	58.30	53.75

Transactions since October 2004

(source: London Stock Exchange)

London Stock Exchange	Volume of shares	In £
2004		
October	7,653,739	224,050,976
November	12,278,836	378,871,261
December	10,960,867	331,466,330
TOTAL	**30,893,442**	**934,388,567**
2005		
January	8,038,539	258,239,791
February	7,178,177	235,592,076
March	6,649,365	215,761,366
April	10,417,796	323,541,773
May	8,884,424	279,088,812
June	18,133,425	563,468,135
July	21,865,491	707,573,210
August	8,801,801	300,166,943
September	10,764,354	347,765,582
October	13,500,628	429,269,487
November	17,369,995	555,943,729
December	10,331,608	345,128,636
TOTAL	**141,935,603**	**4,561,539,540**
2006		
January	13,968,261	498,686,656
February	10,187,721	385,892,054
Until March 24	9,334,625	353,707,668

A total of 333,100 shares were traded on the Frankfurt Stock Exchange in 2005 (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 on a regulated market 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.

OCEANE 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 2004

(source: Euronext Paris SA)

Paris Stock Exchange	Volume of shares	Value (in €)	High (in €)	Low (in €)
2004				
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	**115,600**	**25,730,835**		
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	222.00	206.00
April	10,393	2,267,870	224.00	217.80
May	351	76,454	220.50	207.10
June	426	93,069	221.20	215.90
July	356	78,236	223.00	215.00
August	5,258	1,195,648	231.00	220.20
September	1,202	270,325	231.90	212.00
October	5,929	1,313,647	224.80	216.00
November	22,649	4,976,328	225.00	200.00
December	492	109,336	228.70	219.50
TOTAL	**72,608**	**16,017,104**		
2006				
January	517	118,829	240.00	220.20
February	20,340	4,652,085	230.00	222.10
Until March 24	205	47,588	235.50	226.00

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, i.e., 125% of the average rate of interest on bonds (TMO). Based on the 2005 results, the remuneration in 2006 should be at the same level. The remuneration is set at between 75% and 125% of TMO, based on the consolidated results of Saint-Gobain. The amount paid per security in 2005 in respect of the 2004 fiscal year was €8.32.

Transactions since October 2004

(source: Euronext Paris SA)

Paris Stock Exchange	Volume of shares	Value (in €)	High (in €)	Low (in €)
2004				
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	**4,496**	**832,121**		
2005				
January	696	129,511	193.50	182.10
February	2,598	482,532	188.00	184.10
March	2,727	501,859	185.90	180.10
April	4,854	885,038	184.50	180.20
May	907	166,304	185.00	180.60
June	1,065	196,515	190.00	184.00
July	5,069	905,169	184.00	167.50
August	3,612	627,725	177.40	170.10
September	2,691	469,227	178.40	170.30
October	3,889	684,082	185.00	171.50
November	3,133	537,872	177.00	155.00
December	3,183	552,176	179.70	169.60
TOTAL	**34,424**	**6,138,010**		
2006				
January	1,862	320,307	176.90	169.00
February	4,955	846,434	177.80	169.10
Until March 24	1,336	231,637	176.00	172.50

Transactions since October 2004

(source: Euronext Paris SA)

Paris Stock Exchange	Volume of shares	Value (in €)	High (in €)	Low (in €)
2004				
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	**229**	**40,919**		
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
April	155	27,900	180.00	180.00
May	52	9,324	180.00	178.20
June	-	-	-	-
July	185	32,400	181.70	168.80
August	10	1,700	170.00	170.00
September	181	31,375	173.40	170.00
October	452	77,182	173.40	170.00
November	371	62,748	172.00	166.50
December	578	97,800	172.40	169.00
TOTAL	**2,518**	**436,287**		
2006				
January	39	6,591	169.00	169.00
February	181	30,590	169.01	169.00
Until March 24	96	16,225	169.05	169.00

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 2005 was €67.50, paid in two installments.

Transactions since October 2004

(source: Luxembourg Stock Exchange)

Luxembourg Stock Exchange	Volume of shares	Value (in €)	High (in €)	Low (in €)
2004				
October	75	69,750	930.00	900.00
November	6	5,760	1,015.00	960.00
December	243	284,700	1,200.00	1,020.00
TOTAL	**324**	**360,210**		
2005				
January	27	31,050	1,150.00	1,147.50
February	12	14,500	1,260.00	1,172.50
March	168	211,240	1,260.00	1,170.00
April	45	54,000	1,230.00	1,200.00
TOTAL	**252**	**310,790**		

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, 2005, the capital stock of Compagnie de Saint-Gobain amounted to €1,381,025,080 breaking down into 345,256,270 ordinary shares with a par value of €4 each, compared to 340,988,000 shares at December 31, 2004. In the course of 2005, the number of shares was increased by a total of 4,268,270 shares: 4,267,470 shares were reserved for employees within the scope of the Group Savings Plan, and 800 shares following the exercise of the same number of stock options.

Saint-Gobain did not receive notification of any disclosure thresholds being crossed in 2005 with regard to capital stock or voting rights.

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.

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.

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

According to the December 31, 2005 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, 2005 the number of voting rights was 355,070,049 for 345,256,270 shares. Given the 11,378,250 outstanding stock options at that date, the potential capital would be made up of 356,634,520 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 374,158,332 shares.

Ownership structure

	December 31, 2005		December 31, 2004		December 31, 2003	
	Interest	Voting rights	Interest	Voting rights	Interest	Voting rights
Group Savings Plan	6%	10.3%	6.7%	11.6%	7.4%	11.7%
Caisse des Dépôts et Consignations	3%	2.9%	3.1%	2.9%	4.2%	4%
COGEMA	1.8%	1.8%	1.9%	1.8%	1.8%	1.8%
AXA Group	1.2%	1.3%	1.2%	1.2%	1.1%	1.2%
Treasury stock	2.4%	0	1.7%	0	3.3%	0
Other shareholders	85.6%	83.7%	85.4%	82.5%	82.2%	81.3%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

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
01–04	€1,364,100,540	341,025,135	Cancellation of 6,799,832 shares
06–04	€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
06–05	€1,381,021,880	345,255,470	Group Savings Plan: issue of 4,267,470 shares (at €36.48)
12–05	€1,381,025,080	345,256,270	Subscription to 800 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 Meeting of June 9, 2005 the Board of Directors were granted the following financial authorizations:

- An authorization until December 2006, to buy back and possibly resell a maximum of 10% of Saint-Gobain's capital stock at the transaction date, with a maximum purchase price of €55 and a minimum sale price of €23.

- Until August 2007, 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.
– increase the Company's capital stock, either through the issue – with pre-emptive subscription rights for existing shareholders – of shares or share equivalents, by a maximum of €680 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 €270 million (par value of shares) or €1.2 billion (debt securities).
– increase the Company's capital stock through the capitalization of additional paid-in capital, reserves, income or other capitalizable items, by a nominal amount of €84 million.
– the ceilings on the par values of shares mentioned in these three financial 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 €64 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 over 3% of Compagnie de Saint-Gobain's capital stock.
– allocate existing or new shares, representing a maximum of 3% of capital stock.
– the 3% limit for the two previous authorizations constitutes an aggregate ceiling.

In 2005, transactions were carried out under the following resolutions:

- Purchase and resale of Saint-Gobain shares: 4,423,117 shares purchased, 1,900,366 shares sold (exercise of options);
- Group Savings Plan: 4,267,470 shares issued;
- Stock option plans 3,922,250 options granted.

Issue of OCEANE 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, 2005, 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 2005, the Group Savings Plan offered employees the standard options of five- and ten-year terms. The PEG subscribed to 4,267,470 shares in 2005, for a total of €155.7 million (2004: 4,099,192 shares for €128.8 million).

In France, 71% of employees have subscribed to the PEG through Company mutual funds. The PEG has been extended to employees in twenty-two other European countries and eight countries on other continents. In all, more than 43,000 Group employees participated in the PEG during 2005.

At December 31, 2005 the Group Savings Plan held 6% of the Company's capital stock and 10.3% of its voting rights. The decrease recorded in relation to the two previous years (see p.15) arises primarily from funds made available following the 2000 leverage plan.

A new plan was launched in January 2006 offering employees the standard options of five- and ten-year terms, with a ceiling of seven million shares.

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 1997 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 2005, this committee was chaired by Gérard Mestrallet and the other members were Daniel Bernard and Bruno Roger (until June 2005), and Sylvia Jay (since July 2005).

In addition to Group Management (10 persons), the options granted in November 2005 concerned three categories of recipients:

- Category A includes the other members of the Group Coordination Committee (17 persons);
- Category B includes the main operational and functional managers of the Divisions and General Delegations (1,040 persons);
- Category C includes high-potential executives as well as managers or employees who have achieved superior performance (494 persons).

The total number of beneficiaries of the November 2005 plan was 1,561, on a par with 2004 when they numbered 1,480. In each of the 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 3,922,250 (compared with 3,881,800 in 2004), which represented 1.1% of capital stock at December 31, 2005.

Until 1996 and since 2003, 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. €45.71 for the November 2005 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 recent years, the Board of

Directors has made the vesting of half of the options granted to Group Management and to other members of the Group Coordination Committee in November 2005 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 2005, if they had been members of the Coordination Committee since 1997, to own at least 4,000 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, 2005, 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 25 1997	June 25 1998	June 24 1999	June 24 1999	June 28 2001	June 28 2001	June 5 2003	June 5 2003	June 9 2005
Date of Board of Directors' Meeting	11/20/1997	11/19/1998	11/18/1999	11/16/2000(***)	11/22/2001	11/21/2002	11/20/2003	11/18/2004	11/17/2005
Type of options	purchase	purchase	purchase	purchase	purchase	purchase	subscription	subscription	subscription
Number of beneficiaries	182	218	393	780	1,351	1,368	1,393	1,480	1,561
Total number of shares which may be obtained (*)	1,187,460	1,287,980	1,750,900	2,696,500	3,774,800	3,785,500	3,717,700	3,881,800	3,922,250
Of which:									
Number of shares that Group Management may obtain	550,400	548,000	538,000	810,400	924,800	936,200	914,800	1,002,800	1,115,000
Number of corporate officers concerned (**)	19	19	19	20	18	18	17	17	16
Start of exercise period	11/20/1999 or 11/20/2002	11/19/2001 or 11/19/2003	11/18/2002 or 11/18/2004	11/16/2003 or 11/16/2005	11/22/2004 or 11/22/2005	11/22/2005 or 11/22/2006	11/21/2006 or 11/21/2007	11/19/2007 or 11/19/2008	11/18/2008 or 11/18/2009
Expiry date	11/19/2005	11/18/2006	11/17/2009	11/15/2010	11/21/2011	11/21/2012	11/20/2013	11/18/2014	11/17/2015
Subscription/ Purchase price (*)	€28.47	€29.54	€40.63	€37.72	€40.22	€23.53	€35.67	€43.56	€45.71
Discount on average share price	10%	5%	0	0	0	0	0	0	0
Options outstanding at 12/31/2005 (*)	0	350,880	1,341,810	2,146,895	3,172,651	3,347,633	3,655,000	3,801,000	3,922,250

(*) As the Company carried out a four-for-one stock split in June 2002, all numbers of shares relating to dates prior to June 2002 have been multiplied by four to facilitate comparisons. The same applies to the options outstanding at December 31, 2005, for which the exercise/subscription prices have been divided by four.

(**) The list of the 16 members of Group Management is provided on pages 44 and 45.

(***) 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 options granted to each corporate officer and options exercised

	Number of options granted	Exercise price	Start of exercise period
Stock options granted to each corporate officer by the issuer and any Group company in 2005			
• Jean-Louis Beffa	280,000 (*)	€45.71	November 2009
• Pierre-André de Chalendar	140,000 (*)	€45.71	November 2009
Options exercised in 2005 by each corporate officer	Number of shares subscribed or purchased		Expiry date
• Jean-Louis Beffa	néant		
• Gianpaolo Caccini	26,000 3,500	€28.47 €29.54	November 2005 November 2006
• Pierre-André de Chalendar	5,000	€28.47	November 2005
• Christian Streiff	–		

Options granted to the ten largest recipients of options among employees (excluding corporate officers) and options exercised by them

	Number of options granted/ Number of shares subscribed or purchased	Unit price
Options granted in 2005 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)	536,000 (*)	€45.71
Exercise in 2005 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)	223,400	Weighted average price €32.47

(*) 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.

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

In the course of 2005, the Company bought back 4,423,117 of its own shares in accordance with the authorizations granted by the Ordinary and Extraordinary General Meeting of June 9, 2005 (prospectus dated May 11, 2005, bearing AMF approval no. 05-369). The shares were purchased for a total of €209.6 million and no derivative instruments were used for the buybacks. During the same period, 1,900,366 Saint-Gobain shares were sold to option holders on the exercise of their options, for a total of €63.7 million. No shares were canceled during 2005.

In respect of the new special report provided for by the law of July 26, 2005 (article L. 225-209 of the French Commercial Code), at December 31, 2005 Saint-Gobain held 8,363,161 of its shares, allocated entirely to the outstanding stock option plans:

Plans 1998: 350,880
Plans 1999: 1,341,810
Plans 2000: 2,146,895
Plans 2001: 3,172,651
Plans 2002: 1,370,925

There was no reallocation of repurchased shares for other purposes.

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 2005, Saint-Gobain organized several meetings with its shareholders in France – Lille in April, in Strasbourg in June, and in Bordeaux and Lyon in October. The Company also took part, for the eighth 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 (€0.16/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 (France): 0800 800 33 33
Toll-free fax (in France): 0800 77 25 85

2006 financial calendar

2005 estimated results:	January 26, 2006, after close of trading on the Paris Bourse
2005 final results:	March 23, 2006, after close of trading on the Paris Bourse
First-quarter 2006 sales:	April 27, 2006, after close of trading on the Paris Bourse
General Meeting:	3:00 p.m. on June 8, 2006 at the Palais des Congrès (Porte Maillot), Paris 17
Dividend payment date:	June 22, 2006
First-half 2006 results:	July 27, 2006
Sales for the first nine months of 2006:	October 24, 2006, 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 AFEP-MEDEF reports and implements in full the recommendations which were brought together in their October 2003 publication, entitled "The Corporate Governance of Listed Corporations".

Board of Directors

The membership of the Board of Directors of Compagnie de Saint-Gobain is as follows:
All of the following information was provided on March 1, 2006.

Jean-Louis Beffa

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

Jean-Louis Beffa, 64, 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 Chairman of the Supervisory Board of the Industrial Innovation Agency, 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

Chairman of Provestis.

Daniel Bernard, 60, is the former Chairman and Chief Executive Officer of Carrefour and is also a Director of Alcatel and Cap Gemini. He owns 4,400 Saint-Gobain shares.
22, rue de la Trémoille - 75008 Paris, France

Isabelle Bouillot

Isabelle Bouillot, 56, is a Director of Accor and of Umicore, as well as the Managing Partner of IB Finance. She owns 1,200 Saint-Gobain shares.
42, rue Henri Barbusse – 75005 Paris, France

Gianpaolo Caccini

Former Chief Operating Officer of Compagnie de Saint-Gobain.

Gianpaolo Caccini, 67, 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, 1 Rome (Italy)

Gerhard Cromme

Chairman of the Supervisory Board of ThyssenKrupp AG.

Gerhard Cromme, 63, a German citizen, is also a member of the Supervisory Board of Allianz, Axel-Springer, Deutsche Lufthansa, E.ON, Hochtief, Siemens and Volkswagen AG, as well as a Director of BNP Paribas and Suez. He owns 800 Saint-Gobain shares.
August-Thyssen-Strasse 1, D40211 Düsseldorf (Germany)

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, 59, 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 Jay, 59, a British citizen, is Vice Chair of L'Oréal UK Ltd. She is also Chair of the Pilgrim Trust and the Council of Food from Britain, Trustee of the Entente Cordiale Scholarships Scheme and a member of the Franco-British Council. She owns 800 Saint-Gobain shares.
255 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, 62, was Director in charge of the Building Materials Division of Saint-Gobain until June 30, 2005 and since July 1, 2005 has been Director in charge of SGIS. 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, 66, 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, 56, 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, 56, is also a member of the Supervisory Boards of AXA and a Director of Pargesa Holding. Within the Suez group, Gérard Mestrallet is the Chairman of the Board of Directors of Suez-Tractebel, Suez Environnement, Electrabel, and Hisusa and Vice-Chairman of 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, 64, is also a Director of Lafarge and Total, a member of the Supervisory Board of AXA, and a non-voting Director of Galeries Lafayette. In addition, he is Chairman of the European Banking Federation, of *Institut de l'Entreprise*, of the Board of Directors of *Institut d'Etudes Politiques de Paris* and of the Advisory Board of *Institut Aspen France*, as well as a member of the *Haut Conseil de l'Education* of the *Institut International d'Études Bancaires*, the Executive Council of MEDEF, 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, 54, is also Chairman of the Board of Directors of *Ecole Nationale Supérieure des Mines de Paris* and of the *Cercle de l'Industrie*, First Vice-Chairman of GIFAS and a director of the *Fondation de l'Ecole Polytechnique*. He owns 800 Saint-Gobain shares.
45, rue de Villiers - 92526 Neuilly-sur-Seine Cedex, France

Jean-Cyril SPINETTA

Chairman and Chief Executive Officer of Air France-KLM.

Jean-Cyril Spinetta, 62, is also Chairman and Chief Executive Officer of Air France, a Director of Alitalia and Permanent Representative of Air France at the Board of Directors of Le Monde Entreprises. He owns 800 Saint-Gobain shares.
45, rue de Paris - 95747 Roissy-Charles de Gaulle Cedex, France

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* *

Chief Operating Officer: Pierre-André de Chalendar

On May 3, 2005 the Board of Directors appointed Pierre-André de Chalendar, 47, as Chief Operating Officer of Compagnie de Saint-Gobain, to replace Christian Streiff, who left the Group. Within the Saint-Gobain Group, he is a Director of Saint-Gobain Corporation, SG Aldwych, Dahl International AB, SG Distribution Nordic AB and SG Nordic AB. He owns 9,400 Saint-Gobain shares.
Les Miroirs - 92096 La Défense Cedex, France

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 2005 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 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, Gerhard Cromme, Paul A. David, Jean-Martin Folz, Sylvia Jay, Gérard Mestrallet, Denis Ranque and Jean-Cyril Spinetta. This corresponds to nine directors out of fifteen, as of March 1, 2006. The Board does not have a director elected by the employees (but it does have a Director representing employee shareholders) nor a non-voting Director. 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: February 1987;
- 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;
- Gerhard Cromme and Jean-Cyril Spinetta: June 2005.

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:

- 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;
- Gianpaolo Caccini, Gerhard Cromme, Jean-Martin Folz, Michel Pébereau and Jean-Cyril Spinetta: 2009 Annual Meeting.

Corporate officer or management functions carried out at any time in the last five years

(other than that of a Director at Compagnie de Saint-Gobain)

Name of Director *Main current function*	*2005*	*2004*	*2003*	*2002*	*2001*
Jean-Louis Beffa *Chairman and Chief Executive Officer of Compagnie de Saint-Gobain*	• Chairman and Chief Executive Officer of Compagnie de Saint-Gobain • Vice-Chairman of the Board of Directors of BNP Paribas • Director of Gaz de France and Bruxelles Lambert Group • Member of the Supervisory Boards of Le Monde SA, and Société Editrice du Monde SA, President of Claude Bernard Participations SAS • Member of the Supervisory Board of Le Monde Partenaires SAS • Permanent representative of Compagnie de Saint-Gobain on the Board of Directors of Saint-Gobain PAM • Director of Saint-Gobain Cristaleria and Saint-Gobain Corporation • Chairman of the Supervisory Board of the Industrial Innovation Agency, joint Chairman of the Cournot Center for Economic Research and Vice-Chairman of the Supervisory Board of the Pension Reserve Fund	• Chairman and Chief Executive Officer of Compagnie de Saint-Gobain • Vice-Chairman of the Board of Directors of BNP Paribas • Director of Gaz de France and Bruxelles Lambert Group • Member of the Supervisory Boards of Le Monde SA, and Société Editrice du Monde SA, President of Claude Bernard Participations SAS • Member of the Supervisory Board of Le Monde Partenaires SAS • Company's permanent representative on the Board of Directors of Saint-Gobain PAM • Director of Saint-Gobain Cristaleria and Saint-Gobain Corporation • Joint Chairman of the Cournot Center for Economic Research • Vice-Chairman of the Supervisory Board of the Pension Reserve Fund	• Chairman and Chief Executive Officer of Compagnie de Saint-Gobain • Vice-Chairman of the Board of Directors of BNP Paribas • Director of Bruxelles Lambert Group • Member of the Supervisory Boards of Le Monde SA, and Société Editrice du Monde SA, President of Claude Bernard Participations SAS • Company's permanent representative on the Board of Directors of Saint-Gobain PAM • Director of Saint-Gobain Cristaleria and Saint-Gobain Corporation • Joint Chairman of the corporate foundation Saint-Gobain Center for Economic Research • Vice-Chairman of the Supervisory Board of the Pension Reserve Fund	• Chairman and Chief Executive Officer of Compagnie de Saint-Gobain • Vice-Chairman of the Board of Directors of BNP Paribas • Director of Bruxelles Lambert Group • President of Claude Bernard Participations • Member of the Supervisory Boards of Le Monde, Le Monde Partenaires and Société Editrice du Monde • Company's permanent representative on the Board of Directors of Saint-Gobain PAM • Director of Saint-Gobain Cristaleria and Saint-Gobain Corporation • Joint Chairman of the corporate foundation Saint-Gobain Center for Economic Research • Vice-Chairman of the Supervisory Board of the Pension Reserve Fund	• Chairman and Chief Executive Officer of Compagnie de Saint-Gobain • Vice-Chairman of BNP Paribas • Director of Vivendi Universal and Bruxelles Lambert Group • President of Claude Bernard Participations • Member of the Supervisory Boards of Le Monde, Le Monde Partenaires and Société Editrice du Monde • Company's permanent representative on the Board of Directors of Saint-Gobain PAM • Director of Saint-Gobain Cristaleria and Saint-Gobain Corporation • Joint Chairman of the corporate foundation Saint-Gobain Center for Economic Research
Daniel Bernard *Chairman of Provestis*	• Chairman of Provestis Director of Alcatel and Cap Gemini	• Chairman and Chief Executive Officer of Carrefour • Chairman of GS • Vice-Chairman of Dia SA • Director of Alcatel, Eterco, Grandes Superficies de Colombia, Presicarre, Centros Comerciales Carrefour, Finiper • Chief Executive Officer of Carrefour Americas Ltda • Chief Operating Officer of SISP and Vice-President of Vicour	• Chairman and Chief Executive Officer of Carrefour • Chairman of GS • Vice-Chairman of Dia SA • Director of Alcatel, Eterco, Grandes Superficies de Colombia, Presicarre, Centros Comerciales, Carrefour, Finiper • Chief Executive Officer of Carrefour Americas Ltda • Chief Operating Officer of SISP and Vice-President of Vicour	• Chairman and Chief Executive Officer of Carrefour • Vice-Chairman of Dia SA • Director of Alcatel, Comptoirs Modernes, Eterco, Grandes Superficies de Colombia, Presicarre, Carrefour Comercio e industria, Centros Comerciales Carrefour, Finiper, GS • Chief Executive Officer of Carrefour Americas Ltda • Chief Operating Officer of SISP and Vice-President of Vicour	• Chairman and Chief Executive Officer of Carrefour • Vice-Chairman of Dia SA • Director of Alcatel, Comptoirs Modernes, Eterco, Grandes Superficies de Colombia, Presicarre, Carrefour Comercio e industria, Centros Comerciales Carrefour, Finiper, GS • Chief Executive Officer of Carrefour Americas Ltda • Chief Operating Officer of SISP and Vice-President of Vicour
Isabelle Bouillot *Managing Partner of IB Finance*	• Managing Partner of IB Finance • Director of Accor and Umicore	• Managing Partner of IB Finance • Member of the Supervisory Board of Accor • Director of La Poste and Umicore	• Chair of the Management Board of CDC Finance - CDC Ixis. • Director of San Paolo Imi, La Poste and C3D • Member of the Supervisory Board of Accor, CNE and CNP Assurances • Within the Caisse des Dépôts Group, held positions of Chair, member of the Supervisory Board or permanent representative to the Board of Directors or the Supervisory Board of various subsidiaries and affiliates of CDC Finance - CDC Ixis	• Chair of the Management Board of CDC Finance - CDC Ixis • Director of San Paolo Imi, La Poste and C3D • Member of the Supervisory Board of Accor, CNCE and CNP Assurances • Within the Caisse des Dépôts Group, held positions of Chair, member of the Supervisory Board or permanent representative to the Board of Directors or the Supervisory Board of various subsidiaries of CDC-Finance-CDC Ixis	• Chair of the Management Board of CDC Finance - CDC Ixis • Director of La Poste and C3D • Member of the Supervisory Board of Accor, CNCE and CNP Assurances • Within the Caisse des Dépôts Group, member of the Supervisory Board, or permanent representative to the Board of Directors or the Supervisory Board of various subsidiaries of CDC Finance - CDC Ixis
Gianpaolo Caccini	• Director of Nexans, JM Huber Corp., Saint-Gobain Corporation • Chairman of Assovetro, the Italian Association of Glass Manufacturers	• Director of Nexans, JM Huber Corp., Saint-Gobain Corporation • Chairman of Assovetro, the Italian Association of Glass Manufacturers	• Chief Operating Officer of Compagnie de Saint-Gobain	• Chief Operating Officer of Compagnie de Saint-Gobain	• Chief Operating Officer of Compagnie de Saint-Gobain

Name of Director *Main current function*	*2005*	*2004*	*2003*	*2002*	*2001*
Gerhard Cromme *Chairman of the Supervisory Board of ThyssenKrupp AG*	• Chairman of the Supervisory Board of ThyssenKrupp AG • Member of the Supervisory Board of Allianz AG, Axel Springer AG, Deutsche Lufthansa AG, E.ON AG, Hochtief AG, Siemens AG and Volkswagen AG • Director of BNP Paribas SA and Suez SA				
Paul David *Professor of Economics at Stanford University*	• Professor of Economics at Stanford University • Emeritus Professor of Economics and Economic History at Oxford University	• Professor of Economics at Stanford University • Emeritus Professor of Economics and Economic History at Oxford University	• Professor of Economics at Stanford University • Emeritus Professor of Economics and Economic History at Oxford University	• Professor of Economics at Stanford University • Emeritus Professor of Economics and Economic History at Oxford University	• Professor of Economics at Stanford University • Emeritus Professor of Economics and Economic History at Oxford University
Jean-Martin Folz *Chairman of the Management Board of Peugeot SA*	• Chairman of the Management Board of Peugeot SA • Chairman of the Board of Directors of Automobiles Peugeot, Automobiles Citroën • Director of Solvay, Banque PSA Finance, Peugeot Citroën Automobiles and Faurecia	• Chairman of the Management Board of Peugeot SA • Chairman of the Board of Directors of Automobiles Peugeot, Automobiles Citroën • Director of Solvay, Banque PSA Finance, Peugeot Citroën Automobiles and Faurecia	• Chairman of the Management Board of Peugeot SA Chairman of the Board of Directors of Automobiles Peugeot, Automobiles Citroën • Director of Solvay, Banque PSA Finance, Peugeot Citroën Automobiles and Faurecia	• Chairman of the Management Board of Peugeot SA • Chairman of the Board of Directors of Automobiles Peugeot, Automobiles Citroën • Director of Solvay, Banque PSA Finance, Peugeot Citroën Automobiles and Faurecia	• Chairman of the Management Board of Peugeot SA • Chairman of the Board of Directors of Automobiles Peugeot, Automobiles Citroën, Banque PSA Finance and Peugeot Citroën Automobiles SA • Director of Faurecia • Chairman of the Supervisory Board of Sommer Allibert
Sylvia Jay *Vice-Chairman of L'Oréal UK Ltd*	• Vice-Chair of L'Oréal UK Ltd • Director General of the British Food and Drink Federation (until August 2005) • Lay member of the Procedures and Disciplinary Committee of the General Council to the Bar, Industrial Governor of the British Nutrition Foundation, Chair of the Pilgrim Trust, member of the Franco-British Council and Trustee of the Entente Cordiale Scholarships Scheme.	• Director General of the British Food and Drink Federation • Director of Carrefour • 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 Trustee of the Entente Cordiale Scholarships Scheme • Member of the Council of Food from Britain and the Franco-British Council	• Director General of the British Food and Drink Federation • Director of Carrefour • Lay member of the Procedures and Disciplinary Committee of the General Council to the Bar, Industrial Governor of the British Nutrition Foundation • Trustee of the Pilgrim Trust and the Entente Cordiale Scholarships Scheme • Member of the Council of Food from Britain and the Franco-British Council	• Director General of the British Food and Drink Federation • Lay member of the Disciplinary Committee of the General Council to the Bar, Governor of the British Nutrition Foundation • Trustee of the Pilgrim Trust, the Food Foundation UK, the Food and Drink Federation Pension Fund and the Entente Cordiale Scholarships Scheme	• Director General of the British Food and Drink Federation • Lay member of the Procedures and Disciplinary Committee of the General Council to the Bar • Trustee of the Pilgrim Trust and the Entente Cordiale Scholarships Scheme
Pierre Kerhuel *Director in charge of the Building Materials Division of Saint-Gobain and SGIS*	• Director in charge of the Building Materials Division of Saint-Gobain and SGIS • 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	• Director in charge of the Building Materials Division of Saint-Gobain • 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	• Director in charge of the Building Materials Division of Saint-Gobain • Senior Vice-President of Saint-Gobain Terreal until March 31, 2003 • 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		
José Luis Leal Maldonado *President of the Spanish Banking Association*	• Chairman of the Spanish Banking Association • Director of Carrefour, CEPSA, Renault España and Saint-Gobain Cristaleria	• Chairman of the Spanish Banking Association • Director of Carrefour, CEPSA, Renault España and Saint-Gobain Cristaleria	• Chairman of the Spanish Banking Association • Director of CEPSA, Alcatel España, Renault España and Saint-Gobain Cristaleria	• Chairman of the Spanish Banking Association • Director of CEPSA, Alcatel España, Renault España and Saint-Gobain Cristaleria	• Chairman of the Spanish Banking Association • Director of CEPSA, Alcatel España, FASA España and Saint-Gobain Cristaleria
Sehoon Lee *Joint Chairman of Hankuk Glass Industries and Hankuk Sekurit*	• Joint Chairman of Hankuk Glass Industries and Hankuk Sekurit • Chairman of the Board of Directors of Saint-Gobain Hanglas Asia, and SL Investment Ltd	• Joint Chairman of Hankuk Glass Industries and Hankuk Sekurit • Chairman of the Board of Directors of Saint-Gobain Hanglas Asia, and SL Investment Ltd	• Joint Chairman of Hankuk Glass Industries and Hankuk Sekurit • Chairman of the Board of Directors of Saint-Gobain Hanglas Asia, and SL Investment Ltd	• Joint Chairman of Hankuk Glass Industries and Hankuk Sekurit • Chairman of the Management Committee of the Hanglas Group, SL Investment Co and SL Advisory Co • Vice-Chairman of the Korean Chamber of Commerce	

Name of Director Main current function	*2005*	*2004*	*2003*	*2002*	*2001*
Gérard Mestrallet *Chairman and Chief Executive Officer of Suez*	• Chairman and Chief Executive Officer of Suez • Member of the Supervisory Board of AXA and Director of Pargesa Holding • Chairman of the Board of Directors of Suez-Tractebel, Suez Environnement, Electrabel, Hisusa, Elyo • Vice-Chairman of Sociedad General de Aguas de Barcelona • Director of Crédit Agricole (until May 2005) • Member of the Supervisory Board of Taittinger (until September 2005)	• Chairman and Chief Executive Officer of Suez • Member of the Supervisory Board of AXA and Taittinger • Director of Crédit Agricole and Pargesa Holding • Chairman of the Board of Directors of Suez-Tractebel, Electrabel, Suez Environnement • Vice-Chairman of Hisusa and Sociedad General de Aguas de Barcelona	• Chairman and Chief Executive Officer of Suez • Member of the Supervisory Board of AXA and Taittinger • Director of Crédit Agricole, Pargesa Holding, Electrabel Chairman of Suez-Tractebel, Hisusa • Vice-Chairman of Sociedad General de Aguas de Barcelona • Chairman of Société Générale de Belgique (until October 2003), Tractebel (until October 2003) • Non-voting Director of Casino (until September 2003)	• Chairman and Chief Executive Officer of Suez • Member of the Supervisory Board of AXA and Taittinger • Chairman of Société Générale de Belgique and Tractebel • Vice-Chairman of Hisusa and Sociedad General de Aguas de Barcelona • Director of Crédit Agricole, Pargesa Holding, Ondeo, Frabepar • Member of the Supervisory Board of Casino, Crédit Agricole Indosuez, Métropole Télévision M6, SAGEM, Société du Louvre • Permanent representative of Sperans on the Board of Directors of Fimalac • Permanent representative of Fided on the Board of Directors of Le Monde Entreprises	• Chairman and Chief Executive Officer of Suez • Member of the Supervisory Board of AXA, Casino, SAGEM, Société du Louvre • Chairman of Société Générale de Belgique and Tractebel • Vice-Chairman of Hisusa and Sociedad General de Aguas de Barcelona • Director of Crédit Agricole, Pargesa Holding, Ondeo, Frabepar • Member of the Supervisory Board of Crédit Agricole Indosuez, Métropole Télévision M6 • Permanent representative of Sperans on the Board of Directors of Fimalac • Permanent representative of Fided on the Board of Directors of Le Monde Entreprises
Michel Pébereau *Chairman of Board of Directors of BNP Paribas*	• Chairman of the Board of Directors of BNP Paribas • Director of Lafarge and Total • Member of the Supervisory Board of Axa • Non-voting Director of Galeries Lafayette • Chairman of the European Banking Federation, the Institut de l'Entreprise, the Board of Directors of Institut d'Etudes Politiques de Paris and the Advisory Board of Institut Aspen • Member of the Haut Conseil de l'Education of the Institut International d'Études Bancaires, the Executive Council of MEDEF, 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	• Chairman of the Board of Directors of BNP Paribas • Director of Lafarge and Total, BNP Paribas UK, Banque Marocaine pour le Commerce et l'Industrie • Member of the Supervisory Board of Axa • Non-voting Director of Galeries Lafayette • Chairman of the European Banking Federation, the Institut de l'Entreprise and of the Advisory Board of Institut Aspen • Member of the Institut International d'Études Bancaires • Member of the International Monetary Conference, the Monetary Authority of Singapore, the International Capital Markets Advisory Committee, the Federal Reserve Bank of New York and the International Business Leaders' Advisory Council for the Mayor of Shanghai	• Chairman of the Board of Directors of BNP Paribas • Director of Lafarge and Total, BNP Paribas UK • Member of the Supervisory Board of Axa and Dresdner Bank • Non-voting Director of Galeries Lafayette • Vice-Chairman of the International Monetary Conference • Member of the Institut International d'Études Bancaires • Member of the International Advisory Panel of the Monetary Authority of Singapore, the International Capital Markets Advisory Committee, the Federal Reserve Bank of New-York	• Chairman and Chief Executive Officer of BNP Paribas • Director of Lafarge and TotalFinaElf, BNP Paribas UK • Member of the Supervisory Board of Axa and Dresdner Bank • Non-voting Director of Galeries Lafayette • Vice-Chairman of the International Monetary Conference • Member of the Institut International d'Études Bancaires • Member of the International Advisory Panel, of the Monetary Authority of Singapore, of the International Capital Markets Advisory Committee, the Federal Reserve Bank of New York • Chairman of the French Banking Federation	• Chairman and Chief Executive Officer of BNP Paribas • Director of Lafarge and TotalFinaElf, BNP Paribas UK • Member of the Supervisory Board of Axa, Galeries Lafayette and Dresdner Bank • Permanent representative to the Board of Directors of Renault • Member of the Institut International d'Études Bancaires • Member of the International Advisory Panel, of the Monetary Authority of Singapore, of the International Capital Markets Advisory Committee, of the Federal Reserve Bank of New York • Chairman of the Board of Directors of the French Banking Federation
Denis Ranque *Chairman and Chief Executive Officer of Thales*	• Chairman and Chief Executive Officer of Thales • Chairman of the Board of Directors of the Ecole Nationale Supérieure des Mines de Paris and the Cercle de l'Industrie • First Vice-Chairman of GIFAS • Director of the Fondation de l'Ecole Polytechnique	• Chairman and Chief Executive Officer of Thales • Chairman of the Board of Directors of the Ecole Nationale Supérieure des Mines de Paris and the Cercle de l'Industrie • Director of the Fondation de l'Ecole Polytechnique	• Chairman and Chief Executive Officer of Thales • Chairman of the Board of Directors of the Ecole Nationale Supérieure des Mines de Paris and the Cercle de l'Industrie • Director of the Fondation de l'Ecole Polytechnique • Member of the Advisory Committee of the Banque de France		
Jean-Cyril Spinetta *Chairman and Chief Executive Officer of Air France-KLM*	• Chairman and Chief Executive Officer of Air France-KLM • Chairman and Chief Executive Officer of Air France • Director of Alitalia • Permanent representative of Air France on the Board of Directors of Le Monde Entreprises				

To the best of the Company's knowledge and as of the date of this reference document, there are no family links between the Company's directors and, over the last five years, no director has been found guilty of fraud, been associated with a bankruptcy, sequestration or liquidation, been incriminated or subject to an official public sanction issued by a statutory or regulatory authority; over the last five years, no director has been prevented by a court from acting as a member of an administrative, management or supervisory body of an issuer of securities or from taking part in managing or conducting an issuer's business.

Operational structure of the Board of Directors

Pursuant to the NRE Act (*Loi sur les nouvelles regulations 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 **Internal Rules of the Board of Directors** in effect in 2005 establishes 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 video-conferencing 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 indebtedness, 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 of 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.

(1) The Group's other top executives are also subject to these restrictions, as are all employees with access to "sensitive" information.

To the best of the Company's knowledge, there are no conflicts of interest between Compagnie de Saint-Gobain and the personal and professional activities of the members of its Board of Directors.

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 2005, as in 2004, the Appointments Committee performed a new evaluation based on a questionnaire sent to each director by the Chairman of the Committee. The questionnaire concerned the operation of the Board, the choice and treatment of subjects included in the agenda, the relations between the Board and General Management, the quality of information provided to the Directors prior to meetings and the operation and the reporting of the work carried out by 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 certain points on which suggestions had been made in the course of the prior evaluation, especially as regards the choice of subjects discussed and the information given to the directors. Responses emphasized once again 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. It was also suggested that issues not directly related to management of the Company be added to the agenda. The circumstances and conditions of the replacement of the previous Chief Operating Officer in May 2005 were specifically reviewed.

The Board of Directors held ten meetings during fiscal 2005. The attendance rate at these meetings was 83%.

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.

(2) 2000 Annual Report, page 55, and 2003 Annual Report, page 26.

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 four times in 2005. The attendance rate at these meetings was 100%. Its work was particularly concerned with the following points:

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 U.S. subsidiaries concerned and the Group as a whole. The findings of this review were subsequently presented to the Board of Directors.

The Committee reviewed the main options selected for the first time adoption of IFRS as well as their impact on the 2004 financial statements.

In addition, the Committee was informed by the auditors of the amount of fees received from Group companies during 2004 in relation to statutory audits and their other services. These fees did not exceed 6% in the case of the statutory audits and 1% in the case of other services of the total fees paid (the data for 2005 is shown on pages 53 and 54). 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 2005 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 2004 activity report, its audit schedule for 2005 and its first-half 2005 activity report, in addition to Doctrine briefs issued by the Finance Department in the first half of 2005.

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 27, March 24, July 28 and September 22, 2005.

Appointments Committee

Gérard Mestrallet, Chairman
Daniel Bernard
Sylvia Jay (3)

All three members of the Committee 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 on "The Corporate Governance of Listed Companies".
- Each year, the Committee reviews the independence of each Director in compliance with the criteria established in this report and presents its conclusions 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

(3) Bruno Roger until June 2005.

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 three times in 2005 with an attendance rate of 100%. Its work was particularly concerned with the following points:

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 AFEP- MEDEF report.

In addition, the Committee decided once again 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 27).

As is the case each year, the Committee reviewed Saint-Gobain's stock options [4] 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 proportion 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. It also reviewed the timeliness of granting shares free of charge, and concluded that it will not make such a recommendation to the Board for 2005.

The Committee further made recommendations to the Board concerning the amount of the fixed portion and the criteria to be applied to determine the variable portion of corporate officers' compensation for 2005 (see pages 30 and 31).

In connection with Christian Streiff's leaving his position as Chief Operating Officer and his replacement by Pierre-André de Chalendar, the Committee carried out the necessary interviews and supervised the finalizing of the terms and conditions of the settlement agreement entered into with Christian Streiff. After reporting its conclusions and assessments to the Board at its May 3, 2005 meeting, in agreement with the Chairman, it recommended the appointment of Pierre-André de Chalendar as the new Chief Operating Officer.

The Committee presented its conclusions to the Board of Directors at the meetings of March 24, May 3 and November 17, 2005.

(4) Company policy on granting stock options and details of current stock option plans are presented on pages 17 to 19.

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 a Chairman or 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 2005 amounted to €500,000, unchanged from the previous year. The exceptional number of meetings held in 2005 (10 compared to the usual 7) led to a uniform reduction in the fixed portion of the directors' attendance fees for the second half of the year in order to remain within the set limit of €500,000.

The net [5] individual amounts of attendance fees paid by the Company to its Directors (including both lump-sum and variable payments) for 2005 were as follows: Daniel Bernard €40,277, Isabelle Bouillot €41,877, Rolf-E. Breuer [6] €8,604,

(5) After deduction of the 25% withholding tax for Rolf-E. Breuer, Gianpaolo Caccini, Gerhard Cromme, Paul A. David, Sylvia Jay and José Luis Leal Maldonado and Sehoon Lee, whose tax residence is outside France.
(6) For the period from January 1, 2005 to June 9, 2005, date on which his term of office expired.

Gianpaolo Caccini €25,539, Gerhard Cromme (7) €10,335, Paul A. David €20,589, Jean-Martin Folz €39,677, Sylvia Jay €28,912, Pierre Kerhuel €36,252, José-Luis Leal Maldonado €22,239, Sehoon Lee €22,239, Gérard Mestrallet €42,949, Michel Pebereau €42,349, Bruno Roger (6) €17,579, Denis Ranque €36,252, Jean-Cyril Spinetta (7) €18,180.

Remuneration of corporate officers

Acting upon the recommendations by the Appointments Committee, the Board of Directors approved on March 24, 2005 the compensation and other arrangements relating to Jean Louis Beffa's status as Chairman and Chief Executive Officer.

The gross fixed remuneration paid to him for fiscal 2005 by Group companies remained unchanged from the previous three fiscal years, i.e. €980,000.

The variable portion of his compensation for the year was determined as follows:

- one-half of the variable portion was based on the quantitative criterion of growth in Group net income excluding capital gains or losses for 2005 compared to 2004, determined in accordance with IFRS in both cases, taking into account the growth objective in the budget for 2005.
- the remaining half was based on three qualitative criteria of personal performance, whose results were assessed by the Appointments Committee;
- The total variable portion may not be more than 1.3 times the gross fixed remuneration.

On this basis, the variable portion of Jean-Louis Beffa's compensation should amount to €1,033,000 for 2005 (compared to €1,237,000 for 2004).

After due deliberation on January 26, 2006, the Board of Directors decided to grant Jean-Louis Beffa an exceptional bonus of €200,000 in view of the outstanding success of the purchase offer of BPB, the largest transaction ever undertaken by Saint-Gobain.

(6) For the period from January 1, 2005 to June 9, 2005, date on which his term of office expired.
(7) For the period from June 9, when he was appointed as Director, to December 31, 2005.

With regard to the "commitments of any nature made by the company for the benefit of its officers" referred to in the law of July 26, 2005[8], the Board of Directors confirmed by its decision of March 24, 2005 that in accordance with the pension benefits regulations for engineers and senior officers adopted in 1972, which apply to Jean-Louis Beffa, the basis for his pension benefits 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.

No other commitment has been made to Jean-Louis Beffa concerning components of his remuneration, indemnities or benefits due or potentially due in relation to his leaving or changing office or subsequent to his leaving or changing office.

On March 24, 2005, the Board of Directors also decided to maintain the components of remuneration agreed upon for 2005 for Christian Streiff as Chief Operating Officer:

- the gross amount of the fixed portion was to amount to €682,500 on an annual basis;
- the gross amount of the variable portion, based on the same quantitative and qualitative criteria as in the case of Jean-Louis Beffa, could not exceed, on an annual basis, 1.3 times an amount equal to half of the fixed portion of the remuneration of Jean-Louis Beffa.

As Christian Streiff left the office of Chief Operating Officer on May 3, 2005, the gross amount of the fixed portion of the remuneration paid to him for 2005 was €227,500. The variable portion, as was the case for the other components, indemnities and benefits related to his leaving office, was an integral part of the settlement agreement entered into on May 30, 2005, as reported in connection with regulated agreements (page 40).

Acting upon a recommendation of the Appointments Committee, the compensation of Pierre-Andre de Chalendar, Chief Operating Officer since May 3, 2005, was set by the Board of Directors on May 19, 2005. The fixed portion amounts to €620,000 on an annual basis. The variable portion consists of a quantitative and a qualitative part, which are based on

(8) Paragraph 3 of article L225-102-1 of the French Commercial Code.

the same criteria (9) as those for Jean-Louis Beffa. It may not exceed 1.3 times the amount of the fixed portion. On this basis, the gross amount of the fixed portion of Pierre-André de Chalendar's remuneration, paid on an accruals basis for 2005 by the Group companies amounts to €413,333 and that of the variable portion paid for the same period should be €380,000.

After due deliberation on January 26, 2006, the Board of Directors decided to grant Pierre-André Chalendar an exceptional bonus of €100,000 for 2005 for the same reasons as was the case for Jean-Louis Beffa.

In addition, in its decision of May 19, 2005, The Board of Directors confirmed that Pierre-André de Chalendar will continue to benefit as Chief Operating Officer from the retirement scheme that he benefited from as an employee, resulting from the Regulations drawn up with respect to pension benefits for engineers and senior officers (*Règlement de retraite des ingénieurs et cadres*), adopted in 1972. The years of service completed in this capacity will be taken into account in the calculation of his past service which will be counted as from October 1, 1989, the date he joined the Group. The basis for calculating his pension benefits will be the fixed portion of the last remuneration received.

No other commitment has been made to Pierre-André Chalendar concerning components of his remuneration, indemnities or benefits due or potentially due in relation to his assuming, leaving or changing office or subsequent to his assuming, leaving or changing office (9).

Jean-Louis Beffa and Pierre-André de Chalendar continue to benefit, moreover, from the provisions of the assistance agreement entered into between Compagnie de Saint-Gobain and a service company specialized in the various aspects of the management of key senior executives, within a limit of 35 hours of consultations for Jean-Louis Beffa and 25 hours for Pierre-André de Chalendar. They each have use of a company car and the services of a chauffeur.

None of the corporate officers received any attendance fees for their functions as corporate officers carried out in Group companies.

(9) Two qualitative criteria instead of three.

Remuneration of corporate officers

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, on the one hand of placing them on a par with remuneration levels in comparable industrial groups and on the other, 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 in all European countries which require 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 2005 from Group companies by Group Management, as defined below, amounted to €20.4 million (the amount for 2004 was €13.8 million), of which the variable portion represented €5.4 million (€5.1 million in 2004).

This total amount includes €5.4 million paid with respect to retirement indemnities to four employees who left the Group during the years.

Group Management

The members of Group Management were as follows on March 1, 2006:

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

Nicole Grisoni-Bachelier
Vice-President, External Relations

Didier Roux
Vice-President, Research

Guillaume Texier
Vice-President, Corporate Planning

Presidents of Sectors and Divisions

Jacques Aschenbroich
President, Flat Glass Sector

Roberto Caliari
President, High-Performance Materials Sector

Philippe Crouzet
President, Building Distribution Sector

Peter Dachowski
Vice-President, Construction Products Sector, 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, Ukraine and Russia

Roland Lazard
General Delegate to the United Kingdom, Ireland and South Africa

Anand Mahajan
General Delegate to India

Paul Neeteson
General Delegate to Germany and Central and Eastern 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

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

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 (Article L. 225-37 of the French Commercial Code).

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 21 to 32), 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 170 engagements in 2005, 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. This cooperation enhances the effectiveness of control procedures and avoids any superfluous controls. It represents one of the cornerstones of internal control within the Saint-Gobain Group. Thus, internal control reports are distributed in their entirety to the Group's Statutory Auditors, while reports concerning audit, internal control and reviews of environmental risks and computer systems produced by the Group's Statutory Auditors are submitted to the Internal Audit Department account.

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 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 specific person is designated to follow up each recommendation and a deadline for implementation is established.

Every six months, the Internal Audit Department and Divisions are updated on the progress of the action plan up to the end of the implementation period.

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 EHS Department ensures that the principles set out in the Reference Manual are adhered to on the basis of in-depth audits ordered by the Company, the Delegations or the Divisions. These audits are organized around a twenty-point framework for the Group's industrial units and a twelve-point framework for its commercial units. 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. These audits are now fully "integrated", i.e., they incorporate environmental, health and safety aspects. The audit standards used are fully compliant with OSHAS 18001 and ISO 14001.

During 2005, a total of 181 EHS audits were performed within the Group, in thirteen 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 2005, a new autodiagnostics procedure was tested at six industrial sites. This procedure consists of a detailed list of questions and a corresponding scale that provides site managers with a rapid, concise overview of the EHS situation at their site. Autodiagnosis must be performed at least once a year at each site beginning in 2007 at the latest. This includes the Building Distribution Sector in France where a specially adapted version will be implemented.

Standards concerning exposure to the risks of industrial accidents were devised in 2005 and are in the process of being implemented. They allow a given risk to be quantified and controlled subject to the same bases of prevention at all Group sites, regardless of the country concerned and local legislation. NOS[10] concern employee exposure to noise, TAS[11] concern exposure to toxic substances. A pilot scheme concerning crystalline silica was launched in 2005.

(10) Noise Standard.
(11) Toxic Agent Standard.

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 coordinates a bi-annual self-assessment plan. Based on its associated reporting process, the plan aids the evaluation of progress made by Group companies and triggers corrective measures, as needed. This plan is based on ISO 17799. In 2005 self-assessment was used at 670 sites.

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 450 in 2005) 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, property and casualty insurance and civil liability insurance coverage provided to subsidiaries is handled either directly by the Risks and Insurance Department or by the Delegations in the US, Canada and Brazil, under the supervision of the Risks and Insurance Department.

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 a half-yearly basis. This audit reviews treasury transactions carried out during the previous six months, 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. Existing systems are reviewed on an annual basis by the Statutory Auditors in order to assess their level of internal security.

The Internal Audit Department reviews the treasury transactions of the General Delegations, periodically, 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 indebtedness. 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 treasury notes, 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 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 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 450 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 2005, the Doctrine Department continued to promote awareness of IFRS throughout the Group based, in particular, on an IFRS training module available to European and US employees. The Doctrine briefs setting out the reporting headings have all been updated to reflect the new accounting standards, while those detailing the IFRS options chosen by the Group have also been reviewed where necessary.

Finally, a project to redesign the Doctrine Department's intranet site was launched at the end of the year to enhance the intranet's quality and functionalities. The project aims to inform the Group's employees and to train them to consult the Doctrine Department's intranet whenever they have a problem and to obtain fast answers thanks to a simple, easy-to-use tool.

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. This action focuses on the main phases of identifying risks, implementing actions and monitoring the effectiveness of the procedure.

The EHS guidelines are available on the Group's intranet and are circulated to all Group establishments. A specially adapted version has been prepared for the Building Distribution Sector.

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-assessment plan includes references to Doctrine rules.

d) Industrial and Distribution 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, 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 also developed internal procedures to deal with their own specific requirements in conjunction with the rules of the Doctrine Department.

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. It is based on clearly defined accounting standards and principles. These include the generally accepted principles of the going concern, consistency, the intangibility of the opening balance sheet, the matching principle, the accrual basis principle and the pre-eminence of content 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 material 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, indeed, 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 Compagnie de Saint-Gobain's financial statements are prepared in accordance with IFRS as adopted for use by the European Union on December 31, 2005.

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 2005, the Group continued to provide IFRS training to its employees and completed the new information system designed to provide a faster intranet-based reporting system that makes it easier to incorporate newly-acquired entities.

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 Divisions (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.

The June 30 and December 31 closing also include a pre-close procedure: the main financial and tax managers from the Company, Sectors, Divisions and the General Delegations carry out an in-depth review of income forecasts and the outlook for each consolidated entity in the presence of the relevant financial director and head of tax affairs. 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 normal closing phases.

In 2006, the Group intends to introduce a procedure that will incorporate even more frequent monitoring of financial results.

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, 2005, the Statutory Auditors of the Company were:

- PricewaterhouseCoopers Audit, 63 rue de Villiers 92208 Neuilly-sur-Seine, represented by Pierre Coll and Rémi Didier, reappointed on June 10, 2004 for a six-year term expiring at the 2010 General Meeting.
- KPMG Audit, a division of KPMG S.A., 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, 63 rue de Villiers 92208 Neuilly-sur-Seine, 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.

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:

(In € millions)	2004		2005	
	Amount	%	Amount	%
Audit				
• Statutory audit and contractual audits				
France	3.0	27%	3.3	31%
Outside France	5.7	51%	5.6	52%
TOTAL	**8.7**	**78%**	**8.9**	**83%**
• Other engagements	1.8	16%	1.7	16%
SUB-TOTAL	**10.5**	**94%**	**10.6**	**99%**
Other services				
• Legal and tax advisory services				
France	–	–	–	–
Outside France	0.6	6%	0.1	1%
TOTAL	**0.6**	**6%**	**0.1**	**1%**
• Other	–	–	–	–
SUB-TOTAL	**0.6**	**6%**	**0.1**	**1%**
TOTAL	**11.1**	**100%**	**10.7**	**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:

(In € millions)	2004		2005	
	Amount	%	Amount	%
Audit				
• Statutory audit and contractual audits				
France	2.5	35%	2.7	30%
Outside France	4.3	59%	5.6	62%
TOTAL	**6.8**	**94%**	**8.3**	**92%**
• Other engagements	0.3	5%	0.7	8%
SUB-TOTAL	**7.1**	**99%**	**9.0**	**100%**
Other services				
• Legal and tax advisory services	0.1	1%	–	–
• Other	–	–	–	–
SUB-TOTAL	**0.1**	**1%**	**–**	**–**
TOTAL	**7.2**	**100%**	**9.0**	**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 (Tel.: +33 (0)1 47 62 30 00). 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, indirect or joint holding of at least 0.50% of the capital or voting rights or any multiple of this percentage. The same obligation exists when a direct, indirect or joint 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 of the Company

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 a 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 General Meetings. 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* to a husband, wife or family member entitled to a share in the estate 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 may take place subject to the terms and conditions laid down in the legal and regulatory provisions.

Appropriation of net income

Any 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 mandatory 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 carried 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 for any 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 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.

*

The bylaws of Saint-Gobain may be consulted at its Legal Department. A copy of the bylaws may be obtained from the office of the Clerk of the Nanterre Commercial Court.

Regulated agreements entered into during the year

The following regulated agreements were entered into in 2005:

• For the record, on March 24, 2005, the Board of Directors authorized the signature of agreements aimed at arranging for the acquisition by the Saint-Gobain group of a controlling interest in the Korean company, Hankuk Glass Industries. These agreements, entered into on April 6, 2005, were approved by the General Meeting of June 9, 2005[12].

• On May 3, 2005, the Board of Directors authorized the signature – which took place on May 30, 2005 – of a settlement agreement between Saint-Gobain and Mr. Christian Streiff with respect to the termination of his office as Chief Operating Officer and the termination of his employment contract. The settlement agreement related to the payment of his notice period (€0.3 million) and a dismissal indemnity (€1.8 million), as provided for by the applicable collective bargaining agreement, in the light of his length of service within the Group which he joined in October 1979, the variable portion of his compensation calculated on the basis of a ten-month period for 2005 (€0.6 million), an additional indemnity (€1.9 million) and an indemnity for non-competition (€1.4 million) related to an undertaking entered into by Mr. Streiff not to perform any duties for a period of two years in a company producing products that compete with those manufactured by Saint-Gobain in the business segments and divisions in which he performed his management duties. The settlement agreement also provides for his continued entitlement to the Saint-Gobain stock options that had previously been granted to him, the continued rental of the apartment he lives in, and, for a maximum period of three years, the payment by Saint-Gobain of a contribution (€3,500 per month) to his office and secretarial expenses, the use of a car and the services of a chauffeur.

• On July 21, 2005, the Board of Directors authorized the signature between Saint-Gobain and BNP Paribas, in particular, of six agreements related to the financing of the tender offer launched by Saint-Gobain with regard to BPB:
– Letter of undertaking by BNP Paribas and UBS (dated July 26, 2005)
– Letter of agreement on the fees of these banks (dated July 26, 2005)
– Letter of agreement relating to the participation by other banks (dated July 26, 2005)
– Credit agreement (dated August 3, 2005)
– Letter of agreement on the hedging of financial risks (dated August 3, 2005)
– Letter of agreement relating to the agent's fees (dated August 3, 2005)

The special report of the Statutory Auditors on pages 42 and 43 relates to the agreements referred to in points 2 and 3 above, which will be submitted for approval by the General Meeting of Shareholders on June 8, 2006.

(12) Report on the 2004 fiscal year, pages 39, 41, 197 and 208.

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 (*Code de commerce*), 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, 2005.

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.

Neuilly-sur-Seine and Paris La Défense, March 23, 2006

The Statutory Auditors

PricewaterhouseCoopers Audit

Pierre Coll

Rémi Didier

KPMG Audit
Department of KPMG SA

Jean Gatinaud

Gilles Salignon

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

This is a free translation into English of the Statutory Auditors' special report on regulated agreements issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In our capacity as Statutory Auditors of Compagnie de Saint-Gobain, we hereby present our report on regulated agreements.

Regulated agreements relating to the year ended December 31, 2005

In accordance with Article L. 225-40 of the French Commercial Code (*Code de commerce*), we have been advised of the following agreements which were authorized by the Board of Directors.

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.

Settlement agreement between Compagnie de Saint-Gobain and Christian Streiff dated May 30, 2005

Corporate officer: Christian Streiff

In its meeting of May 3, 2005, the Board of Directors authorized a settlement agreement – which took place on May 30, 2005 – between Compagnie de Saint-Gobain and Christian Streiff following the termination of Mr. Streiff's contract and his agreement to step down as Chief Operating Officer.
The agreement provides for the payment of the notice period (€0.3 million), and severance indemnities (€1.8 million) pursuant to the applicable collective labor agreement, taking into account his seniority within the Group (he joined the Group in 1979). The agreement also provides for the payment of the variable portion of his salary based on a 10-month period for 2005 (€0.6 million), additional compensation (€1.9 million) and a non-competition indemnity (€1.4 million) related to Christian Streiff's commitment to refrain from occupying a position, for a period of two years, at a competitor of Saint-Gobain in industries or businesses where he had held a managerial role.

The agreement also stipulates that Christian Streiff may continue to hold Saint-Gobain stock subscription and purchase options which he had been previously granted. Until such time as he has found another position and up to a maximum period of three years, he may continue to benefit from the rental of his current apartment, receive an amount of €3,500 per month towards office and secretarial costs and have use of a company car and chauffeur.

Agreements between Compagnie de Saint-Gobain and BNP Paribas related to the financing of the public tender offer for BPB

Director concerned: Michel Pébereau
In its meeting of July 21, 2005, and in connection with the acquisition of BPB Plc and its subsidiaries and the

arrangement of three credit lines for a fixed sum of €9 billion, the Board of Directors authorized the following six agreements between Compagnie de Saint-Gobain and BNP Paribas:

- Commitment letter of BNP Paribas and another bank dated July 26, 2005;
- Upfront fee letter dated July 26, 2005;
- Other banks' side letter dated July 26, 2005;
- Credit facilities agreement dated August 3, 2005;
- Hedging letter dated August 3, 2005;
- Agency fee letter dated August 3, 2005.

In 2005, BNP Paribas received from Compagnie de Saint-Gobain a total amount of €26.8 million in respect of these agreements. This sum includes the amounts paid by BNP Paribas to the banks which took part in the loan syndication.

The following agreement, which was authorized and signed during the year, was already approved by the General Meeting of June 9, 2005.

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

Director: Sehoon Lee

On March 24, 2005, the Board of Directors approved the agreements organizing the acquisition by Saint-Gobain Group of the Korean company Hankuk Glass Industries (HGI). These agreements include a call option in favor of Sofiag, a subsidiary of Saint-Gobain, and a put option in favor of the vendor – Cameleo Investments – on the remaining share capital of Nai Holding which has a 34.5% interest in HGI. 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. These sections of the agreements did not have an impact on 2005.

Neuilly-sur-Seine and Paris La Défense, March 23, 2006

The Statutory Auditors

PricewaterhouseCoopers Audit		KPMG Audit *Department of KPMG SA*	
Pierre Coll	Rémi Didier	Jean Gatinaud	Gilles Salignon

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2 2005 Management Report

A resilient world economy and an upbeat year-end

The world economy expanded by 4.4% in 2005, overcoming the lackluster performance of the opening quarters to end the year at a sustained pace of growth. The spiraling price of Brent crude, which nudged above the USD 60 per barrel mark in August, did not have the widely-feared repercussions. Inflation was held in check, the financial markets stayed on track and exchange rates remained relatively stable.

The US and China were once again the drivers of growth.

In line with previous trends, **US** growth was primarily powered by strong domestic demand. Corporate America, encouraged by another improvement in results, with margins close to 30% and cash flow rates of over 120% at year-end, stepped up their capital expenditure by 9% and reported excellent profitability and ROE figures. Households were similarly reassured by the vigorous real-estate market and, convinced that assets valued at six years' gross disposable income is a sufficient buffer in the event of a downturn, increased credit-backed consumption, spending and investment. However, the appetite for saving among households remained on a par with 2004, and debt levels consequently hit 120% of gross disposable income. In addition to this domestic problem, US growth is threatened by several other serious imbalances, including the poor health of the public finances. The overriding concern is the trade deficit, however, which widened even further during the year to almost USD 800 billion, and will need to be addressed sooner or later.

This US trade deficit has been financed by Japan and by **China**, currently the world's number two economic powerhouse. In 2005, China bought up huge amounts of US treasury notes in order to reinvest some of the significant income generated by its export markets. Last year, China became the world's third largest exporter, behind the US and Germany, and its impact on the world economy was far-reaching. It boosted international trade, with imports rising 20%; maintained inflation at low levels while accelerating the upward trend in the cost of raw materials (notably oil, steel, aluminum, etc.); and exacerbated foreign currency imbalances by continuing to peg the heavily undervalued yuan.

The other emerging countries also experienced robust growth. Elsewhere in **Asia**, Indian GDP leapt 7.5%, while in the zone's other seven economies, growth slackened off to 4.4% from 5.7% in 2004 following a contraction in exports to China. The economies of **Latin America** were able to rein in the slowdown of recent years, benefiting from the rising cost of raw materials, from which the region derives a large portion of its revenues. By simultaneously restoring domestic stability, keeping a lid on inflation and reducing dependence on outside sources, Latin America put itself back on the road to recovery. The economies of **Eastern Europe** continued to gain ground: progress was made in terms of integration within the European Union, although attempts to open up markets in the west proved relatively ineffective.

Japan also recorded a sustained performance in 2005, with growth of 2.1% well above its forecast potential, which bodes well going forward. This upturn was most pronounced in the first half and towards the end of the year, and was driven not only by exports (owing to the competitively priced yen), but also by private consumption and vigorous corporate investment programs.

Generally speaking, with growth in the **Eurozone** expanding by just 1.3% in 2005 and lagging behind the rest of the world, the region struggled to stave off further erosion in its share of the global market. Growth in exports remained mediocre at 4%, while domestic demand advanced 1.4% amid the negative impact of poor employment figures and a real-terms fall in salaries. This was compounded by sluggish rates of investment in the corporate sector in spite of the attractive prevailing conditions (low interest rates and improved profitability).

The national situations of the different Eurozone countries were once again contrasting, and can be analyzed in ascending order of growth. **Italy** began the year on a sour note, and although business picked up in the second quarter, the upturn was insufficient to prevent sluggish average annual GDP figures (up 0.1%). The Italian economy is still suffering from structural problems such as low levels of competitiveness and a rising public deficit. The **Dutch** economy lacked domestic impetus and could do only slightly better (GPD up 0.6%). In **Germany**, lackluster household consumption (down 0.1%) sapped growth, which came in at just 1.1% and was only maintained by the effects of strong corporate investment (up 5.8%) and a brilliant performance from the export sector, which finished the year up 6.8%.

GDP in **France**, which nudged up 1.4% for 2005, was once again bolstered by domestic demand, notably in household consumption and homebuying, although corporate investment projects also picked up from the second half. However, this was countered by France's international trade performance which continued to sag under the combined weight of sluggish exports and the three-fold increase in oil prices. **Spain**, by contrast, extended and deepened its strong performance in 2005 (GDP up 3.4%). Spurred on by interest rates that remained negative in real terms, Spanish households funded higher consumption and real-estate investments by taking on more debt.

Among the non-Eurozone countries, 2005 proved especially challenging for the **UK** (GDP up 1.8%). The UK manufacturing sector continued to shrink (down 6%), while sterling's depreciation failed to provide the anticipated boost to exports. Finally, and more importantly, household expenditure began to feel the pinch of higher interest rates.

There was nevertheless a silver lining for the region, with most countries putting in a more encouraging performance towards the end of the year.

Automotive industry

In 2005, 63 million cars and light commercial vehicles were sold worldwide, i.e., 3.3% more than the previous year. This performance owed much to the upward trend in emerging countries, led by the **Asia-Pacific** region whose output expanded by nearly 8.0%, with sales growth hard on its heels at 7.7%. **China**, the world's third largest automotive market, once again led the way in terms of sales (up 13.5%, including buses and trucks), despite government restrictions on consumer credit enacted in 2004.

Although output contracted by 2%, **Japan** experienced strong growth in sales (up 3.4%) on the back of newly-rediscovered household confidence and a vigorous export sector.

In **Latin America**, sales in Brazil and Argentina also held up well (up 13% in 2005) while output in the zone (including Mexico) climbed 11.1%.

In the **US**, however, automotive production eroded slightly while the market remained virtually flat (up 0.5% at 17 million units). Once again this year, the "big three", and in particular GM and Ford, continued to shed market share, and the resulting slack was quickly snapped up by Japanese auto constructors.

In **Western Europe**, 14.5 million new vehicles were registered during 2005 on a flat market (down 0.2%) in which Asian brands accounted for 17% of total sales. Auto manufacturing output in the region did not fare as well, however, down 3.6% over the year. Significant national variances were once again in evidence: French sales advanced 2.7%, German sales rose 1.6% and Spanish sales edged up 0.8%; while in contrast, Italian sales fell by 1.3%, and sales in the UK slipped 5%. Automotive production declined in most of Western Europe, where particularly sharp falls in the Netherlands, Italy and France left Germany as the lone success story in terms of output.

Eastern Europe, however saw the plunge in new registrations in Poland (down 26%) drag down sales across the zone by 10%, while total automotive output continued its sharp upward curve to end the year 7.4% higher.

Electronics industry

In 2005, the semiconductor market advanced by a disappointing 7% (in current dollars), failing to live up to the stellar performance of 2004 when it leapt 28%. Encouragingly, however, 2005 closed with demand on a positive trend across all segments. As in previous years, sales in this industry were driven by Asia-Pacific (excluding Japan), which posted 16% growth. The Japanese market contracted by 4.0%, Europe remained unchanged (up 0.2%), and the US grew only weakly in relative terms (up 4.0%).

Construction industry

In a large majority of countries (with the notable exceptions of Germany and, to a lesser extent, the UK) during 2005, the brisk residential housing market continued to power the construction sector, and the rest of the economy in turn. This vigorous activity owed a great deal to persistently low mortgage rates and rising property prices. In the **US**, the number of building permits and construction startups remained largely above the yearly average mark of two million for almost all of the year. The market for existing properties exceeded seven million units, which in turn boosted the renovation business.

In **Western Europe**, where it is harder to renegotiate home loans than in the US, **France** and **Italy** witnessed the greatest rises in new home construction during 2005 (up 10.3% and 10.6% respectively). The **Spanish** residential market, which reached new heights in 2004, put in another record performance with 659,000 startups in 2005, up 3.6% on the year-earlier figure. The Bank of England's interest rate squeeze cooled down the **UK** market, although this did keep the threat of a bubble-burst at bay for the time being. The long-anticipated upturn in **Germany** did not materialize in 2005 – despite some encouraging signs towards the year-end – and total residential housing startups plummeted a further 9.2%.

In **Eastern Europe**, the robust **Polish** market failed to ignite the residential construction industry, which advanced only marginally in 2005, although it is currently rebounding. Taken as a whole, growth in the zone's renovation sector undershot that of GDP. Nevertheless, this performance is set to firm up, especially in Western Europe, with the gradual implementation at national level of measures to save energy and reduce greenhouse emissions.

Another year of growth

The results for 2005 once again showcased the efficiency of Saint-Gobain's growth-generating business model. In an uneven economic environment, as described above, the Group followed up on last year's solid growth with a further improvement in performance in 2005. Organic growth came in at 2.7%, largely the result of increases in sales prices (up 1.9%) as well as the upturn in sales volumes (up 0.8% in the first half) which began to take off in the second half (up 2%). Excluding the impact of the acquisition of BPB in December, 2005 saw a number of other noteworthy successes: cash flow from operations increased by 4.9%, operating income rose 4.6% and business income jumped 8%.

Both the Building Distribution and Construction Products sectors posted stellar growth. Net sales for Building Distribution shot up 13.2% while operating income leapt 16.5%. Construction Products reported a 6.8% advance in net sales and a 14.8% surge in operating income. On the back of a sharp upturn in performance in 2004, Ceramics & Plastics and Abrasives (High-Performance Materials divisions) once again made solid headway, pushing operating income up by 10.3%. In contrast, the Flat Glass and Packaging sectors along with another High-Performance Materials division, Reinforcements, were hit by sluggish profitability attributable to difficulties in passing on sharp rises in energy costs, and high startup costs in emerging countries.

The results for 2005 should be viewed in light of the major changes in Group structure that took place during the year. Excluding the purchase of BPB, which was completed in December, external growth continued apace. Acquisitions carried out by the Building Distribution Sector and in emerging countries (most notably with the purchase of Xugang in China by the Pipe Division) totaled €1 billion, corresponding to €1.7 billion in full-year net sales. In parallel, a number of non-strategic businesses were sold, including the industrial concrete business Stradal, the Packaging Sector's glass block manufacturing business, and Saint-Gobain's minority interest in the Ceramics partnership with Ibiden.

From December 1, 2005 the consolidated data of Saint-Gobain Group include figures for the BPB group, which was fully consolidated within the Construction Products Sector at that date. After the successful completion of the public offer, the Group's public buyback offer followed by a squeeze-out procedure was launched on December 7. This resulted in the delisting of BPB shares with effect from January 9, 2006 and the acquisition by Saint-Gobain of all of BPB's capital on January 19, 2006.

In accordance with IFRS, BPB's consolidated data was restated upon consolidation within Saint-Gobain's accounts. Several adjustments were recorded in the balance sheet and substantially all non-recurring items were posted to the income statement. As these restated BPB figures are not representative of the company's overall performance, and in order to permit meaningful comparisons with the Group's 2004 data, the following comments on the financial statements of Saint-Gobain are mainly based on its performance excluding BPB.

Excluding BPB, net sales climbed 8.4%, or 7.4% at constant exchange rates. The contribution of the Group's acquisitions to the growth figure amounts to €1,502 million, accounting for a rise of 4.7% in net sales. Like-for-like sales growth, based on a comparable structure and constant exchange rates, came in at 2.7%. Consolidated net income advanced 6.4% compared to 2004, and 3% excluding profits and losses on sales of non-current assets. This earnings growth was primarily fueled by a 4.6% increase in operating income (3.3% at constant exchange rates) and an 8% rise in business income, but is hit by a higher year-on-year tax rate. Based on the total number of shares in circulation, earnings per share excluding net profits and losses on sales of non-current assets stood at €3.85, up 1.9% on the 2004 figure. Excluding treasury stock, earnings per share came in at €3.94, a rise of 2.3% on 2004.

This performance bears testimony to the Group's resilience as well as its momentum, which was driven by growth in the Construction Products and Building Distribution sectors and the vibrant expansion in emerging countries. However, by and large all of the Group's sectors saw sales advance on a like-for-like basis throughout 2005. Growth for the year as a whole was powered by construction-related businesses, in line with the trend noted in the first half. The Insulation Division, in particular, turned in the Group's highest organic growth figures, at 7.1%.

Sales volumes continued to progress in the Flat Glass Sector, with the upturn in the construction markets in both Europe and emerging countries countering the drop in automotive sales during the second half. Due to the energy surcharge applied during the year, sales prices for the flat glass used in the construction industry rose slightly on average compared with 2004. However, certain non-recurring startup costs in emerging countries weighed on operating income.

Packaging registered a slight rise in like-for-like sales, mainly due to price increases implemented throughout the year, in particular during the second half. However, rising prices failed to counter the significant impact on the sector's operating income of the spike in the cost of energy and particularly natural gas in the US.

On the back of strong contributions by each of its businesses, the Construction Products Sector posted the Group's highest like-for-like growth in terms of both sales, which jumped 6.0%, and operating income, up 13.6%. Building Materials and particularly Insulation, with sales growth of 5.2% and 7.1% respectively, continued to reap the rewards of buoyant construction markets in the US and Europe, barring Germany. The Insulation business also profited from intensified development and tighter legislation regarding improved thermal insulation in homes, especially in the UK. Pipe sales experienced a sharp turnaround in the last three months of 2005, which took its organic growth to 5.6% for the full year. Increases in the cost of raw materials were comfortably offset by significant price increases implemented from early 2005 onwards across the sector, driving up profitability.

The Building Distribution Sector made the largest contribution to growth in consolidated sales and operating income on a reported basis, posting a 13.2% increase in sales and a 16.5% rise in operating income. Thanks to recent internal progress and the positive contribution from recent acquisitions (especially Dahl, Sanitas-Troësch, and Optimera), the Building Distribution business registered a further improvement in operating margin to 5.7%, as against 5.6% in 2004. Robust French and Scandinavian markets continue to spearhead the sector's growth, whilst Germany, and to a lesser extent the UK, remain on a downward trend.

The High-Performance Materials Sector reported a renewed increase in sales and operating income on an underlying basis thanks to a sustained improvement in the Ceramics & Plastics and Abrasives Divisions, which continue to benefit from vigorous manufacturing and industrial investment activity, notably in the US. Despite a recent upturn in volumes in Reinforcements, falling sales prices dented the division's profitability.

The breakdown of like-for-like sales by geographic area reveals continuing robust business levels in France and the US, which posted increases of 4.7% and 4.0% respectively. Business held firm in other Western European countries, with the fall-off in sales in Germany and the UK offset by strong performances elsewhere, particularly in Spain, Portugal and Scandinavia. Delivering vigorous sales growth of 6.8%, emerging countries and Asia made a healthy contribution to the Group's growth momentum.

By geographic area, France accounted for 31.1% of total sales, with other Western European countries contributing 40.6%, North America 16.2%, and emerging countries and Asia-Pacific 12.1%.

Operating income is up by 4.6%, or by 3.3% at constant exchange rates[(1)]. Operating margin stands at 8.2% compared with 8.5% in 2004 and, in accordance with IFRS, includes costs relating to stock option programs and the Group Savings Scheme, which amounted to €41 million, compared with €32 million in 2004. This dip in profit margin reflects the increased relative weight of Building Distribution within the Group, although it should be noted that the operating margin reported by this sector once again increased, to 5.7% of sales in 2005, up from 5.6% in 2004. Another contributing factor was the impact of energy and transport costs, as well as the rise in certain start-up costs related to the Group's accelerated growth in emerging countries.

The geographical analysis shows that operating income advanced in France by 7.8% compared with 7.7% in 2004, and progressed similarly in Western Europe (up 7.2% compared to 7% in 2004), where the improvement owed much to the impact of reduced operating costs against a backdrop of steady net sales. The relative decline in North America, where operating income rose 8.2% compared to 9.1% one year earlier, can be explained by spiraling energy costs, while the relative contraction in emerging countries and Asia (8.9% versus 12% in 2004) was attributable to the impact of new plant startup costs.

(1) Based on average exchange rates for 2004.

Business income advanced by 8.0%, mainly on the back of the rise in operating income and profits on the sale of non-current assets, coupled with a fall in non-operating costs over 2005, to €252 million from €271 million in the year-earlier period. These costs include an amount of €100 million set aside to the provision for asbestos claims against CertainTeed in the US, compared with €108 million in 2004.

Improved working capital requirements and cash flow from operations also helped to boost overall performance. Working capital requirements fell to 49 days from 51 days in 2004, meaning that this figure has been slashed by ten full days in three years. Efforts to generate high levels of free cash flow continued apace throughout the year. Cash flow from operations stood at €2,767 million, up 4.9% compared to 2004, while capital expenditure, always particularly significant in emerging countries, jumped 10.7% to €1,705 million (excluding BPB and finance leases), coming in at 4.9% of net sales compared to 4.8% in 2004. Although marginally down on the year-earlier figure, free cash flow, which arises from the difference between cash flow from operations and capital expenditure, remained at high levels (€1,062 million, compared to €1,099 one year earlier). Investments in securities (excluding BPB), essentially within the Building Distribution Sector, stood at €1,062 million.

Prior to the acquisition of BPB, the gearing ratio was 52%. Including the impact of the BPB acquisition, the gearing ratio comes in at 102%, with a two-fold increase in net debt compared to December 31, 2004.

There have been no significant changes in the Group's financial or trading position since the end of the 2005 financial year.

Capital expenditure and investments in securities

Capital expenditure

(in € millions) By sector and by division	2003	2004	2005
Building Distribution	213	249	327
High-Performance Materials	251	240	271
Ceramics & Plactics and Abrasives	*108*	*132*	*187*
Reinforcements	*143*	*108*	*84*
Flat Glass	364	448	485
Packaging	265	302	305
Construction Products	257	296	355
Building Materials	*117*	*101*	*102*
Insulation	*90*	*144*	*145*
Gypsum	*-*	*-*	*52*
Pipe	*50*	*51*	*56*
Other	*1*	*5*	*13*
Group Total	**1,351**	**1,540**	**1 ,756**

(in € millions) By major geographic zone	2003	2004	2005
France	305	363	391
Western Europe (excluding France)	459	483	574
North America	233	273	256
Emerging countries and Asia	354	421	535
Group Total	**1,351**	**1,540**	**1,756**

Investments in securities

(in € millions) 2005 Acquisitions (excluding BPB)	Value of securities	Estimated full-year net sales
Building Distribution	628	1,245
High-Performance Materials	48	62
Flat Glass	161	143
Packaging	98	120
Construction Products	127	163
Total acquisitions	**1,062**	**1,733**
of which in emerging countries	*408*	*482*

(in € millions) 2004 Acquisitions	Value of securities	Estimated full-year net sales
Building Distribution	529	1,820
High-Performance Materials	102	119
Flat Glass Packaging Construction Products	27	28
Total acquisitions	**658**	**1,967**
of which in emerging countries	*82*	*81*

(in € millions) 2003 Acquisitions	Value of securities	Estimated full-year net sales
Building Distribution	436	993
High-Performance Materials	42	53
Flat Glass Packaging Construction Products	82	78
Total acquisitions	**560**	**1,124**
of which in emerging countries	*61*	*45*

Flat Glass

Contribution to the Group

(In %)	2005	2004 (IFRS)	2004	2003
% of net sales	**13%**	14%	14%	14%
% of operating income	**16%**	17%	17%	19%
% of cash flow from operations	**19%**	19%	19%	22%

Key consolidated data

(In € millions)	2005	2004 (IFRS)	2004	2003
Net sales	**4,680**	4,429	4,394	4,298
Operating income	**453**	461	440	471
Cash flow from operations	**528**	511	508	548
Capital expenditure	**485***	448	448	364

** Including capital leases.*

Internal sales are deducted from sales data by sector and by division.

The Flat Glass Sector makes, processes and sells 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 construction 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 oxides or other special coatings, for use in a wide range of applications, such as thermal insulation and sun control. Saint-Gobain Flat Glass operates in 37 countries and boasts 31 float-lines, of which seven are jointly owned. In addition, three new float-lines are currently under construction, in Romania, Mexico and Poland.

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.

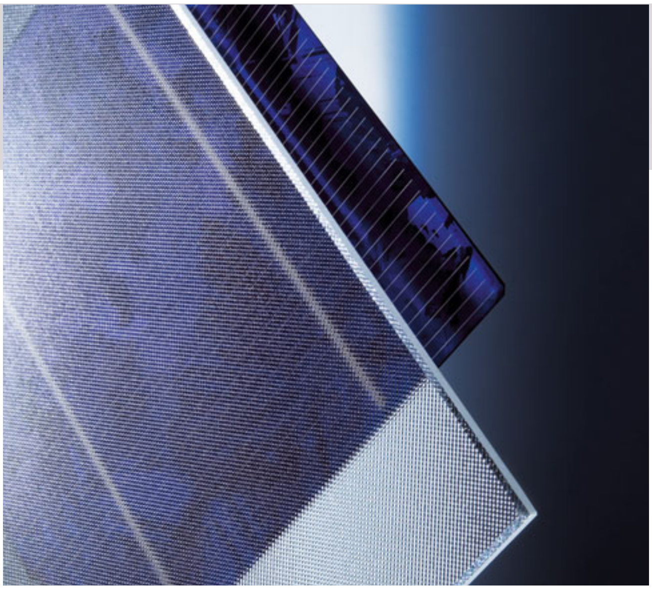
The Flat Glass Sector is also a manufacturer of automobile parts, supplying major European and global car manufacturers with windshields, rear windows, side windows, glass sun-roofs and other ready-to-assemble modules. Automotive parts are complex, sophisticated products, featuring advanced technologies 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.

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.

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 long-standing presence in all major glazing markets in Western Europe, it has also made inroads into South America (Brazil, Argentina, Chile), 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 US, in order to boost sales of flat glass products in these markets.



Extra-clear SGG **ALBARINO** glass from Saint-Gobain Glass, used for photovoltaic panels.

Operations in 2005

Worldwide net sales for the Flat Glass Sector in 2005 advanced 5.7% year-on-year to €4.7 billion, amid favorable exchange-rate conditions arising mainly from the appreciation of the Brazilian real, the Korean won and the Polish zloty against the euro. Sales were also buoyed by the full consolidation of Hankuk Glass following an increase in the Saint-Gobain stake. Like-for-like sales, based on a comparable Group structure and constant exchange rates, edged up by 0.4%.

In Europe, float glass sales rose by 3.5%, owing to higher sales volumes (chiefly in Eastern Europe) and the positive impact of introducing an energy cost surcharge on sales prices to offset rising oil costs, an initiative which began in 2004. Outside Europe, like-for-like net sales for Saint-Gobain Glass rose steeply through increased volumes, benefiting from the full-year operation of the fourth float in Brazil, the improved output of two floats in China, and the startup of a second float-line in India, which went into production last November. Disappointingly, there was significant downward pressure on float prices in China, against a backdrop of rising costs.

Sales reported by the network of subsidiaries specializing in processed products for the construction industry experienced an upswing in 2005, after the decline of 2004, owing to higher volumes and generally stable price levels.

Sales fell on the automotive glazing market in Europe, because of the general weakness of automobile constructors, as well as a predictable contraction in market share linked to the new models launched during the year. Outside Europe, on the other hand, volumes continued to advance, driven by the new plants in China and India, and by soaring growth in Brazil.

The transport business (glazing for planes, trains, buses, coaches, etc.) reported a rise in sales on all markets, especially aerospace, despite the negative impact of the change in Group structure brought about by the withdrawal from the US market during the year.

The Autover line, which specializes in the distribution of automotive spares, once again reported a significant sales increase in 2005.

Sales also climbed in the Specialty Glass business (glass products for home appliances, electronics, and industrial refrigeration), with robust demand in 2005 for products such as fireproof glass.

Operating income for the Flat Glass Sector in 2005 came in slightly lower than 2004, dented by losses arising from the startup of operations in China, and steep rises in raw materials and energy costs. However, these two negative effects were almost entirely offset by the rigorous management of sale prices, and improved technical and cost performance across all businesses in the sector.

Outlook for 2006

Several major events are set to impact performance in 2006:

- the continued rise in raw materials costs, primarily energy;
- increased sales volumes, which are expected for all Flat Glass businesses (float glass, laminated and processed products, glazing for cars and other markets);
- the ramp-up of the new float and automotive plant in India, the completion of the new float slated to start up by the end of the year in Romania, and the construction of new floats in Mexico and Poland;
- the continuation of the technical performance enhancement program.

A third Saint-Gobain Sekurit production line recently started up at the Horovice plant in the Czech Republic.

Packaging

Contribution to the Group

(In %)	2005	2004 (IFRS)	2004	2003
% of net sales	**11%**	12%	12%	13%
% of operating income	**13%**	17%	17%	18%
% of cash flow from operations	**16%**	19%	19%	20%

Key consolidated data

(In € millions)	2005	2004 (IFRS)	2004	2003
Net sales	**4,008**	3,880	3,779	3,869
Operating income	**385**	459	440	442
Cash flow from operations	**432**	492	490	504
Capital expenditure	**306***	302	302	265

** Including capital leases.*

Internal sales are deducted from sales data by sector and by division.

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.

Due to the imperative of providing high-quality service in this business, the Packaging Sector has always sought to develop a close working partnership with its local and multinational clients.

In this spirit, and in order to adapt to the changing markets in Eastern Europe, Saint-Gobain Packaging acquired three companies in 2005: Zorya Glass in Ukraine, and Kavminsteklo and Sitall in Russia. These new companies join an extensive network of bottle and jar manufacturing units in Europe (France, Germany, Italy, Spain, Portugal), the US, South America (Brazil, Argentina), and China. The Sitall production facility (which currently manufactures vodka bottles) set up a production line for perfume applications in 2005.

In the food and beverages industry, Saint-Gobain Packaging is present in all market segments. These include still wines, champagnes and sparkling wines, beers, liquors, aperitifs, fruit juices, soft drinks, mineral waters, oils, baby food, instant food and drinks, yoghurts, and desserts.

The sector's creativity, along with the versatility and proximity of its industrial network, have pushed it into joint top spot on the European market and enabled it to capture the number two position in the US.

The Flasks business, which serves worldwide perfume and pharmaceutical makers from plants in Europe and the Americas, expanded in late 2005 with new production lines at the Zhanjiang plant in China, and the Sitall plant in Russia. 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 US, Latin America and China. In mid-2005 it acquired the Italian manufacturer Microspray Delta, which specializes in pump dispensers for the perfume industry.

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, offering its skills and experience in development partnerships, and responding swiftly to customer needs and expectations.

Operations in 2005

Net sales across the Packaging Sector in 2005 were up 3.3% on 2004, with little impact felt from the year's acquisitions. Based on a comparable structure and constant exchange rates, sales (excluding ancillary revenue) edged up by 1.9% with respect to 2004.

In the context of the sector's markets, this satisfactory performance is to the credit of the bottles and jars businesses in Europe and North America, and to the buoyant plastic pump dispenser business. In contrast, business in Brazil was held back on the export markets by the appreciation of the real, while exports by the flasks business to the US were similarly undermined by the euro's rise against the greenback.

** Source: Saint-Gobain.*

Based on a constant Group structure, the bottles and jars business in Europe edged forward on sharply contrasting markets. Once again, 2005 proved a very challenging year for glass packaging in Germany, while market conditions in Southern Europe continued to be more propitious. In current dollar terms and stripping out the exchange rate effect, the bottles and jars business only posted marginal growth in the US.

In Brazil, exports by the bottles and jars business were hamstrung by the appreciation of the real (although the latter did have a positive accounting impact), while business remained brisk in Argentina.

The flasks business once again suffered unfavorable conditions on the dollar markets, owing to a euro-dollar exchange rate that worked against products manufactured in the eurozone. However, the sector's sustained efforts to exploit its flair and industrial and commercial responsiveness helped to bolster its overall positions on world markets.

Finally, the plastic pump dispensers activity reported a surge in business, especially in North America where a new and highly-competitive beauty products plant at San Luis Potosi in Mexico came on stream. This increase in sales resulted from the sector's efficient commercial organization and its ceaseless efforts to seek out new products – often developed in partnership with major customers – and innovative technical solutions.

Conditions proved difficult on some markets (bottles and jars in France, Germany and the US, for example), so the sector's rising sales indicate good commercial dynamics, the result of rigorous attention to quality specifications and an unrelenting quest for customer satisfaction, backed by a comprehensive and regularly renewed product range and efficient world-class production facilities.

After a record year in 2004, operating income for 2005 suffered heavily (especially in the US) from unprecedented rises in gas and glass raw material prices, and from the impact of higher fuel prices on road transport costs. Soaring energy costs also directly and indirectly hit company profits in Europe. Even though these rises were not fully passed on through increased sales prices, Saint-Gobain Packaging reported operating margin of close to 10%, thanks to effective gas and fuel hedging programs, and sustained efforts to improve productivity and control other production costs.

The continued streamlining of the bottles and jars business in the US and Germany, and the reorganization and worldwide redeployment of production plants in the plastic pump dispensers business also buoyed the sector's performance.

Cash flow from operations remained at high levels, despite a slight dip in comparison to 2004.

Lastly, a tight rein on working capital requirements made a further significant contribution to financing an ambitious capital expenditure plan, targeting even greater across-the-board improvements in productivity and performance.

Outlook for 2006

In 2006, Saint-Gobain Packaging will continue to implement its enhancement and redeployment programs targeting its production facilities, as well as its operating performance improvement drive. Despite challenging market conditions that appear likely to take a toll on production costs in 2006 (especially energy and raw materials), and barring major incidents such as further significant rises in energy and transport costs, the sector is aiming to continue the moderate growth in its businesses and to maintain its economic performance at the current high levels.

Health and safety initiatives launched in 2005 helped slash the number of industrial accidents leading to lost workdays by 35% in practically all of the countries in which the sector operates. For 2006, in addition to the systematic implementation of best practices at all of its sites, Saint-Gobain Packaging has decided on the blanket application of the OHSAS 18001 health and safety standard.

The sector also continued to roll out its comprehensive environmental management system in 2005, which saw two additional production plants awarded ISO 14001 certification by the year-end, and is aiming to continue the push on this front through 2006. In respect of atmospheric emissions, its European operations are taking advantage of each major scheduled maintenance operation to press ahead with the fume filter scheme which will see all glass-making plants in the European Union equipped with the filters by end-2008.

Starbucks coffee liqueur (made by Jim Beam with Starbucks) comes in an amber glass bottle with an original "shaker" design. Liter bottles are made at the Saint-Gobain Containers plant in Burlington (Wisconsin). This product won the 2005 Clear Choice packaging prize awarded by the US Glass Packaging Institute.

Construction Products

Contribution to the Group

(In %)	2005	2004 (IFRS)	2004	2003
% of net sales	**19%**	18%	18%	20%
% of operating income	**21%**	20%	19%	24%
% of cash flow from operations	**20%**	20%	21%	21%

Key consolidated data

(In € millions)	2005*	2004 (IFRS)	2004	2003
Net sales	**6,694**	6,019	6,004	6,233
Operating income	**614**	542	507	584
Cash flow from operations	**559**	540	538	526
Capital expenditure	**358****	295	294	257

** BPB was fully consolidated from December 1, 2005.*

*** Including capital leases.*

Internal sales are deducted from sales data by sector and by division.

The Construction Products Sector is made up of the Insulation, Gypsum, Exterior Products, Pipe and Industrial Mortars divisions. The richness and diversity of its businesses allows the sector to offer specifically tailored solutions for each customer right across its markets: acoustic and thermal insulation, wall facings, roofing, interior and exterior building solutions and piping.

The Construction Products divisions are themselves global players, and are continuing their expansion strategy. The year was marked by two major events within the sector: the sale of the subsidiary Saint-Gobain Stradal to CRH and the creation of a new Gypsum Division following the acquisition of British Plaster Board (BPB) by Saint-Gobain Group.

INSULATION

The operations of the Insulation Division include glass wool (TEL process), rock wool, soundproof and specialty ceilings, and insulation foams, 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 worldwide Isover brand.

Insulation products are sold as rolls, panels, loose-wool and in 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 construction 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.

The soundproof ceilings and metal frames niche market is also proving a strong avenue for development, in which the technical expertise of the Insulation Division through banners such as Ecophon, Eurocoustic, API, Gabelex and Plafometal, is strongly appreciated by professional customers.

One in three houses in Europe and one in five houses in the US are insulated with the division's products. The division ranks number

The Integra Vario system's weather-responsive membrane optimizes thermal insulation.

20,000 sq.m of Isover products were supplied for the construction of this 190m Swedish tower which turns 90 degrees top to bottom.

one in mineral-fiber insulation products*, and has operations across the globe, either as a direct producer or via its licensees.

The division's structure based on the world's major regions is aimed at fostering manufacturing and marketing synergies between countries and enabling it to respond promptly to market needs. The goal 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 growing demand for comfort, despite tough climatic conditions. The extension to the Yegorievsk facility in Russia as well as the new industrial facility in Ploiesti, Romania, are examples of this. The overall strategy adopted by the division hinges around its global brand, Isover, and is underpinned by the following goals:

- bolstering its leadership in mineral-fiber insulation products through technological innovation and the development of cutting-edge products;
- stepping up development in emerging countries, with special emphasis on Central Europe, Russia and Asia;
- consolidating its European leadership* in the new ceilings business, by leveraging product synergies (glass-wool and rock-wool soft ceilings, metal ceilings, profiles), and expanding geographic reach;
- making 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.

* Source: Saint-Gobain.

Operations in 2005

Insulation Division results for 2005 were on a par with the excellent figures achieved in 2004, with very high growth in net sales (up by 10.5% on an actual Group structure basis and by 7.1% based on constant structure and exchange rates) and in operating income (up by 13.6% on an actual Group structure basis).

Barring Germany, where the building industry remained sluggish, growth in most European insulation markets held firm in 2005. Thanks to the startup of the second glass-wool production line at the Yegorievsk plant in the Moscow region, the Insulation Division felt the full benefits of strong growth in Eastern European markets (Russia, Poland, Ukraine). In the US, demand remained high, allowing the division to raise sales prices.

The significant improvement in operating income can be credited to the combined effect of higher sales prices and volumes in Europe and the US, which offset the hike in the price of raw materials, energy and transport.

Capital expenditure remained stable in comparison with 2004, and was mainly directed at:

- the construction of the second glass-wool production line at the Yegorievsk plant (Russia);
- a major furnace reconstruction program;
- modifications to installations designed to enhance productivity;
- the improvement of environmental performance.

Outlook for 2006

The outlook for the European insulation market in 2006 remains promising, although growth in residential housing starts in the US 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.

The Insulation Division plans to continue its policy designed to offset the anticipated spike in energy and raw materials costs in 2006 through further improvements in industrial performance and by raising sales prices and volumes.

The year will also witness the link-up between the Gypsum and Insulation divisions, the generation of cost synergies between the two divisions and their joint development of interior building solutions.

* Source: Saint-Gobain.

Epoxy paint coating for wide-diameter pipe in ductile cast iron.

PIPE

The Pipe Division has operated in the water-supply industry for over 150 years, providing comprehensive expert solutions that meet the most demanding requirements.

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 utility and process circuits;
- pipe systems for fire prevention;
- full ranges of valves, sprinklers and connectors for water and purification systems, drainage, fire prevention and irrigation devices;
- complete cast-iron pipe systems for the building industry (wastewater and rainwater drainage); and
- 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.

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

* *Source: Saint-Gobain.*

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

Operations in 2005

Following the erosion in profit margins in 2004 under the impact of rising prices in metals and coke, the situation improved sharply in 2005 as the higher costs were passed on to sales prices. Sales prices implemented in Europe, Brazil and the Distant Export markets allowed the division to offset the impact of spiraling raw materials costs that it has suffered since end-2003. Along with the growth in volumes on the Distant Export markets, this fueled a 6.1% rise in net sales and a 29% surge in operating income in 2005, which came in at 7.3%.

Portugal and Belgium were the main drivers of the division's growth in Western Europe, while Germany, whose market remains mired in recession, suffered a further drop in sales. Both France and Spain succeeded in maintaining high performance levels, as they benefited from across-the-board efforts to expand the range with differentiated and better-tailored products. The Pipe Division also advanced rapidly in Eastern Europe, including Croatia, as well as in Poland and the Czech Republic where it has a strong local commercial profile. The division's European network was extended in mid-2005 to Romania, with the creation of a downstream business in Bucharest.

In Brazil, the upturn in sales volumes recorded in the second half remained modest, while volumes in China experienced yet another major rise when increases in sales prices during the fourth quarter helped put profitability back onto an upward trend.

The decision to close down the Italian centrifuge unit at Cogoleto taken towards the end of 2004, was carried through as anticipated and the division's commercial profile in Italy will now be reinforced by importing low-cost piping supplies.

Capital expenditure rose once again, notably with the development of sites in emerging countries (Brazil, China and the Czech Republic). In December 2005, the division acquired the entire capital of its Chinese partner in Xuzhou, adding an industrial coke and cast-iron production facility to its portfolio. This operation also involved buying back the minority interests in SG Pipelines (Xuzhou) and acquiring a majority stake in a centrifuge unit also based in Xuzhou. This acquisition firms up the Pipe Division's number-two position on the bullish

Chinese market. It will also pave the way for a major improvement in the competitiveness of its pipe production facilities in China.

Outlook for 2006

The volume of orders taken for the Distant Export markets in recent months has raised hopes of improving on the levels of profitability achieved in 2005. Sales prices will, however, need to be increased again on all of these markets in order to offset the higher costs of gas, electricity, and especially iron ore.

Innovation will once again be the key to capturing market share in Europe, and 2006 is set to see more launches of innovative products. In China, successfully controlling the supply of metal to Xuzhou and integrating the centrifuge unit acquired end-2005 into the division will improve the efficiency and profitability of the Chinese arm of the business.

Efforts to boost productivity will continue apace at all division plants, and the more recent industrial facilities will continue their ramp-up.

As capital expenditure requirements are set to remain high, the working capital requirements management program that began successfully in 2005 will be continued into 2006.

Panorama, CertainTeed's new range of PVC railings.

EXTERIOR PRODUCTS

Through CertainTeed, the Exterior Products Division enjoys a leading position on the US home construction market, with a wide range of products.

All across the US, CertainTeed offers top-of-the-line asphalt roofing shingles in a wide range of colors, along with PVC windows and cladding, and cement-fiber weatherboarding. These products are renowned for their easy maintenance, smart appearance and weather resistance. Another CertainTeed product line covers full outdoor-equipment solutions for individual homes, with fencing, deck fittings and balustrading.

CertainTeed also manufactures vinyl pipes and fittings for water supply and drainage, and pipe systems for industrial, mining, irrigation and pressurized drilling applications.

The global strategy adopted by the Exterior Products Division is rooted in:

- bolstering CertainTeed's leadership position on the US market;
- achieving preferred-supplier status among professionals;
- actively contributing to sustainable development by improving the environmental profile of its plants and products.

Operations in 2005

For CertainTeed, 2005 was an exceptional year, largely owing to sustained record-level business on the US construction market. Throughout the year, CertainTeed managed to pass on steep rises in raw materials and energy costs in higher sales prices. Improvements in the product and customer mix also had a positive impact on margins.

On the production side, 2005 was notable for the continued improvement in the industrial performance of its plants. Capital expenditure remained steady, and was mainly directed at ongoing efforts to improve environmental performance and productivity, as well as to develop new products.

Outlook for 2006

2006 should see a slight fallback in construction in the US and strong inflationary pressures on the cost of raw materials and energy. CertainTeed will therefore pursue its determined efforts to raise sales prices and improve industrial and logistic performance.

For the production side of the business, the end of 2006 will see the startup of the new asphalt shingle line at Oxford and the construction of a third cement-fiber plant in the Midwest.

INDUSTRIAL MORTARS

The Industrial Mortars Division, operating under the Saint-Gobain Weber banner, is a multi-regional business. Saint-Gobain Weber boasts a leading position in tiling adhesives* and grouting, is Europe's number-one wall facings business*, and holds the top spot in Europe and Brazil for mortars.

Mortars for decorative tile grouting.

The Industrial Mortars Division offers a comprehensive range of solutions for:

- cladding facades consistent with the surrounding environment and architectural styles;
- decorating both new and old facades, for individual houses and housing units as well as industrial and office buildings, with the right combination of style, color and surfacing;
- protecting facades with technical applications such as wastewater systems, thermal insulation and waterproofing;
- developing technical applications adapted to the skills and know-how of users, and that offer comfort, safety and resistance.

For all of the challenges of tiling, both in the new construction and renovation markets, Saint-Gobain Weber offers specific solutions that guarantee secure and simple application while respecting local customs and practice.

Saint-Gobain Weber also offers a comprehensive range of ready-to-use or ready-mix cement, polymer and resin-based mortars designed for:

- sticking all tiles onto any surface;
- decorative and technical tile grouting;
- cleaning and protecting tiles.

** Source: Saint-Gobain.*

With operations in 22 countries and a network of dealer-partners, the Industrial Mortars Division is able to provide much-appreciated support on project requirements and product use to clients, contractors, tradespeople, architects and homeowners.

Operations in 2005

Net sales recorded by the division rose sharply in 2005, in line with the increases posted in recent years. On all of its markets barring Germany and Austria, 2005 was a successful year for Saint-Gobain Weber. It made a number of major capacity investments in the year, most notably in Spain and Brazil, and also started operations in China, India and Bulgaria. In addition, various minor acquisitions were carried out to strengthen positions on regional markets.

Outlook for 2006

The outlook for 2006 is bright, in terms of growth in both net sales and profitability. An investment program directed mainly at emerging countries and aimed at increasing capacity is set to be rolled out, in order to meet the rising demand in the market.

GYPSUM

Gypsum is the fifth division of the Construction Products Sector, and was created following the acquisition of BPB by Saint-Gobain in December 2005. BPB is the world's leading

Weber & Broutin France's one-layer facade coating.

BPB plasters used on interior walls at an auditorium in Santa Cruz Tenerife (Spain).

supplier of plasterboards* and plaster* as well as one of the front-ranking suppliers of expanded polystyrene, ceiling tiles, insulation products and other interior building solutions.

The Gypsum Division is seeking to become the preferred supplier for innovative and high-performance interior building solutions.

Extensive international coverage, with a workforce of 12,500 across 130 production sites, ensures close adaptation to local customer expectations.

The division's quality control processes ensure a top-range service and serve to bolster its position as world leader in plasterboard and plaster-based applications.

BPB's plasterboard systems continue to record one of the leading rates of market penetration and growth within the interior building solutions market.

The Gypsum Division offers clients and contractors worldwide a comprehensive range of solutions designed to satisfy their needs in terms of fire and damp resistance, thermal and acoustic insulation, and comfort and interior aesthetics. It is committed to meeting ever-stricter technological standards on energy efficiency and safety in world construction markets.

The division currently supplies approximately one-fifth of all worldwide plasterboards sales. However, demand looks set to grow at an even sharper pace due to a fast market penetration rate in emerging countries and the wide-ranging application of easy-installation systems in developing and industrial markets.

BPB's traditional-style and lightweight plaster products account for a large portion of its local sales on the highly industrialized markets as well as on developing and emerging markets.

** Source: Saint-Gobain.*

With total annual sales in the region of 5.8 million tons, Saint-Gobain Gypsum is the world's leading supplier of superior-quality plaster products.

The division's straightforward growth strategy aims to expand the worldwide potential for gypsum-based products, and targets:

- profitable sales growth through investment in both equipment and resources to bolster its worldwide leadership position;
- absorption into the Construction Products Sector and the generation of synergies with the Insulation and Industrial Mortars divisions;
- continued cost reductions;
- exploiting employee know-how by providing sales teams with greater autonomy to manage local activities.

Operations in 2005

The Gypsum Division's results for 2005 advanced significantly, despite plasterboard sales volumes being undermined by capacity shortfalls on certain key markets, especially the US. Nevertheless, overall plasterboard and building plaster volumes increased by more than 6% on 2004.

The increased sales prices of its best-selling products easily offset the impact of the sharp increase in energy costs. In its three main regions, Europe, North America and emerging markets (essentially South Africa, Asia and South America), the division posted record results.

As part of an output capacity increase program targeting medium-term sales growth, new plasterboard plants came on stream in Romania and Thailand during fourth-quarter 2005. These will be followed by more new plants in early 2006 to address high-growth markets in Malaysia and India.

Outlook for 2006

The outlook for the Gypsum Division in 2006 remains encouraging, despite rising energy prices. The division should see sales volumes advance in 2006 on the back of sustained demand across all of its markets. It will also endeavor to pass on the sharp rise in the cost of energy and raw materials to sales prices.

In order to satisfy demand in Eastern Europe and Asia, four new production sites are set to come on stream in 2006. The Gypsum Division will also increase its production capacities and exploit synergies with the Insulation and Industrial Mortars divisions.

Building Distribution

Contribution to the Group

(In %)	2005	2004 (IFRS)	2004	2003
% of net sales	**43%**	42%	42%	38%
% of operating income	**31%**	28%	28%	23%
% of cash flow from operations	**24%**	20%	20%	16%

Key consolidated data

(In € millions)	2005	2004 (IFRS)	2004	2003
Net sales	**15,451**	13,653	13,679	11,305
Operating income	**888**	762	737	560
Cash flow from operations	**667**	524	515	398
Capital expenditure	**344***	249	249	213

** Including capital leases.*

Internal sales are deducted from sales data by sector and by division.

The Building Distribution Sector is currently Europe's leading distributor of building materials* and the top-ranking distributor of ceramic tiles worldwide*. It serves the home building, renovation and interior decoration markets. Its target customers include building contractors, tradespeople, architects and contractors, as well as homeowners.

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 UK through Jewson and Graham, subsequently in Germany, the Netherlands and Eastern Europe, through Raab Karcher, and most recently in the Nordic countries through Dahl, Scandinavia's number one distributor of heating and plumbing products. In 2005, it continued to expand its specialist European subsidiaries, notably its heating and plumbing business line, with the acquisition of Sanitas Troësch, Switzerland's number one distributor of plumbing products, and its generalist business, Optimera, in Norway and Sweden.

An unrivalled network in Europe

With over 3,600 outlets in 20 countries, the Building Distribution Sector now boasts a unique 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 proactive organization means that customers are offered a full array of tailored solutions for their diverse needs, and reflects the diversity of customer expectations in terms of the different businesses catered for, and the range of products, services, styles and trends.

** Source: Saint-Gobain.*

La Plataforma de la Construcción (Spanish adaptation of the Point.P group's La Plateforme du Bâtiment concept in France) experienced vigorous growth in 2005, with six new stores opening, making a total of 13 exclusive trade outlets across Madrid, Barcelona and Valencia.

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 1,600 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 and interior fittings professionals, Asturienne is intended for roofing specialists, and Point.P Travaux Publics is channeled to the public works market. Dubois Matériaux is targeted at the distribution of timber, panels and insulation materials, while Pum Plastiques covers plastic products designed for water supply and wastewater networks. Point.P and its various brands cover the whole of France, meeting the full spectrum of customer needs in the construction and renovation markets. The banner has now been rolled out to Spain.

Lapeyre specializes in home decoration, covering four main product themes: fitted kitchens, fitted bathrooms, interior building solutions, 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 presence under the Telhanorte banner in Sao Paulo, Brazil, has given further impetus to its international development. Lapeyre and its associated brands comprise a network of 330 stores, with showroom areas ranging up to 4,000 sq.m.

In the UK, Building Distribution operates through a network of over 850 outlets, split between general and specialized retailers. Its two main banners are Jewson, Britain's second largest 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 positions through bolt-on acquisitions and by expanding their networks of sales outlets.

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 450 sales outlets, and is Germany's biggest distributor of ceramic tiles.

Dahl is Scandinavia's foremost distributor of plumbing and heating products*. It has operations in Sweden, Denmark, Norway, Finland, Estonia and Poland, supported by a network of over 330 sales outlets primarily targeting trade customers. Optimera is Norway's number three general retailer of building materials and the country's largest non-franchised building materials distributor.

In Switzerland, Sanitas Troësch is the leading distributor of plumbing products* and ranks second for fitted kitchens*.

In 2005, Saint-Gobain Building Distribution opened a new-concept interior building solutions outlet in Shanghai: "La Maîson", a two-floor store measuring 6,000 square meters, open seven days a week, complete with showroom and self-service section. A first-floor exhibition area displays 50 comprehensive interior layout ideas, from floor to ceiling.

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 over 60 sales outlets, and its 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, generated synergies in logistics, forged partnerships with the best suppliers, set up a common IT platform and encouraged staff mobility. Leveraging the power of its network and the responsiveness of its teams within each banner, the Building Distribution Sector intends to push ahead with expansion in Europe and beyond.

Operations in 2005

The Building Distribution Sector continued to progress in 2005, largely as a result of buoyant markets in France and

* *Source: Saint-Gobain.*

Raab Karcher opens a new 650 sq.m concept showroom called "Home Couture" on Berlin's bustling Kurfürstendamm, selling top-range tiling, floor surfaces and bathroom fittings to tradespeople, architects and the public.

Scandinavia. The situation in Germany and Eastern Europe, however, remained challenging – and at times plain tough – while the UK market began to run out of steam after several years of stellar growth. Underlying net sales increased by 13.2% year-on-year, and by 2.7% based on a comparable structure and constant exchange rates. In 2005, the sector benefited from globally positive exchange rate trends (a positive impact of 0.3%) for all countries excluding the eurozone and the UK.

The sector continued to pursue vigorous external growth, with 37 acquisitions, including two major banners: Optimera (consolidated from August 1), Norway's leading distributor of building materials*, with 83 outlets; and Sanitas Troësch (consolidated from March 1), Switzerland's number one distributor of plumbing products*, with 27 outlets. Over the full year, Optimera and Sanitas Troësch generated net sales of €575 million and €306 million, respectively.

Full-year net sales from other acquisitions in 2005 totaled €364 million.

In France, which accounts for close to half of its sales, the home improvement, renovation and new construction markets continued to grow. 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 housing units being built also rose by 19.3% during the last 12 months.

On a buoyant market, sales reported by the sector's French-based businesses again rose significantly based on a comparable structure. In addition to the favorable economic climate, growth was driven by an enhanced product and service offering for all customer categories, as well as the opening of new outlets: six for Plateforme, seven for Point.P, four for Cedeo, twelve for Pum Plastiques, and five for Lapeyre La Maison. External expansion continued with the acquisition of 48 outlets, representing €131 million in full-year sales.

On the UK market, which appeared to run out of steam in 2005 (down 2%), Saint-Gobain Building Distribution experienced moderate growth. The network expansion policy continued with the opening of 23 Graham stores for plumbing and heating products, 22 Jewson outlets, 13 Tiles stores and 3 new outlets for the Minster interior fittings chain. External expansion proceeded with the acquisition of two new specialist plumbing and heating banners: Curzon and Ideal Bathroom. These acquisitions concerned a total of 30 sales outlets, representing full-year net sales of €136 million.

On the German construction market, still heavily depressed and in steep decline during the first quarter, the Building Distribution Sector pushed ahead with the streamlining of its distribution networks. In the Netherlands, the construction market posted 3% growth, showing signs of recovery after the sharp downswing in 2003.

In Eastern Europe, the Building Distribution Sector acquired the ceramic tiles company WAW Keramika, with 26 outlets in the Czech Republic and Slovakia.

Finally, in Spain, Point.P extended the coverage of its trade sales clientele in Catalonia by opening six new Plateforme outlets, on top of the seven existing ones.

Outside Europe, Lapeyre boosted the development of Telhanorte (up 21% based on constant exchange rates) in Brazil by opening two new stores. A foothold was also gained in the state of Sao Paulo with the acquisition of Bordignon, specialists in building materials and bathroom fittings.

Amid an economically favorable climate in France and the Nordic countries, and despite the downturn in the UK market, the sector's operating income climbed from €762 million to €888 million, representing 5.7% of net sales versus 5.6% one year earlier.

Outlook for 2006

Assuming the continued buoyancy of the European construction industry (barring Germany and the Netherlands), Saint-Gobain Building Distribution is aiming for further like-for-like sales growth in 2006. Growth will be driven by the momentum generated within the banner networks, the implementation of best practices across the sector, and the fast-paced opening of new outlets. It will also be boosted by the full impact of the acquisitions carried out in 2005.

* *Source Saint-Gobain.*

High-Performance Materials

Contribution to the Group

(In %)	2005	2004 (IFRS)	2004	2003
% of net sales	**14%**	14%	14%	15%
% of operating income	**18%**	18%	18%	15%
% of cash flow from operations	**16%**	18%	19%	18%

Key consolidated data

(In € millions)	2005	2004 (IFRS)	2004	2003
Net sales	**4,880**	4,732	4,717	4,452
Operating income	**511**	503	466	370
Cash flow from operations	**446**	488	490	435
Capital expenditure	**271***	240	239	251

** Including capital leases.*

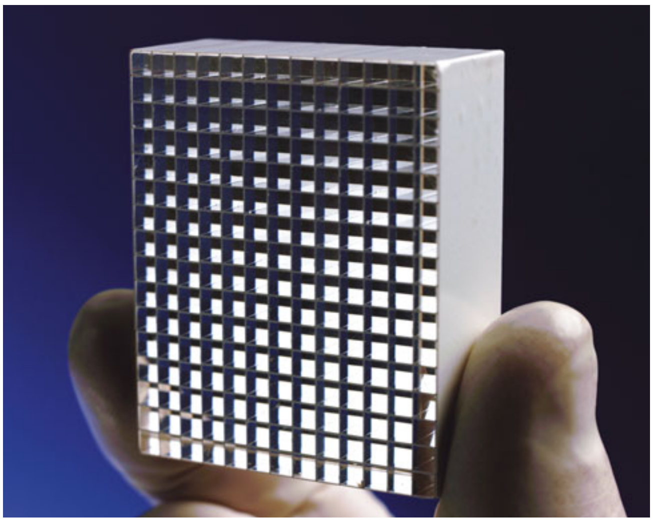
Internal sales are deducted from sales data by sector and by division.

The High-Performance Materials Sector harnesses advanced technology and materials platforms to provide high-added-value solutions for demanding industrial applications. Its main clients are industrial companies eager to enhance their own competitive performance through heightened process productivity, longer plant service life, and higher product performance. Solutions often involve the joint development of technology with major clients.

High-Performance Materials has a worldwide production system comprising over 250 plants in 35 countries. Industrialized European countries account for 34% of net sales, North America for 41%, and Asia and emerging countries for 25%. The sector employs a workforce of around 37,000, just 31% of which is based in Western Europe. Its customer base breaks down (by net sales) as 56% for industry (mechanical engineering, iron & steel, energy, chemicals, bio-medical, semiconductors and opto-electronics), 18% for transport (including automotive and aerospace), 17% for construction, and 9% for home appliances (9%). Two-thirds of the sector's products are used for manufacturing industrial equipment and one-third for making consumables.

As a result of the ambitious organic growth and external expansion policy led over the last twenty years, the businesses within the High-Performance Materials Sector today have experienced an eight-fold increase in net sales since 1986. Building on its historical core businesses of glass refractories, glass filaments and quartz, Saint Gobain has extended the sector to include a number of new businesses specializing in high-technology materials, through some twenty structural acquisitions, the most significant being Bay Mills (glass-strand textiles) in 1986, Norton (abrasives, plastics, ceramics) in 1990, Bicron (crystals) in 1990, Carborundum (ceramics & abrasives) in 1996, and Furon (plastics) in 1999. These acquisitions have been translated into worldwide leadership status, with a competitive lead accruing from diversity, internal synergies,

Scintillators (which emit light under exposure to photons, neutrons or X-rays) are used in applications such as radiation detectors. Saint-Gobain handles all scintillator finishing operations (trimming, shaping, polishing and packaging) to custom specifications.



innovative capacity and high-profile coverage of the world's main industrial regions.

For the High-Performance Materials Sector, 2005 was the first full year in its current configuration, i.e. including the Reinforcements Division. The sector today holds considerable potential for technological synergies, across a complementary spectrum of businesses sharing common industrial logic and market dynamics:
- worldwide leadership* on diversified industrial markets;
- advanced technological content of high-performance products, often jointly developed with major clients;
- growth potential through new applications, operations in emerging countries, and acquisition opportunities in fragmented industries;
- higher capital rotation than in other Saint-Gobain industrial operations.

The operational and functional structure of the sector changed in 2005 to stimulate effective synergies and improve response to major markets. Specifically, the sector was broken down into five distinct divisions: Ceramics (including pellets and powders, crystals and pure ceramics), Performance Plastics, Abrasives, Reinforcements & Composites, and Textile Solutions. The latter two divisions were formed by splitting the previous Reinforcements Division, a move designed to provide a better response to market needs.

Operations in 2005

On a general note, organic growth in 2005 varied considerably from division to division, though the sector as a whole held its ground despite rises in raw materials and energy costs. While most divisions managed to follow through on the excellent performance in 2004 with further increases in net sales and profit margins, the Reinforcements & Composites and Textile Solutions divisions (derived from the original Reinforcements Division) suffered from increased energy costs, a weak dollar, and stiff competition from emerging countries (China, primarily).

High-Performance Materials Sector priorities in 2005 were:
- to push ahead with development in Asia and emerging countries, opening or consolidating more than five major sites (including an R&D center in Shanghai), and increasing net sales in these regions by more than €165 million;
- to step up R&D efforts, developing synergies across divisions and concentrating resources onto a sharply focused range of high-growth opportunities;
- to continue optimizing the business portfolio.

Adjustments to the business portfolio produced a minor adjustment in consolidation scope and an overall negative impact of around 1.4% on sector-wide net sales in 2005.

Businesses sold or discontinued as non-strategic or insufficiently profitable included:
- the semiconductor industry processing businesses in the US (annual net sales around €90 million);
- the stake in a joint venture with Ibiden, making diesel engine particulate filters, following the decision to develop a Saint-Gobain proprietary solution;
- the ceramic fiber production business in Japan (TM KK);
- industrial streamlining operations, including the closure of SGCA Desmarquest sites at Montreuil and Courtenay in France, and the closure of glass strand processing sites and an abrasives production site in Italy.

Acquisitions of companies to strengthen core business coverage and step up growth included:
- Mountain Abrasives (China), making silicon carbide;
- Lin Yi-based (China) joint venture, making sintered refractories for glass furnaces;
- Handan Yonlong (China), making sintered ceramic balls for micro-grinding applications;
- Hornstein/Euromur (Europe), making reinforcement textiles for the European construction market;
- TC Abrasives (Thailand), making thin grinding wheels.

Ceramics Division

The Ceramics Division covers all the businesses making ceramic-based materials or components (basically, anything that is not metallic or organic, excluding glass). Ceramic substances have a number of special properties such as hardness, abrasion resistance, heat resistance, refractory qualities, elec-

** Source Saint-Gobain.*

CarboThermTM boron nitride products combine high thermal conductivity with high dielectric strength, for applications such as electronic printed circuits.

tro-magnetic adaptability, chemical stability, crystallinity and porosity. These properties make ceramics a key element in a wide range of demanding industrial applications.

The Ceramics Division's main product lines are:

• **Pellets & powders.** Ceramic materials in ball, pellet or powder form (with particle size and shape matched to client requirements) are used in three main types of application: raw materials for making refractory, ceramic and abrasive products; proppants and petrochemical catalysis substrates in hydrocarbon production and processing industries; and abrasives (zirconium balls) in micro-grinding applications. Saint-Gobain High-Performance Materials holds leading positions on these worldwide markets, most notably for silicon carbide* and zirconium products*.

• **Refractories.** With their properties of high thermo-mechanical strength and chemical stability under extreme conditions (specified by client applications), refractory ceramics find applications in the manufacture of industrial furnaces. This product line also includes armor plating for bulletproof vests and combat equipment, and inner plating for gas turbines. Saint-Gobain High-Performance Materials is world number-one in refractories for the glass industry* (notably in the manufacture of LCD and plasma flat screens) and for non-ferrous metallurgical industries.

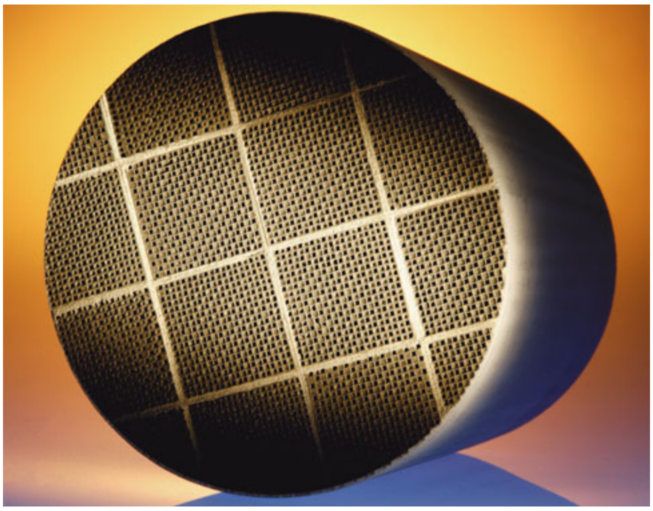
• **Advanced ceramics.** This product line covers a number of volume-production items using the intrinsic properties of fine ceramic materials to cater for niche applications such as bearings, ignition systems, anti-electrostatic-discharge devices, foundry filters and electrical insulators.

• **Diesel particulate filters (DPF)**. New pollution-control regulations in Europe and the rest of the world call for the phasing in of self-regenerating particulate filters on diesel vehicles. The High-Performance Materials Sector recently began to address this market, previously occupied by Japanese rivals. The Saint-Gobain filter has been taken up by several automakers on the European car market. Output from this new product line is scheduled to start up in 2006.

• **Crystals.** Many high-technology industries require the special properties afforded by crystal-based products, in several forms: sensors (scintillating glass made from halogenides and oxides for medical imaging, oil prospecting and security applications); optical devices (sapphire plates for aerospace applications, lenses for semiconductor etching, quartz strands and crystals for industrial lasers); and process components (LED substrates, quartz crucibles for solar silicon growth). Because surface finishing precision can be as important as actual crystal quality in the manufacture of these products, opportunities are emerging for development partnerships with abrasives businesses. In its crystals businesses, the High-Performance Materials Sector is streamlining product lines, a process that should result in redeployment away from the semiconductor industry, on which exposure through to 2005 proved too high. The High-Performance Materials Sector leads the world the scintillating crystals market*.

In 2005, the Ceramics Division achieved a 4.8% increase in net sales (based on a comparable Group structure and constant exchange rates). The division increased profitability thanks to its worldwide leadership, amid macro-economic conditions that proved favorable to industrial capital expenditure. Strong contributions came from high-growth markets such as hydrocarbon prospecting and processing (proppants, catalyst substrates, and detectors); flat LCD and plasma display panels (high-zirconium glass refractories); renewable energy and environmental technologies (silicon carbide powders for particulate filters, superabrasives for solar silicon cutting); and defense and security (armor plating and sensors).
Key industrial achievements of the year were:

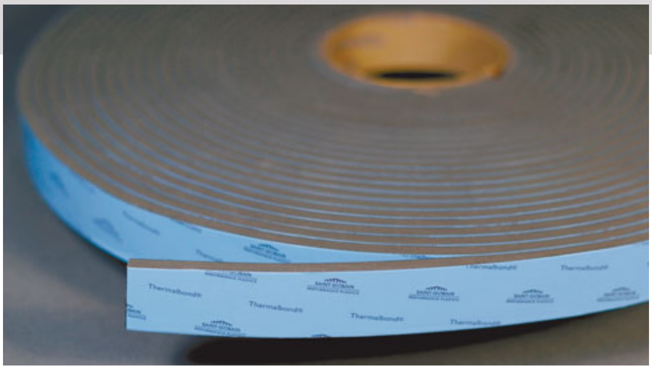
• increasing production capacity at the Buckhannon plant (USA), making refractories for the flat screen industry, with the upgrade including the installation of the largest isostatic press in the world;
• constructing two diesel particulate filter production lines at the Rödental plant (Germany);
• acquiring Mountain Abrasives (China), making silicon carbide pellets;



Production recently started up at Rödental (Germany) making silicon carbide particulate filters, used for pollution control on diesel engines.

• constructing a proppants production unit at GuangHan (China);
• constructing a new zirconium furnace at DengFeng (China);
• acquiring Handan Yonglong, making sintered balls for micro-grinding applications (China).

** Source Saint-Gobain.*



Saint-Gobain Performance Plastics makes adhesive tapes for windbreaks on ship upper decks. The Thermalbond® polyurethane spacer withstands salt spray, vibration, strong winds and ultraviolet radiation.

Performance Plastics Division

The Performance Plastics Division, which comprises the plastic materials processing businesses, was created following the acquisition of Norton (1990), Furon (1999) and ChemFab (2001). Its activities are centered on processing high-tech engineered plastics such as fluoropolymers, polyimides and silicones.

The Performance Plastics Division's main product lines are:

• **Bearings & gaskets.** This line covers volume-production mechanical products in fluoropolymer material (often combined with metal), chiefly addressing the automotive and aerospace industries. Bearings and gaskets in plastic-metal composite materials are replacing classic gaskets and ball bearings.

• **Fluid systems.** Main items here are pipes, fittings and valves in PVC, fluoropolymer or silicone, for fluids in the agro-food, electronics and bio-medical industries, wherever high purity and chemical inertness are crucial factors. Because reliability is critical in these applications, High-Performance Materials places a strong emphasis on recognized competences and strong brands.

• **Films, foams and coated textiles.** These composite-material products cater to niche applications. They are usually flat, and combine one or more plastic materials, possibly with glass-strand textiles and adhesives. Main product functions include protection (for radomes, architectural units, individual clothing, encapsulation for photovoltaic cells, composite material molds) and sealing (automobile and building windows). Some products may also have an adhesive coating (cooking surfaces, adhesive rolls, aircraft interior finishings).

In 2005, net sales by the Performance Plastics Division grew by 4% (based on a comparable Group structure and constant exchange rates). Largely thanks to a buoyant US economy and burgeoning industrial output in China, the division was able to maintain profit margins despite the rising cost of the plastic resins it uses as raw materials. The division sought to boost organic growth and enhance profitability through innovation, industrial excellence and geographical expansion. Industrial developments in 2005 included the startup of a multi-functional plant at Shanghai (China) to act as a low-cost production platform for most of the division's product lines, catering mainly to local markets, but also with some export business.

Reinforcements & Composites Division and Textile Solutions Division

These two divisions were formed from Saint-Gobain's previous Reinforcements Division, which was split into two separate units in 2005 consistent with the specific industrial and commercial characteristics of their respective markets. Together, they cover the upstream glass strand production business under the Saint-Gobain Vetrotex banner, and the downstream business of textile processing under the Saint-Gobain Technical Fabrics banner. The Reinforcements & Composites Division addresses markets for composite materials used in automotive, aerospace, marine and sports equipment applications. The Textile Solutions Division primarily covers construction and industrial applications not involving composite materials.

The Reinforcements and Composites Division's main product lines are:

• **Glass strands.** Glass textile (known as "E-glass") products, in the form of cut strands, rovings and continuous-strand matting, are used as reinforcement for thermoplastic and thermosetting composite materials such as car body parts, tanks, boat shells and sports equipment. Some special-purpose products use special types of glass, such as high-modulus glass for reinforcing wind generator blades, and alkali-resistant glass for cement reinforcement. Through its Vetrotex brand, Saint-Gobain High-Performance Materials is the joint worldwide leader* in this segment.

• **Reinforcement textiles.** This product line has been developed over the last ten years in line with the Reinforcement Division's strategic decision to cover downstream processes and thereby enhance added value, create closer ties with end-use markets, and develop integrated solutions for the composites market. Reinforcement strands (in other materials such as carbon, as well as glass) are woven using technologies specific to client applications, which include wind generator blades, boat shells and car body parts. The High-Performance Materials Sector is the world number-one* in glass-based reinforcing materials for wind generator blades.

The Textile Solutions Division's main product lines are:

• **Glass thread.** This division's glass textile (or "E-glass") products take the form of twisted glass thread on reels. The main historical application is the reinforcement for electronic printed circuit boards, although the Reinforcements Division has diversified outside the electronics industry over the last ten years in order to reduce its exposure to cyclical market effects. Most clients today (including the internal client Saint-Gobain Technical Fabrics) are in construction-related and other non-electronics industries.

• **Reinforcement textiles.** Glass-strand textiles, sometimes with special coatings, are used to reinforce construction materials (netting for asphalt shingles, paintable textiles, wall facing reinforcements, mosquito shields, geotextiles) and industrial products (reinforcing mesh for grinding wheels, turbined mesh, coated textile reinforcements). Through a range of local brands, the High-Performance Materials Sector is the world number-one* on these markets.

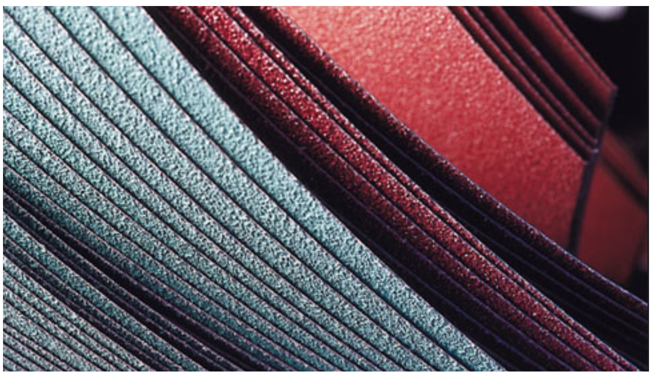
In 2005, these two divisions together achieved net sales of €1,306 million, despite difficult market conditions. Faced with stiff competition from emerging countries (China in particular) in 2005, both divisions pursued a three-pronged strategy of upstream-downstream integration, specialty development, and capacity filling for production platforms in low-cost countries (China, India, Russia, Mexico and Brazil). A highly selective investment policy was adopted, favoring upgrades for existing plant over capacity extensions. Industrial achievements in 2005 included the startup of the joint production venture between Vetrotex and Owens-Corning at the Xicoh site in Mexico.

Abrasives Division

Saint-Gobain's policy of acquisitions in the abrasives segment has brought it world leadership in this specialty*, with worldwide coverage for many product lines. The Abrasives Division was built from Norton in the US (bonded and coated abrasives, acquired in 1990) and Europe-based companies Winter (superabrasives, 1996), Unicorn (superabrasives, 1997) and Flexovit (thin grinding wheels, Europe, 1998). 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. To stand firm against competitive pressure, the division emphasizes service, local joint development initiatives, new product releases, and industrial streamlining.

The Abrasives Division's main product lines are:

- **Grinding wheels,** incorporating 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.
- **Thin grinding wheels,** in the form of disc-shaped 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,** made of abrasive granules bonded onto a paper, cloth or synthetic backing. This material, on reels, is then cut into strips, discs, rolls or sheets for use in 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, combining 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 electronics applications, they can approach nanometer-level precision. Superabrasives are used in most industries (automotive, aerospace, etc.), and in the construction sector.



Coated abrasives are made by bonding natural or synthetic abrasive particles onto a flexible backing, which can be cut into different shapes (belts, discs, sheets) for use in a wide range of surface treatment and polishing applications, on markets ranging from home renovation to the metal working industry.

The division's net sales in 2005 were up by 1.9% on 2004, based on a comparable Group structure and constant exchange rates. The Abrasives Division pushed ahead with its strategy of differentiation through service, innovation, and development in emerging countries. Sales of abrasive products, highly dependent on industrial production levels in different geographical regions, rose sharply in emerging countries, steadied off in Western Europe, and edged up in North America, with new product releases and industrial streamlining compensating for difficulties in the local automotive industry. Plant investments were balanced between emerging countries (with capacity increases and local product range extensions) and industrialized regions (with the streamlining of production systems, in addition to automation and quality enhancements).

Outlook for 2006

The High-Performance Materials Sector will be carrying through its 2005 priorities into 2006: increased R&D effort, development in emerging countries, and portfolio optimization. Specifically, it plans to increase R&D expenditure by 10%, expand its production system to include six new plants in emerging countries, and selectively seize acquisition and disposal opportunities.

For 2006, the High-Performance Materials Sector will be seeking to balance out volume- and price-driven growth. In addition, higher energy and raw materials costs should be offset by higher product prices, technical enhancements and productivity gains.

** Source: Saint-Gobain.*

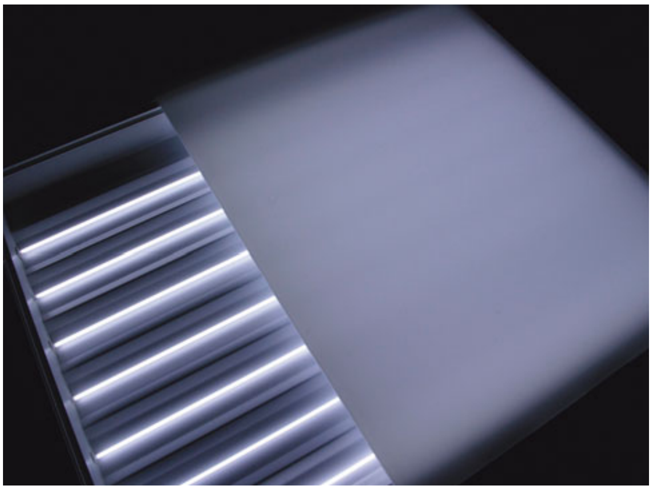
Research

Innovation lies at the heart of Saint-Gobain's competitive advantage, and the Group's structure is currently geared towards embedding R&D even more deeply within its businesses. This model actively promotes development partnerships with customers, giving the Group the very best strategic exposure for product launches. In 2005, efforts focused on generating synergies between the technological specialties, increasing the Group's presence in Asia and providing a general push to speed up time-to-market for development projects. While maintaining its level of performance on innovative local products, Saint-Gobain is developing breakthrough projects based on its own technology, but catering to brand new markets.

The year was marked by the appointment of a new President of Group Research & Development, and a significant increase in the overall research budget, which now stands at €330 million. This corresponds to an increase in the number of researchers at our R&D centers of around 10%. Over 260 patents were registered in the year, compared to 233 in 2004. The new Shanghai Research Center team was assembled, and construction work began on the site building. Its inauguration is slated for end-2006.

The table below summarizes Saint-Gobain's R&D centers and their capabilities:

Saint-Gobain Recherche (SGR)	All Flat Glass and Building Distribution divisions	Aubervilliers (France)
European Research and Engineering Center (CREE)	Ceramics	Cavaillon (France)
Centre de Développement Industriel	Flat Glass	Thourotte (France)
Centre Recherche/Développement (CRIR)	Insulation	Rantigny (France)
Vetrotex R&D Center	Reinforcements	Chambéry (France)
Process & Product Development	Pipe	Pont-à-Mousson (France)
Chalon Technical Center	Packaging	Chalon-sur-Saône (France)
Sekurit Saint-Gobain (ZAF)	Flat Glass	Herzogenrath (Germany)
Centro de Investigacion y Desarrollo	Flat Glass	Avilés (Spain)
Northboro R&D Center	Ceramics, Plastics and Abrasives	Northboro (US)
R&D Center	Abrasives	Worcester (US)
Solon Development Center	Crystals and Detectors	Solon (US)
Technology Center	Insulation/Building Distribution	Blue Bell (US)
Wichita Falls Development Center	Reinforcements	Wichita Falls (US)
SGR Shanghai	All divisions	Shanghai (China)



Smoothlite, light-diffusing glass for LCD backlighting.

The year also saw the rollout of the new innovation portfolio management application. This will provide project management tools covering a large portion of the Group's R&D activities, enabling projects to be assessed based on both risk/opportunity criteria and the anticipated return on investment. This analysis will give the R&D teams a clearer view of how to ensure a continual supply of projects to the portfolio, and help define the priority projects that should be backed.

Since a certain number of technology breakthrough projects designed for new markets have come to fruition, brand new products have entered the market, notably:

- The "particulate filters for diesel engines" project, which saw the first filters leave the production line in January 2006. The core R&D project will nonetheless continue, as it can be used to improve the products and meet new customer targets.
- The light-diffusing glass for flat screen LCD displays has also entered the production phase, and the product is now available in the market under the Smoothlite banner.
- The TOP project for ultra-light cast-iron pipes is set to bolster the Group's positioning on the drinking water supply market, by offering a range of narrow gauge pipes and accessories suited to this market. They will compete on the plastic pipes market, since they are very light and easy to handle but retain all the durability and resistance qualities associated with cast iron.
- The Ultimate project is also coming to maturity, offering a range of especially temperature-resistant insulating products. They will compete on the market with rock-wool based products, but are also light enough for high-specification niche markets such as marine applications.

The targets for 2006 bear testimony to the growing ambition of our technology breakthrough projects. Together with increased investment spend, they are a potent symbol of the Group's determination to penetrate new markets. A concerted effort will be made to ensure a constant supply of innovative ideas for the project portfolio. In addition, by focusing more on the academic world and the brightest young researchers, the Group hopes to bring fresh thinking to the upstream process and enhance its support from outside sources. The Group's research partnership model will also be boosted by targeting other major industrial companies with a view to pursuing jointly-led projects. Finally, the completion of the Research and Development Centre project in Shanghai will prove to be a key first stage in expanding operations in emerging markets.

New procedures that have been implemented to identify and recruit top-level researchers from across the globe will also receive particular attention, taking into account the growing needs in terms of personnel in Saint-Gobain's various R&D centers. Finally, the Group is aiming to exploit R&D synergies with the recently-acquired Gypsum Division, ensuring that efforts in the field of innovation serve its organic development strategy to best effect.

Sustainable Development

Saint-Gobain has taken the position that control of sustainable development issues is both an integral part of its corporate mission and a lever for the enhancement of its operating performance. The Group's strategy therefore includes action plans aimed at the labor, social and environmental challenges involved in its business processes.

It pursues a ***policy of responsible development*** that applies equally to human resources management, business transactions or relations with outside partners such as customers, suppliers or local authorities. This policy centers on compliance with the Principles of Conduct and Action, a reference shared by all employees worldwide. It also manifests in Group companies' contributions to local economic and social development, through active support for communities and organizations in the countries that host their operations.

The second part of this sustainable development policy aims to ***build a community in motion***, in which each person can find the conditions for personal fulfillment. Human resources policies endeavor to bring this about, while providing essential support to Group strategy. This means ensuring that, at any time, each Group entity has access to the leading-edge skills it needs and seeing to it that employees perform motivating work that matches their aspirations, in an environment where their voice is heard, as part of an open dialogue.

The Group is also strongly committed to ***caring for the environment and for the health and safety of employees***. Every year, increasingly stringent procedures are put in place to provide a safe and healthy work environment for all employees, contractors and customers. Many steps are also taken to guard against industrial risks and to control and reduce the negative environmental impacts of Group manufacturing operations.

Finally, the Group develops for its clients an ever-growing number of ***answers to sustainable development challenges.*** A large part of its products and services offer the most effective solutions to issues related to insulation of buildings, production of non-polluting energy, drinking water and wastewater management, air quality, recycling and final disposal of products, 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. It continually reaffirms its adhesion to the values that have guided its choices throughout its long history.

These values are expressed in the Principles of Conduct and Action which Saint-Gobain adopted in 2003. They set out a clear framework for each employee's decision-making on behalf of the Group.

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

a) The Principles in brief

The Board of Directors of Compagnie de Saint-Gobain adopted the Principles of Conduct and Action in January 2003.

They include 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.

The Principles of Conduct and Action, as the reference framework for all Group employees, are explicitly based on several international agreements:

- OECD Guidelines for Multinational Enterprises, adopted in 1976 and revised in 2000. These recommendations are addressed to companies by the governments that have subscribed to them. They concern several areas, such as human rights, the environment and disclosure of information.
- The OECD Convention of December 17, 1997, on Combating Bribery of Foreign Public Officials in International Business Transactions.
- The Conventions of the International Labor Organization on fundamental principles of labor rights, which seek to promote active contributions by multinational companies to economic and social progress.

Aware of its role as a player within a global economy, Saint-Gobain joined the United Nations Global Compact in 2003. Launched in July 2000 on the initiative of Kofi Annan, the United Nations Secretary-General, the Global Compact brings together more than 2,000 companies, non-governmental organizations and civil society associations in working to advance ten universal principles in the areas of human rights, labor, the environment and anti-corruption. The aim is to leverage this international network to contribute to creating an inclusive and sustainable global economy.

By joining the Global Compact, the Group committed to integrating the Ten Principles into its business processes and strategy, and to regularly report on its progress in these areas(1).

This commitment was a logical extension of the Principles of Conduct and Action.

b) Local translation and implementation

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

(1) The content of this Sustainable Development chapter is part of this disclosure process.

The Responsible Development Department, set up at the beginning of 2005, is in charge of facilitating communication and training initiatives concerning the Principles, ensuring their distribution to all Group employees and monitoring compliance and implementation. It relies on help from the General Delegations, which have been charged with taking up further communications on the subject, to ensure that all employees buy into these Principles. As an example, the General Delegation to Germany and the Delegation to the Nordic and Baltic States include in their monthly newsletter a presentation and discussion on one of the Principles. There are also initiatives around the implementation of the Principles within the individual facilities, often with employee participation.

The Group training department has also added specific modules on responsible and sustainable development to the agenda of all international management development seminars, in order to promote discussion concerning the Company's values and behavior between senior executives and the managers reporting to them. Specific presentations are also added into the training programs organized by the Delegations.

The Vice-President in charge of Responsible Development spoke at several management seminars in Europe and China in the course of 2005.

Lastly, a special seminar on the Principles has been created. It is structured around working groups and allows participants to share feedback and thoughts on their practices and the application of their skills in a way that complies with the Company's values.

The Principles are universal in scope, and represent the common 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 US explicitly refer to the Principles, as do the Purchasing Charter and the Environment, Health and Safety Charter adopted in 2004. The Purchasing Charter 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 helping all Saint-Gobain employees respond to issues in these two areas in accordance with the Principles.

The Internal Auditing guidebook also includes twelve review points on the implementation of the Principles. The General Delegation to the UK has been conducting specific audits on them since 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 local environment

For Saint-Gobain, being a responsible group means showing solidarity with local communities in the regions where its companies are based, with regard to economic development, education, cultural activities or healthcare.

a) Initiatives to promote economic development at the local level

In most countries where Saint-Gobain has operations, Group companies 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.

Going beyond this first form of involvement in local economic life, Group companies contribute to the development of the regions in which they are established, 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, a specific structure, 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 2005, Saint-Gobain Développement supported the creation of 650 jobs outside the Group, by signing 86 loan agreements with companies.

In addition to providing direct help to companies, the Group has for many years been taking part in local and regional development programs, such as the Alizé schemes 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. As an example, in 2005 Saint-Gobain Développement initiated a new Alizé program in the region of Valenciennes.

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 in Châlon, Chambéry and Vénissieux that help the unemployed find their place in economic life. In the Avignon area, one site supported the work of *Fondation de la Deuxième Chance* (the second chance foundation), which helps persons in long-term unemployment find new work, thanks to financial help from the site and coaching from a mentor. In Nancy, Saint-Gobain PAM has for the past five years chaired a local partnership initiative for business creation, which includes both public- and private-sector participants. It selects an average of forty business creation projects a year and provides them with coaching and financial support.

Each General Delegation manages, in its country, its own initiatives for providing economic and social support at the local level. In 2005, the General Delegation to the Benelux Countries continued to run a spinoff program as part of an initiative organized by the Economic Bureau of Namur Province, in the region of Sambreville. The Saint-Gobain plants in the area asked its employees to generate ideas for business creation. They obliged and provided 70 suggestions, of which four were selected and are being implemented. In Brazil, the Cebrace plant received, for the third consecutive year, the annual "socially responsible company" award for its involvement in the local community.

b) Active support for education

The Group actively supports education and training, ranging from primary school to adult classes, in all the countries where it is based.

Several delegations have focused their efforts on helping and supporting underprivileged children.

Such work is particularly intensive in India and Brazil, where local subsidiaries help build primary schools or provide them with supplies and equipment.

In the US, the Skills for Life program, begun in 1989, gives struggling students access to tutoring with Group employees in the main subjects, particularly Math and English.

In France, Saint-Gobain's PAM Foundation provides young people experiencing social or financial difficulties with both financial assistance and the support of a mentor from the company's staff. Since its establishment in 1999, this foundation has invested a total of €60,000 in such mentoring operations for 25 young people.

In Brazil, where drug problems unfortunately do not spare even young children, one Group site has taken part in the federal police's "Brasileirinho" project, which distributes drug prevention booklets in local schools.

Many Group companies are involved in sponsoring school projects. In Germany, Saint-Gobain Isover backed a nationwide project for secondary-school students, called "Youth designs the future", by inviting a middle-school class into its facilities over the course of a week.

Drawing upon their skills and know-how, many subsidiaries regularly take part in training young people in specific technical and vocational fields. The Benelux Delegation has given its support to the opening of the "Cefoverre" school, a Belgian national center of expertise for the glass sector. Run by the Glass Industry Federation, with Saint-Gobain Glass Benelux as a founding partner, the institution organizes workshops on glassmaking techniques.

In partnership with SENAI, the national agency for industry, Saint-Gobain Isover Brazil has created vocational training courses for young workers. The students go through a two-month internship with Isover professionals, learning how to install suspended ceilings, before attending classes provided by SENAI.

In Thailand, Saint-Gobain Weber has joined forces with government authorities to launch a national vocational training program on tile laying.

Still in the building industry, Jewson has lent its support to the UK's "Skillbuild" event, in which apprentices from around the country compete for prizes, the aim being to introduce the general public, and particularly young people, to the different trades in the construction business.

Many partnerships have also been established 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.

Within the scope 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 dissertation.

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.

The Group continues to make efforts to bring in young workers each year as part of work/study or vocational training programs. In the countries where such contracts exist, the beneficiaries accounted for 1.7% of employees[2] in 2005.

Adult education is also a major focus, particularly in Brazil where some sites have been providing evening classes to their employees for several years.

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

c) Grants to charities and cultural organizations

The Group is involved in a great variety of charitable and cultural initiatives, whether through the direct participation of its employees or simply by way of financial contributions.

Such projects take their most institutionalized form in the US, thanks to the work of the Saint-Gobain Corporation Foundation, created by the US Delegation. In 2005 the Foundation collected USD 1.9 million in contributions for 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. A total of USD 900,000 in donations was collected in this way, including more than USD 180,000 for hurricane relief in New Orleans.

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.

The Foundation helps encourage and support the various initiatives of North American companies. The Worcester site, as an example, received an award from the local Chamber of Commerce in recognition of its constant support for social and cultural initiatives in the region.

International solidarity initiatives for under-privileged populations particularly came to the fore in 2005, following the Southeast Asian tsunami of December 2004. A number of Group companies stepped forward to provide food aid or financial and material help, especially in India, where Saint-Gobain companies devoted substantial resources to assisting and feeding victims.

In addition to one-time help, some projects aim to support development in developing countries. In France, Saint-Gobain Isover continued to work with the NGO *Action Contre la Faim*, following on with the partnership it established in 2004. For each roll of insulating material it sells, Isover gives €0.50 to *Action Contre la Faim*. By the end of 2005, the company had thus paid €40,000 into the NGO's emergency fund.

In Spain, Saint-Gobain Canalización set up, with the help of another specialized NGO, a project called "*Agua para Africa*" to finance the building of drinking water wells in villages of Burkina Faso. Several collection drives organized by employees yielded nearly €12,000.

In countries that face social and health problems, subsidiaries often lend their help to neighboring communities through local-level initiatives. Saint-Gobain Glass India decided to help a neighboring village develop its wastewater network. Still in

India, another program focusing on AIDS prevention was continued this year, after a successful run in 2004: there were additional health awareness events and workshops for employees as well as for local schools and bus drivers.

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.

Subsidiaries and Delegations in Europe and North America are frequently involved in **supporting health-related projects** as a result of employee initiatives.

In the US, the Norton Wheels cycling team, six members of which work for Saint-Gobain Abrasives, made a USD 70,000 donation to the "Jimmy Fund", the fundraising arm of the Dana-Farber cancer research institute.

In Europe too, companies are regularly involved in supporting charitable programs. The "Together" project, an initiative widely taken up by Jewson and Graham employees in the UK, collected over €375,000 for cancer research in 2005. In the Benelux countries, several companies again took part in the "*Télévie*" program, gathering nearly €30,000 to benefit Belgium's national fund for scientific research.

Among the many **cultural and intellectual initiatives** taking place at 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.

Cultural sponsorship activities can sometimes take the form of a more direct involvement. In 2006, the Musée d'Orsay in Paris will be hosting an exhibition on the history of the Saint-Gobain Group and its glassmaking activities. For this special event, the Company has brought together a wealth of resources and archive materials to supply the exhibition, alongside other sources.

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 financing 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 continues to run 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. The Center's regular conferences and debates support research and stimulate exchanges in this field.

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

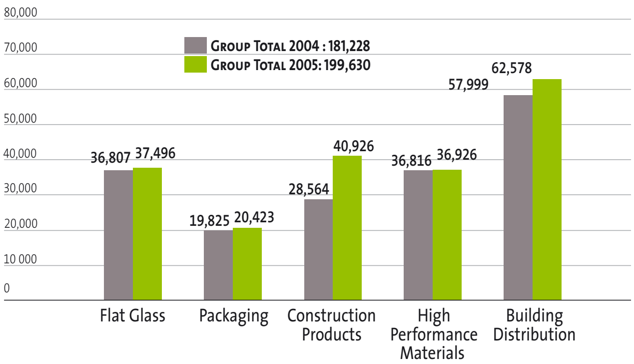
II – A COMMUNITY IN MOTION

Saint-Gobain's human resources policy is a key component of Group strategy. Its role is to support the Group's development by providing the best skill-sets, ensuring that employees support company strategy and offering the best possible response to their aspirations.

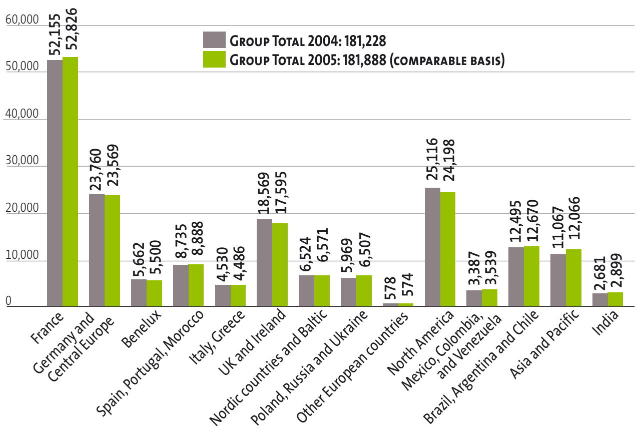
The Human Resources organization reflects the Group's corporate culture in its highly decentralized structure: the common policy and framework defined at Group level are tailored to the priorities and strategy of each Sector. Delegation-level HR departments also ensure that specific national circumstances are taken into account. The key focuses of the Group's HR policies are as follows:

- support Group strategy, particularly development in emerging countries, stepping up innovation and ongoing productivity gains;
- anticipate future competency needs and guarantee that key positions are filled;
- motivate employees and develop their careers in line with their aspirations and Group objectives, by listening carefully to their needs and promoting responsible, high-quality dialogue with staff representatives.

Breakdown by Sector



Breakdown by Delegation



1. A growing workforce

At December 31, 2005, the Group had 199,630 employees in 50 countries, up from 181,228 in 2004. One-third of them (31%) worked in Building Distribution and two-thirds (69%) in the industrial businesses.

The breakdown by sector and by country reflects the Group's business model, which focuses on profitable long-term growth.

a) Employment trends

A total of 18,402 new hires joined the Group in 2005.

Breakdown by Sector

- **Flat Glass**

The Flat Glass Sector had 37,496 employees at December 31, 2005, up from 36,807 a year earlier. On a comparable basis, the sector gained 660 employees in 2005, representing a 1.8% increase in headcount.

On the heels of substantial expansion in 2004, the Flat Glass Sector further stepped up its development in countries experiencing rapid economic growth, offsetting the closures of small processing units. A new flat glass line was built in India, and Sekurit lines in India, China, Poland and the Czech Republic took on more staff.

- **Packaging**

At December 31, 2005, Saint-Gobain Packaging totaled 20,423 employees, up from 19,825 at the 2004 year-end. This growth was mostly attributable to the sector's acquisition policy, the main highlight of which was the purchase of Consumers-Sklo-Zorya in Ukraine. The sector's new position in Eastern Europe enables it to better serve its local clientele, in addition to furthering the strategy of developing in emerging countries.

Based on a comparable structure, headcount contracted 1.1% due to declining sales in Germany and the closure of some North American sites owing to difficulties in the local market.

- **Construction Products**

With the major influx of BPB's 12,771 employees after the Group's key acquisition of the year, in December 2005, the Construction Products Sector saw its staff levels jump to 40,926 at December 31, 2005, from 28,564 one year earlier.

On a comparable basis, employee numbers were essentially unchanged, edging up only 0.2%. The sector continued to expand in Eastern Europe, especially the Insulation Division in Russia and Romania and Mortars in Russia, Bulgaria, the Czech Republic and Slovakia. The Pipe Division had stable staff numbers, reflecting an erosion of industrial headcount in Europe offset by growing teams in emerging countries, specially China. In Western nations, a fairly substantial number of baby boomers are now retiring and their positions are being only partly filled by recruitments of young workers. This general trend is expected to continue in 2006.

- **Building Distribution**

Building Distribution staff grew to 62,578 from 57,999, the result both of acquisitions in several regions and of a recruitment drive in some countries.

Most of the external growth in 2005 came from bolt-on acquisitions, but there were also some sizable additions to the Group, such as Optimera in Norway, Sanitas Troësch in Switzerland and Megacenter Materias de Construçao in Brazil.

The sector also gained 731 employees on a comparable basis, representing 1.2% expansion year-on-year, despite the restructuring which had to be implemented in Germany, the UK and the Netherlands. This growth mainly derived from the opening in 2005 of 14 new *Plateforme du Bâtiment* outlets, including six in France, but also from the vigor of most of the sector's banners.

- **High-Performance Materials**

The High-Performance Materials Sector totaled 36,926 employees at December 31, 2005, versus 36,816 at the previous year-end.

These unchanged numbers resulted from, on the one hand, continued external growth, with acquisitions in Austria, Thailand and China, and on the other, the disengagement from the semi-conductors business in the US following the sale of part of Saint-Gobain Crystals USA (its Quart International Division).

On a comparable basis, staffing levels dipped 1.7% owing to the streamlining of the Reinforcements Division in developed countries, in response to tough global competition. The sector did, however, continue to invest in developed countries, helping maintain employment levels. The new particulate filter manufacturing line in Germany was one such example.

Breakdown by General Delegation (comparable structure basis)

In 2005, France, Spain and the Nordic countries maintained or increased their staff levels, mainly as a result of development in Building Distribution, but employee numbers contracted in other Western European countries. This decrease can be explained by a slowdown in the building industry, which Germany has been experiencing for several years and which the UK began to see in 2005, and by the need for greater automation in manufacturing processes. The UK and Germany accounted for the largest decreases in employee numbers in 2005.

In North America, headcount was down 3.7% based on a comparable structure, due to the closure of several Packaging Sector sites and to streamlining operations.

In emerging countries, where favorable market trends gave a further lift to the Group's expansion, subsidiaries were able to expand their teams on a comparable basis, with the Asia-Pacific region gaining 8.4%, Poland and Ukraine 7.9% and Latin America 2%. All sectors benefited from this growth, especially the glass businesses and Pipe, but also Building Distribution, which launched its new *La Maison* banner in Shanghai in July 2005. In China, the Pipe business acquired Xugang, a 4,154-strong company which was not yet included in staff data at December 31, 2005.

- ***British Plaster Board (BPB)***

The BPB Group had 12,944 employees at the time of its acquisition by Saint-Gobain in December 2005. BPB has experienced rapid growth since 2001, through both acquisitions and organic development, especially in the US but also in the emerging countries of Asia and Latin America that have dynamic local markets. However, its employee numbers declined slightly in BPB's older markets of Europe and South Africa. The company's operations will be integrated into Saint-Gobain's Gypsum Division.

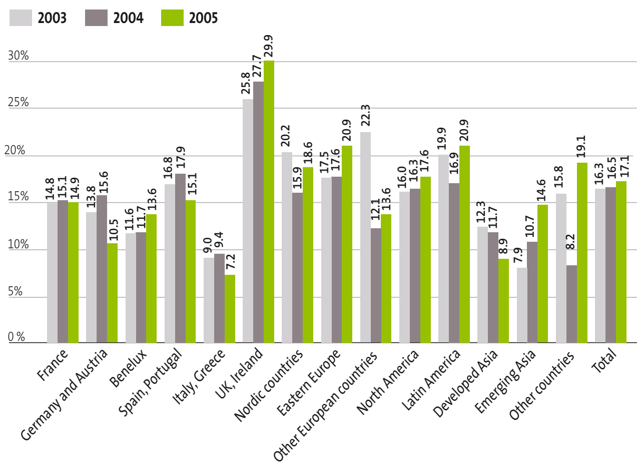
b) Departures

In 2005, the departure rate rose to 17.1%, from 16.5% in 2004.

Attrition accounted for 11.4% of total departures in 2005(3), representing a 1.9% attrition rate(4) in relation to total Group staff. There are more retirements in Europe and the US than in Asia or Latin America, where Saint-Gobain's operations have started more recently and where the overall population is younger.

For the Group as a whole, the resignation rate rose by 0.8 percentage point to 7%. Building Distribution is the only sector where this rate was unchanged, at 9.5%. Its employees are on average younger than in other sectors, and it has a higher staff turnover than the historic businesses. Turnover also remains structurally higher in Central and Eastern Europe as well as in emerging Asian countries and Latin America, as the Group's operations started more recently in these regions and local job markets are particularly buoyant. Realizing this, the Group has implemented a policy designed to build loyalty among its employees, particularly in Latin America, Poland,

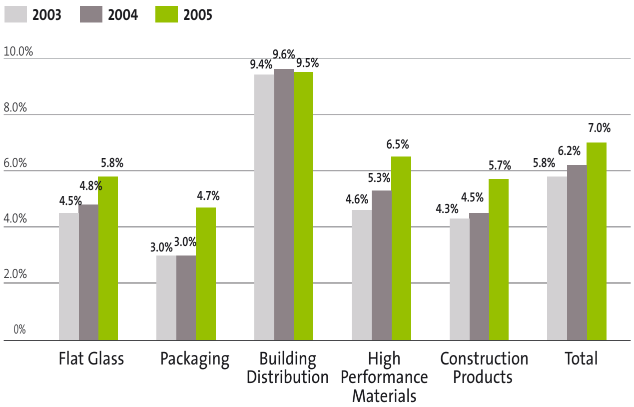
Departure rate (based on an actual group structure)



(3) Data concerning attrition are based on 93% of Group staff.
(4) Data concerning attrition are based on 93% of Group staff.

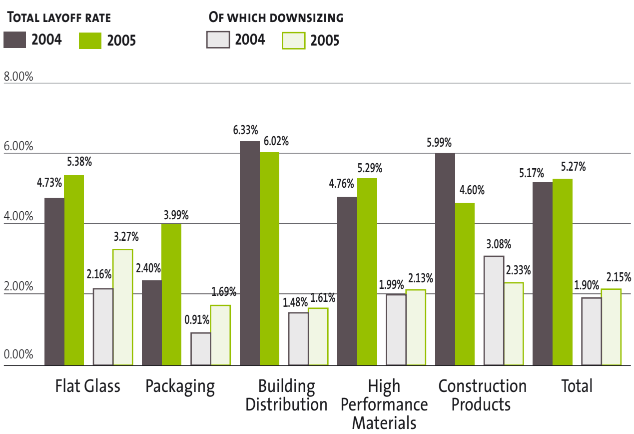
India and China, through substantial efforts in training and job mobility. A system of "departure interviews" was also set up to understand better employees' reasons for leaving. Finally, Anglo-Saxon countries tend to experience resignation rates that exceed the Group average, because of the more fluid nature of their job markets.

Resignation (based on an actual group structure)



The overall layoff rate remained practically level in 2005, at 5.3%. Layoffs for economic reasons rose slightly to 2.2% of staff from 1.9%, reflecting the Group's controlled response to its market environment. The Flat Glass Sector had to contend with sluggish conditions in the building industry in Germany and the UK, and closed its facility in Porz, Germany, which produced automotive glass for heavy vehicles.

Layoff (based on an actual group structure)



The Packaging Sector streamlined a number of its sites in the US and Germany.

c) 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 Saint-Gobain's size is undeniably an advantage, as the Group makes every effort to offer employees a new position in another subsidiary.

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 partner, or support for a personal project, and more. In France, the three Job Preservation Plans implemented in 2005 yielded an outplacement rate of 73%.

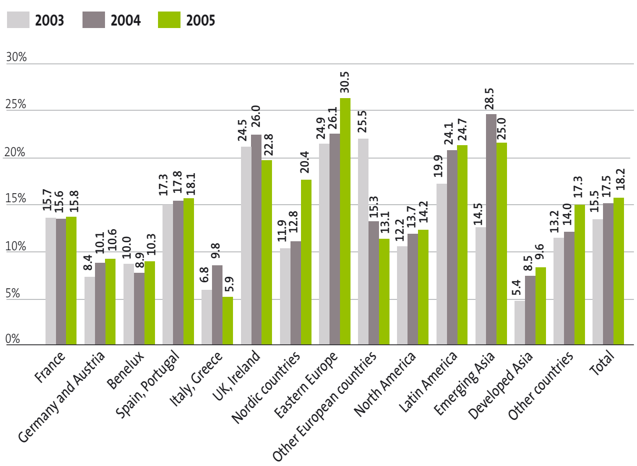
In Germany as well, the companies concerned have taken innovative steps to offer outplacement help to employees affected by downsizing.

d) Recruitment

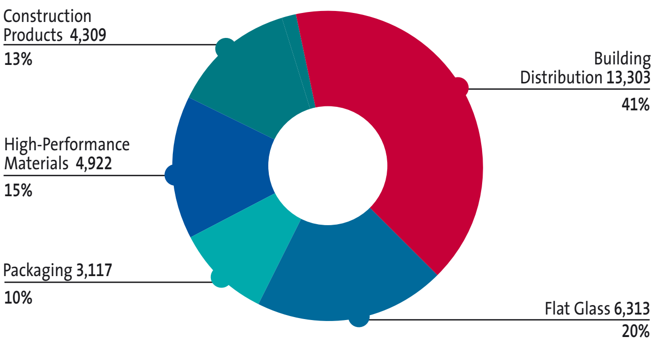
To make up for these departures and to drive growth, 32,192 people joined the Group in 2005, bringing the recruitment rate up 0.7 percentage point to 18.2%. Building Distribution and Flat Glass were the two sectors that hired most intensively, with 13,303 and 6,313 people, respectively.

Through their recruitment policy, the sectors seek to meet the needs of their rapidly developing emerging-country markets.

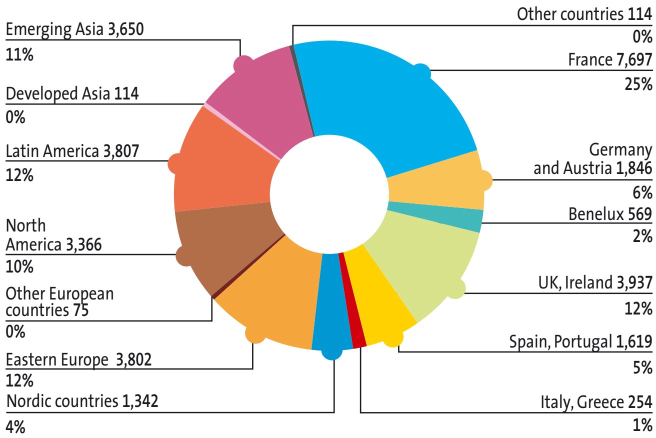
Recruitment rate (based on an actual group structure)



Breakdown of recruitement by sector



Breakdown of recruitment by region



Latin America, Eastern Europe and the emerging nations of Asia account for extensive hiring, with 3,807, 3,802 and 3,650 recruitments respectively, in response to expansion in these regions.

However, Western nations also remain active in recruitment, particularly thanks to Building Distribution, in Spain, Portugal, France and the Nordic countries. This illustrates that the Group's development in emerging nations is not incompatible with the strengthening of its human resources in the West.

e) Use of temporary workers and contractors

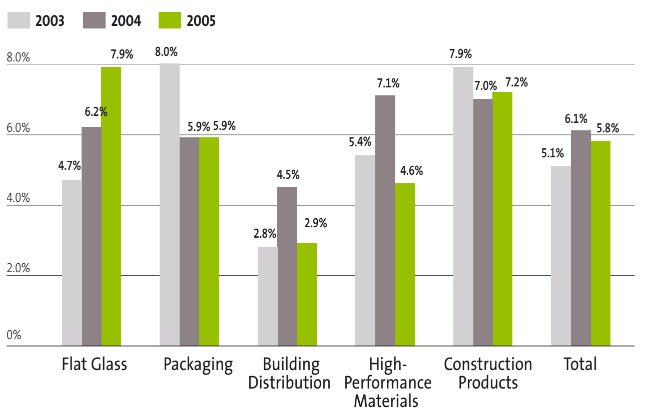
Temporary work

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. In 2005, the absenteeism rate was 3.4%. The most common causes of absenteeism were illness, maternity and workplace 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 5.8%(6) in 2005, down 0.3 percentage point on 2004. This rate fell to 2.9% in Building Distribution in 2005, from 4.5% in 2004, as operations became more stable, especially in France, making it possible to take on some of the additional staff on a permanent basis. Temporary staff were also down in High-Performance Materials, mainly in the Abrasives Division, which had seen a sharp surge in business in 2004 which did not continue at the same pace in 2005, particularly in Spain, Italy and Asia. There was, however, an increase in the temporary work rate in the Flat Glass Sector, mainly because of highly dynamic local job markets, as in the emerging countries of Asia.

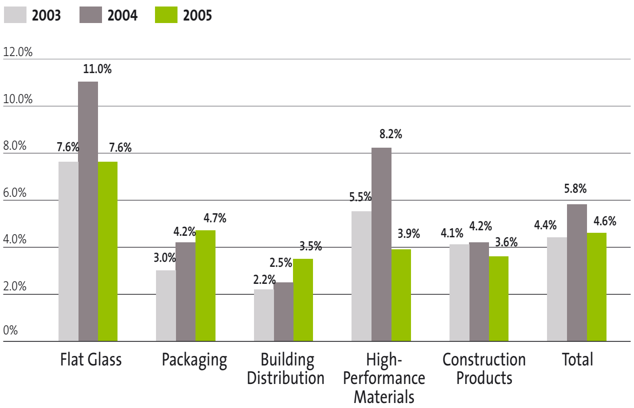
Fixed-term employment contracts are better suited for assignments spanning several months, such as replacements of workers on maternity leave or extended sick leave, or large-scale orders. At December 31, 2005, 4.6%(7) of Group employees had fixed-term contracts, down 1.2 percentage point compared to 2004. The proportion of these contracts fell sharply for Flat Glass and High-Performance Materials.

Proportion of Temporary Workers



(5) Data concerning absenteeism are based on 86% of total Group staff.
(6) Data concerning temporary work are based on 83% of total Group staff.
(7) Data concerning employees on fixed-term contracts are based on 91% of total Group staff.

Percentage of Employees on Fixed-term Contracts at December 31, 2005



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 packaging, and handling or shipping of products. Although related to the manufacturing and distribution of products, such tasks remain at the periphery of 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 its safety standards. 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. As needed, they receive specific training in these areas.

2. Strong employee relations

Saint-Gobain employees can be divided into three broad categories: executives and managers; clerical staff, technicians and supervisors; and blue-collar workers. The Group endeavors to create a motivating work environment for its employees, by pursuing ongoing dialogue with employee representatives and providing satisfactory working conditions.

a) High-quality dialogue with employee representatives, characterized by honesty and openness

In a highly competitive and constantly changing market environment, Saint-Gobain needs to be able to rely on high-quality dialogue with employee representatives in making frequent and rapid changes in organization and working conditions.

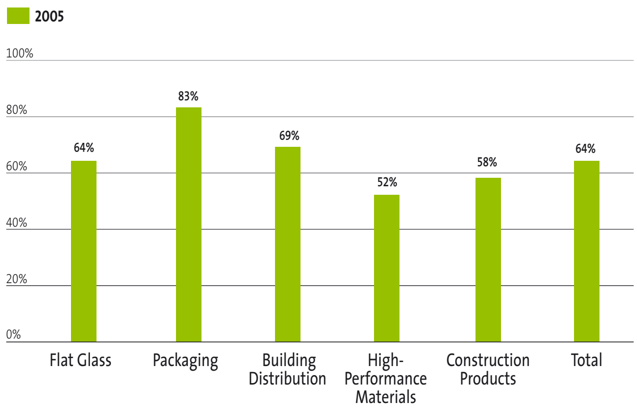
Most of this dialogue takes place at the level of companies and sites, since it needs to take into account local features and employment issues in order to provide appropriate technical solutions. It is with the individual companies that employee representatives negotiate and sign agreements, in line with applicable legislation and local practices.

In 2005, 70.4% of employees had an employee representative body within their work establishment[8].

A total of 1,021 agreements were signed with employee representatives in the Group in 2005. In a certain number of countries such agreements cover several years. The vast majority (89.3%) of these agreements dealt with the organization of work.

Lastly, 64% of Group employees, and 100% in France, are covered by a collective-bargaining agreement[9].

Proportion of staff covered by a collective bargaining agreement



European employee consultation

Since 1988, the Group has been holding a plenary meeting each year as part of the European collective agreement on works councils, to promote discussions on shared issues and facilitate

(8) Data concerning employee representatives are based on 83% of total Group staff.
(9) Data concerning collective-bargaining agreements are based on 87% of Group staff.

the sharing of information that can move forward employer-employee negotiations at both local and European levels.

This annual plenary meeting now brings together 70 employee representatives from 20 countries of the European Union plus Switzerland and Norway. During this meeting, the Chairman of Saint-Gobain and the Executive 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.

A permanent secretariat keeps up a more regular and in-depth dialogue with Group Management. It now includes nine members of eight different nationalities – German, French, British, Spanish, Italian, Dutch, Norwegian and Polish. 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.

The top level of the permanent secretariat is a committee composed of a secretary and two deputy secretaries.

The committee carries out most of the year-round work, since it is responsible for monitoring overall progress and pursuing dialogue with Group Management on a day-to-day basis. Group Management, in turn, keeps the committee informed of any international transactions that impact the Group's scope of consolidation or structure.

There were three developments in the plenary meetings process in 2005. First, by the addition of a supplementary clause to the agreement of May 12, 1992, the process was updated to include the countries which had newly joined the European Union and in which the Group had at least 150 employees. This meant welcoming representatives from Poland, Hungary, the Czech Republic and Estonia. This clause also clarified the timing of the terms of office of representatives. A second supplementary clause redefined the rules for allocating among employee representative unions the seats reserved for France at the plenary meeting.

Third, a "Guidebook for European Employee Consultation", the result of joint work between Executive Management and the permanent secretariat, will be published in 2006 to help guide newly elected representatives in carrying out their duties. It will allow all the participants in this process to understand the organization's architecture and mode of operation.

BPB

Prior to its acquisition by Saint-Gobain, BPB had set up, in 1999, a European Works Council composed of 20 members representing employees from 11 European countries, who met to discuss strategy and company policies. This body will be dissolved at the end of 2006 and will be merged into Saint-Gobain's annual plenary meetings process as from 2007.

b) Employee categories

Executives and managers

The proportion of executives and managers within total staff remained stable at 11.6%. In Western countries where the Group has a long-standing presence and thus a greater number of head offices and research and development centers, the proportion was essentially level, except in the General Delegations for the UK and Ireland and the Benelux countries, which recorded increases of 2.2% and 1.1% respectively in their numbers of managers. There was a marked 2.5 percentage point increase in the proportion of managers, to 9%, in the emerging nations of Asia.

Clerical staff, technicians and supervisors

This category, which includes administrative staff, technicians, supervisors and sales personnel, accounted for 37.6% of Group employees at December 31, 2005.

Blue-collar workers

At December 31, 2005, blue-collar workers represented 50.2% of employees, down 5.9 percentage points compared to 2004. 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. In addition, the vigorous growth of Building Distribution, which includes only a small proportion of blue-collar jobs, is contributing to the fall in the share of these jobs for the Group as a whole, while driving up the category of clerical staff, technicians and supervisors.

c) Working conditions, an evolving framework

Organization of work

- **Working hours**

Work is organized in shifts in many manufacturing activities, to meet technical requirements. Distribution operations do not have this type of work.

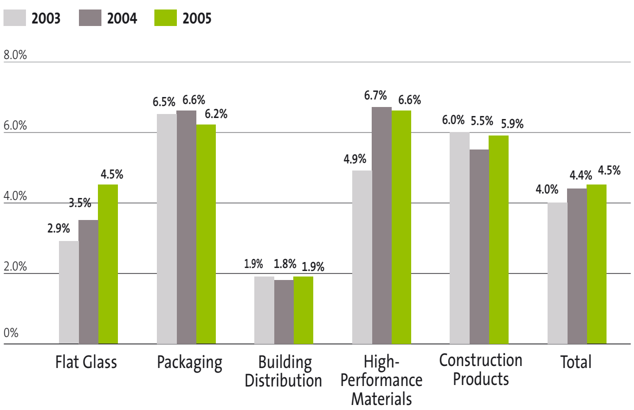
In industrial operations 36.1% of employees perform shift work, and the proportion rises to about two-thirds in Packaging. These proportions have risen in comparison to 2004 in all industrial sectors. Each workstation can have two or three shifts, or even more in some cases, when work takes place 24/7, 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**

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 4.5% of hours worked in 2005, which is broadly in line with 2004.

Overtime rate



Part-time work

Part-time work is not very well suited to industrial work patterns, and it concerns only 2.8% of Group employees. Although part-time work is more common in Building Distribution, it concerns a fairly small proportion of French employees.

Compensation policy

The Group seeks to provide fair and rewarding compensation to employees, to ensure that they find well-being and fulfillment in their work. This approach is not limited to wages, as it also includes ancillary benefits such as the Group Savings Plan (PEG) or Group contributions to health insurance and pension benefits.

- **Wages**

The Group's compensation policy aims to be fair, motivating and transparent. Basic wage scales are set in each country and each economic sector in relation to market conditions. Within this general framework, each company sets employees' wages based on conditions in its business line and its financial position and human resources situation. Wages of blue-collar workers and other non-executive-band personnel are generally governed, on a country-by-country basis, by collective-bargaining agreements.

In Western countries, wages increase at least in line with the inflation rate, to at least maintain employees' purchasing power and living standards, except in the US where the sharp increase in medical costs (the majority of which are borne by the Group) has hampered net wage increases. In France, payroll taxes amounted to 43.92% of direct remuneration in the Building Distribution Sector and 48.73% in the industrial sectors(10). In emerging countries, wages rise regularly as new skills are called upon, which leads to a higher standard of living.

Executives' wages generally 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, 88.2% of subsidiaries have signed such agreements. In 2005(11), these French companies paid €71.4 million to their employees as profit-sharing bonuses, which represented 4.7% of total wages.

- **Employee benefits**

Through the **Group Savings Plan (PEG),** Saint-Gobain has since 1988 involved its employees more closely in the Company's success. Thanks to this program, employees with at least three months' seniority (six months in some countries) can become Saint-Gobain shareholders under preferential terms. They not only benefit from a discount on the stock market price, but also receive, in some countries, an attractive top-up contribution from the Company. 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% of Compagnie de Saint-Gobain capital stock at the end of 2005, and 10.3% of voting rights.

Although the conditions offered remained practically unchanged in 2005, several measures were taken in early 2006 to encourage employees to increase their participation in the PEG program, notably in France. The number of countries benefiting from this system now stands at 31, including 10 outside Europe. The latest entrants in 2005 were Turkey, Korea and Argentina. Top-up payments were introduced in several countries, based on local conditions, and their rates were raised in France and in other countries where they were already in place. In the UK, the Saving Incentive Plan was strengthened, and it will include top-up payments as from

(10) Data concerning payroll taxes are based on 30% of the Group's French staff.
(11) Data concerning the number of agreements signed are based on 88% of staff in France.

2006. This offer will also be extended to ex-BPB employees, in all countries where this can be done. An in-house campaign has been launched within the Group to continue to promote the PEG's development and raise employees' awareness of the benefits that those savings can bring them.

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, as an example, in all companies with over 50 employees, an average of 1.5% of the payroll is earmarked for activities to benefit employees, managed by the Works Councils[12].

In the US, due to the absence of a mandatory national **health insurance system**, Saint-Gobain handles a large part of these insurance costs. The Group also helps reduce the cost of premiums by directing employees towards hospitals with which it has negotiated preferential rates. Finally, Saint-Gobain Corporation has decided to get directly involved in providing health education to its employees, by appointing a Wellness Manager, responsible for promoting better lifestyle choices.

3. Human resources management that matches the needs of the moment

One of the priorities of the Group's human resources policy is to anticipate future skills needs, while being able to respond to the expectations of employees. Saint-Gobain is constantly working towards diversity and equal chances for all, developing new skill-sets through training and encouraging mobility, and always lending an attentive ear to employees. To make HR processes even more transparent and responsive to the needs of the Group and its employees, Saint-Gobain is currently rolling out SINERhGIS, a new HR support application that will bring together in one place all data on executive competencies worldwide.

a) Recruiting for tomorrow's needs

Bringing in a new generation

The average age of Group employees is around 40, unchanged from 2004. It has remained more or less level in all sectors. It is approximately 41 in Packaging, Construction Products and High-Performance Materials, 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 US, where the Group has a long-standing presence. The industrial subsidiaries are paying particular attention to bringing in a new generation, as the baby-boomers reach retirement age. Several countries have focused their efforts specifically on recruiting workers under 25[13], particularly the UK, Germany, Austria, the Nordic countries and France, in the West, and also Latin American and Eastern European countries, as well as the emerging nations of Asia. Such under-25 hires accounted for one-third of total Group recruitments in 2005, in line with the trends of past years.

Attracting top talent

The Group constantly needs to call upon new skills to enhance and support its long-term profitable growth, and it increasingly relies on individuals with a multicultural outlook, as a result of the ever-more-global reach of its operations. That is why Saint-Gobain's recruitment policy focuses on attracting top talent with an unmistakably international flair.

Building **special relationships with prestigious universities and programs** is one of the best ways of introducing Saint-Gobain to students. Each year, the Company takes part, through its General Delegations, 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 is involved in **international programs for hosting students and engineers**, as a means of recruiting and training 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 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. Since 2000, over 120 such interns were assigned to Saint-Gobain subsidiaries in countries that included the US, Russia, Germany, Canada and Singapore.

Because **innovation** plays such a central role in Group strategy, particular care is devoted to recruiting researchers. The

(12) Data concerning benefit activities by Works Councils cover 39% of staff in France.

(13) Data concerning the hiring of people under 25 are based on 83% of Group staff, excluding North America.s

Group implemented, in 2005, a major three-year program to recruit researchers on three continents, and is about to open a new research and development center in Shanghai. CREE, one of the R&D centers of the High-Performance Materials Sector, has expanded its headcount at an annual rate of 15% to 20% since it opened its doors in 2002. Some 13 different nationalities are represented within its ranks. In France, Saint-Gobain co-finances an average of five or six 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 169 students have done thesis work at Saint-Gobain. Of those who were welcomed by Saint-Gobain Recherche, two thirds subsequently began their careers within the Group.

Saint-Gobain is also a corporate sponsor of ***"Les Routes de la Soie",*** an association of French and Chinese students interested in the world of industry, which the Group sees as potential future hires. The Group selected 40 students, 20 from each nationality, and invited them to find out more about the workings of the company, industrial cooperation and international partnerships. This happened in two stages in 2005. In a first visit in France, the students were able to meet the Group's Executive Management and find out about some of Saint-Gobain's industrial operations; a second event then took place in China in November. These meetings gave the students an opportunity to reflect on what role they could play in a major multinational group like Saint-Gobain.

The Group receives an average of **over 80,000 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 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, 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 attention to multicultural content in training. Saint-Gobain has thus offered to sponsor classes in Chinese-French management programs.

There have also been a number of **local initiatives in France for non-executive personnel**, which aim to combine recruitment and training programs in areas suffering from high unemployment. The Saint-Gobain subsidiary Verreries de l'Orne, as an example, decided to respond to the shortage of qualified applicants in its area by joining forces with the local unemployment management unit (ASSEDIC), the Basse-Normandie region and the European Social Fund (ESF), to set up a four-month training program for job seekers, enabling them to acquire the necessary skills to work in glass decoration. The Flat Glass Sector carried out a similar initiative near its facilities in France, with a recruitment campaign for operators that focused on persons of immigrant origin who have difficulty finding work, and another for salespeople with few qualifications. In both cases, the Sector resolved to provide in-house training after hiring. Point.P has also designed a Professional Qualification Certificate for new employees with no formal training.

b) Greater mobility of management staff

Because each employee has a unique combination of skills and resources, mobility within the Group can only be beneficial for the various entities concerned. It can take three main forms, all of which have been very much on the rise within the Group in recent years: change of entity (to a new company, business unit or sector), change of function (to a new pay scale or area of responsibility) or change of country. Internal mobility boosts Saint-Gobain's rapid development in emerging countries through the transfer of skills. That is why the Group HR organization has for several years actively encouraged mobility, through the following measures:

- **Clearly advertising job postings.** Job offers for the entire Group, across all sectors and Delegations, are regularly posted and updated on *Worldjob*, an Intranet site dedicated to in-house promotion. The site includes not only the job offers themselves, classed by country, business line and type of contract, but also the rules governing job mobility within Saint-Gobain, explanations on how the *Worldjob* site itself works, and information that executives contemplating international mobility need to know.

- **Effective management of the expatriate experience.** Each sector and Delegation employs an international mobility specialist whose task is precisely to organize the successful relocation of employees and their entire family. This includes tackling housing and health insurance needs, managing international salary issues and following up on each employee's welfare throughout the new assignment. The Group also provides its employees with a guidebook for international mobility, intended to smooth the process of relocating to another country.

• **Annual performance evaluations,** which allow the human resources organization to identify employees' current or future aspirations for job mobility. In 2005, 49.3% of employees (up 3.4 percentage points on 2004) had an annual evaluation with their manager[14]. The proportion was 73.8% for executives and 45.9% for non-executives.

• **Succession planning and people reviews.** These forecasting exercises provide opportunities to plan for the possible medium- and long-term changes in positions and staffing within the various sectors and Delegations.

To further set the framework for its recruitment policy, the Group Human Resources Management published, in early 2006, a brochure entitled "Solidarity in business – At the heart of human relations", to help executives manage their own careers and those of their teams.

Geographical and functional mobility is not restricted to executive-band personnel, however. Opportunities are also provided to technicians to apply their experience abroad or within project teams, in multicultural environments.

c) Promoting diversity and equal opportunity

Fighting discrimination in all its forms is one of Saint-Gobain's priorities. Human resources policies seek to promote diversity and equal opportunity among employees. Even more so than previous years, 2005 was notable for the number of initiatives launched in this area, at Group, sector and Delegation levels – including the setting up of the Group Responsible Development Department, one of whose tasks is precisely to ensure diversity within Saint-Gobain. The Group intends to sign, in 2006, the Diversity Charter implemented in France. Saint-Gobain is committed to training and encouraging its management and employees to respect and promote principles of non-discrimination, and to seek to ensure that the Group reflects the diversity of society.

• An equitable recruitment policy

The Group's recruitment policy is expressly opposed to any form of discrimination. All executive and senior technical positions that are not filled in-house are systematically posted on the Saint-Gobain website. Résumés (CVs) are selected exclusively on the basis of qualifications (education, languages spoken), work experience and geographical mobility. In a second stage, shortlisted candidates are interviewed by several managers from the recruiting entity. The final decision is made based on the applicant's personality, with qualities of adaptability and openness being particularly sought after. Although the specific methods used can vary from company to company and country to country, the rejection of any discriminatory criteria applies across the board.

(14) Data concerning annual evaluations are based on 80% of total Group staff.

• Promoting greater gender balance

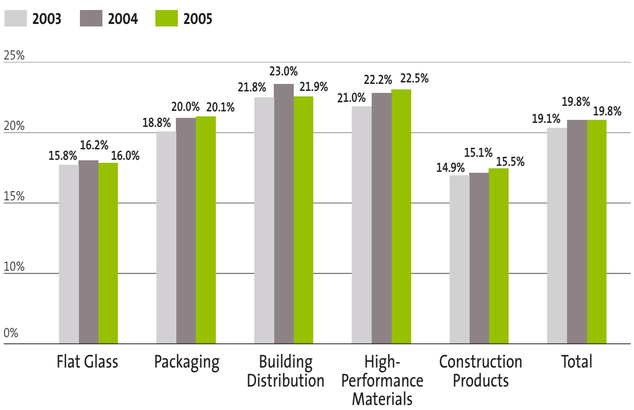
The **proportion of women** in total staff remained stable at 19.8%[15], which still does not reflect the efforts undertaken. Of women employees, only 30.9% are blue-collar workers, and 28% of non-blue-collar workers are women[16]. Women accounted for 21% of recruitments in 2005, a slight 0.5 percentage point increase on 2004.

Within the various sectors, the proportion of women remained level after having risen substantially in 2004. There is a higher proportion of women within the staff in North America, the Nordic countries, in Eastern Europe (up one point to 27.2%), and in developed Asian countries (up 0.6 point to 22.7%).

Women receive 16.7% of total wages[17]. This is because they tend to be less represented 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 more than one year lower than men's).

The Group is determined to achieve a better balance between men and women, particularly 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:

Proportion of female employees



(15) Data concerning the proportion of women in Group staff are based on 94% of total Group staff.
(16) Data concerning the proportion of women among non-blue-collar workers are based on 94% of total Group staff.
(17) Data concerning the proportion of women in total payroll are based on 19.9% of total Group staff.

whereas women accounted for only 10% of executives in 1997, they now make up 15%[18], up slightly on 2004. To boost the in-house promotion of women, several practical measures have been implemented in each of the business sectors, to raise their representation in the Group's training cycles. Women are more numerous in finance, human resources, and legal and tax functions than in other areas.

Several steps were also taken at Group level in 2005 to expand feminine leadership. A specific segment is dedicated to women in the forecasting meetings that are regularly planned by human resources departments to identify, for each of the Group's key leadership positions, several potential successors on a medium- or long-term basis, as well as to review career planning possibilities for high-potential employees and in-house experts. A periodic progress report on this issue is now sent to the Group Chief Executive Officer, detailing results by business and level of responsibility (senior leadership, management, supervisory staff, etc).

At sector and Delegation levels, a number of other initiatives are being launched for a better gender balance. In Spain, as an example, one third of hires in 2005 were women; in the Delegation to Central America, Colombia and Venezuela, the proportion of women in higher-level training courses has climbed to 28% in 2005 from 10% in 2003.

• Promoting the integration of disabled workers

Disabled employees represent 1.7% of all Saint-Gobain staff[19]. Legislation to promote the hiring of disabled workers varies from one country to another. Some countries require that a certain proportion of jobs be given to disabled persons, such as France, Germany, Austria and the Netherlands, whereas others, such as Belgium and the UK, encourage employers to recruit handicapped applicants through grants, subsidies and tax relief. In France, disabled workers account for 2.4% of staff[20]. When an employee is affected by a new disability, the Group has made it a rule to attempt, as far as possible, to keep the person at their job. In 2005, 1,319 workstations were adapted for disabled persons in Western Europe[21], including 94 in France[22].

Saint-Gobain has taken a number of steps to raise awareness of this issue within its subsidiaries, encouraging them to take concrete steps to facilitate the hiring of disabled persons.

(18) Data concerning the proportion of women among executives are drawn from Hypervision, the Group's executives database.
(19) Data concerning employment of disabled persons are based on 74% of total Group staff.
(20) Data concerning employment of disabled persons in France are based on 90% of total Group staff.
(21) Data concerning the number of workstations adapted for disabled employees in Western Europe are based on 69% of total Group staff.
(22) Data concerning the number of workstations adapted for disabled employees in France are based on 83.7% of total Group staff.

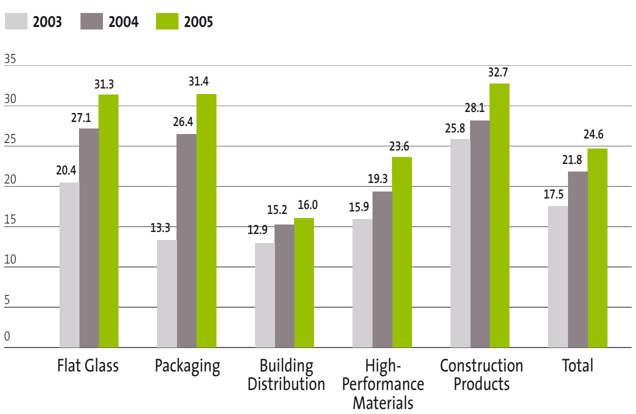
In the fall of 2005, a survey was undertaken on the integration of handicapped employees within the head offices of the various sectors, and action plans are currently being pursued in France. This initiative will then serve as a template for the rest of the Group. In 2005, several Group companies, both in France and in other countries, produced documented plans for developing employment opportunities for disabled employees. Saint-Gobain Développement signed with eight local councils of Seine-Saint-Denis, north of Paris, a company-and-region charter agreement (*Charte Entreprise-Territoire*) by which the Building Distribution Sector will play a role in promoting employment, establishing links between schools and the corporate world, and helping disabled persons find work.

In addition, 27.7% of Group companies (excluding the US)[23], 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. Several sectors have set up outsourcing agreements with Centers for Aid through Work (*Centres d'Aide par le travail* or CAT). The Pipe Division, as an example, has for many years provided specialized facilities to a CAT, which employs around 40 disabled people performing assembly and packaging work for several companies, including Saint-Gobain.

d) Building skills through training

The Group's sustained competency-building efforts led to a sharp 13% increase in training hours in 2005, to 24.6 hours per employee[24], on the back of a substantial expansion

Average number of training hours per employee



(23) Data concerning support for specialized institutions cover 70% of Group staff outside North America and 28% of Group companies.
(24) Data concerning the number of training hours per employee are based on 89% of Group staff.

in training the previous year. Training expenses amounted to 1.7% of total payroll, 0.2 percentage point less than in 2004.

In 2005, with the Group endeavoring to provide equal access to training, 78.2% of executives and 67.1% of non-executives underwent training. This represents 68.3%[25] of the total employee population, up from 67.5% in 2004.

Over the past several years, the Group has been establishing a common reference framework for guiding the skills development of all its employees. This approach corresponds to a new French law on the individual right to training, which provides that each employee on a permanent contract with over one year's seniority is entitled to benefit, upon request and with the agreement of the company, from twenty hours of training a year. The Group's training policy follows five key goals:

• Enhancing Group competitiveness by bolstering technical skills and professional expertise

Technical training is mainly handled by the businesses themselves.

The University of Glass continues to offer cutting-edge training, regularly updated in line with technological changes. It has also added two new specialized programs, including an environmental course on regulating furnaces' energy consumption and CO_2 emissions. The University's classes have up to now taken place mostly in France, but they will be extended to other countries beginning in 2006, allowing a greater number of employees to keep abreast of the latest developments in their business.

The Flat Glass Sector's MKT2 (*Manufacturing Know-how Transfer & Training*) program, designed in Mexico, trains float-line operators in the fundamentals of their work. This successful process is being continued and extended to countries that include India, Romania and Belgium, without altering its core principle: rapid and methodical skills transfer to the Group's new "fronts", through a combination of mentoring and online training. The managers of this program have also realized how useful it could be for the Group's older entities, in which training was until recently based essentially on oral coaching. In the nine plants involved in the program, the amount of time devoted to MKT2 training in 2005 was approximately 6,800 hours.

(25) Data concerning the breakdown by employee category of trained staff are based on 87% of total Group staff.

• Developing innovation and sales and marketing skills

The School of Marketing and Innovation, which opened its doors in January 2006, is the embodiment of the Group's determination to pursue a client-centric strategy, particularly against a backdrop of ever-increasing global competition. This new school has a two-fold mission. It is first designed for non-specialist managers, giving them broad-based training that raises their awareness concerning the importance of customer relationship management in the company and imparts basic marketing methodology. It then caters to the needs of sales and marketing professionals with four specific courses, on customer relationship management, technology-based marketing, emotional and sensory marketing and brand management. All these courses are given in English and French, with instant interpretation into other languages to allow employees from around the world to take part.

The Brazilian Delegation this year opened its business school for sales and marketing personnel, which offers both lectures and hands-on classes, keeping participants up to date with the latest trends and best practices with regard to sales techniques and marketing principles. The program began in April and May 2005 and had already trained more than 200 professionals from every sector in the Delegation by the end of the year. One of the school's aims for 2006 is to design new courses that round out its offerings across beginner, intermediate and advanced levels.

• Preparing for and facilitating the Group's international development

The Group's expansion into high-growth markets calls for substantial training efforts, to build throughout the world the skills that Saint-Gobain operations require. Beginning in 2005, the Group decided to deploy its major international programs to new geographical areas.

The Group's Management School for executives now operates in Europe, North America, South America and Asia.

A number of courses for specialists from the main functional lines, such as Finance or Purchasing, have also been deployed globally, under the responsibility of General Delegations. Management accounting seminars were held in South America and Asia, and the many course offerings for the Purchasing function included "Advanced Purchasing", which focuses on building a purchasing methodology that takes into account the entire purchasing life-cycle.

The Group is intent on consolidating its operations in emerging countries through the development of local management teams. For this reason, executives are the prime beneficiaries of the investment in training in these regions, in Latin America (where they average 85.5 hours of training), Central and Eastern Europe (66.5 hours), but also in the emerging nations of Asia (64 hours).

• Reinforcing leadership skills

Management training is one of the key focuses of the Group's human resources policy, and the General Delegations play a major role in this area, as demonstrated by the large number of local initiatives rolled out in 2005.

In North America, the Management Program, which had been designed by the Delegation for the High-Performance Materials Sector in 2002, was extended in 2005 to all sectors in the US and Canada. This training course is composed of two seminars developed in a partnership with the University of New Hampshire, geared both at young Group executives needing advice and guidance, and to seasoned managers looking to update and refresh the practices and methods they use in leading their teams. The first seminar, entitled Management Development Institute, lasts two weeks. It is intended for executives running a sizable team and wishing to design a personalized, effective action plan to manage their staff. The second seminar, Supervisory Institute, addresses the needs of managers with more limited responsibilities. It focuses on the motivation and personal performance of employees.

The Group Management School mentioned above also deals with these issues in training courses for supervisory-level staff in France, which provide practical tools of team leadership and conflict resolution.

During these seminars, which last for seven weeks over the course of a year, each trainee is helped by a mentor. The mentors themselves are offered a four-day training program on the key points of the mentoring process, which also allows them to broaden their perspective on management issues.

• Strengthening the Group's corporate culture and promoting the sharing of best practices

Training plays a fundamental role in developing the Group's corporate culture, as training sessions and seminars provide opportunities to bring together employees from different operating units, businesses and cultures.

For example, the Group Management School does more than train the Group's executives. It is also expected to be a veritable crucible of Saint-Gobain's corporate culture, where employees from around the world can interact, share their experiences and develop common approaches to their work. It is clearly generating increasing interest, as shown by its 373 attendees in 2005, up from 223 in 2004. The number of executives from emerging countries rose by a spectacular 126%, to 113 from 50 in 2004. The plan to build a Saint-Gobain Campus furthers this trend toward unifying the Group's corporate culture, as it will allow staff from many different countries to meet in a single place.

Building this culture clearly takes more than any Group-level structure can provide, however. All training programs at sector and Delegation levels have their part to play, particularly through their integration of the Principles of Conduct and Action, which represent the shared bedrock of the Group's culture. More broadly, the development of online training tools such as the EHS, Finance, 5S, and 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.

e) Appraising and listening

The Group is constantly seeking opportunities for dynamic and interactive exchange with its employees.

The ***Carrefours Saint-Gobain*** meetings organized four times a year serve precisely that purpose. They bring together 200 to 300 executives and give the participants a better grasp of Group strategy. The Group's most senior leadership, including the Chairman and Chief Executive Officer, speak at the meetings to discuss and comment on Saint-Gobain's strategic focuses, priorities and objectives, and to answer the attendees' many questions.

Some of the Delegations and companies also make use of **employee satisfaction surveys** to gauge morale at all levels and design concrete local action plans based on their findings.

Finally, the annual performance evaluations mentioned above (page 84) provide an opportunity for the management to establish an important dialogue with each employee. These interviews, which represent a key ingredient of the Group's HR policy, should be extended to all executives and are strongly recommended for non-executives. Their objectives comprise interviewees taking stock of their functions in concert with their manager; appraising results in relation to the objectives set at the beginning of the period; assessing what skills are required, which ones have already been acquired and which ones remain to be developed; setting objectives for the next period and defining ways of reaching them; voicing and testing out development projects and opportunities that the Group can offer.

f) Updating HR management tools with SINERhGIS

In 2005, the Group human resources management department began modernizing its HR management applications, so as to maximize its effectiveness and the quality of the services it provides. The SINERhGIS application was the outcome of coordination meetings between the Group, the sectors and Delegations, with input from working groups, between January and May 2005. This new HR management application will be gradually rolled out beginning in 2006. It should allow better management of executives' competencies and mobility, using a database shared by the Group and all sectors and Delegations. It will speed up HR reporting at all levels within the Group and improve its reliability, as Delegations' input will automatically feed into the common database. It will also help harmonize administrative HR management practices within each Delegation, yielding savings on administrative costs.

III – Development based on a proactive EHS policy

The industrial, technological and distribution operations fueling the Group's growth bring into play a great variety of business processes, materials and methods. The parameters for these operations are set by Saint-Gobain's Environment, Health and Safety (EHS) 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) Overall objectives, translated at the local level

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 70), 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 – the EHS Policy and the EHS Charter – define and specify the Group's policy in these areas.

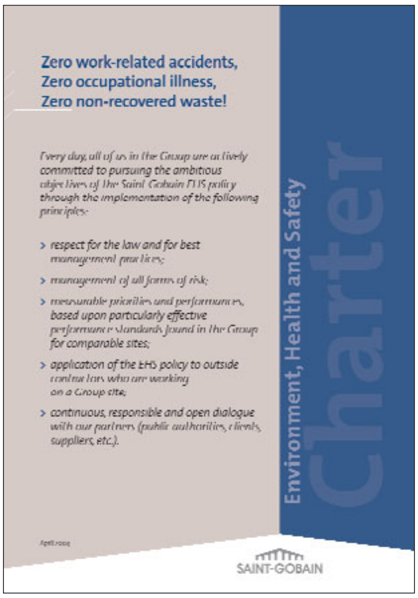
• EHS Policy

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.
It is distributed to all facilities managers in the "Charter and Resolutions" brochure and is available on the Group's Intranet portal.

• EHS Charter

The EHS Charter, an offshoot of the EHS policy, is on display at all Group sites. It aims to get all 200,000 of the Group's employees working towards three key objectives: zero work-related accidents, zero occupational illness, zero non-recovered waste.

The EHS Charter, launched in April 2004, is on display at Group sites:



Executive Management sets priorities and quantitative objectives for the entire Group, in the areas of health (deploying standards), safety (reducing the incidence rate of workplace injuries) and environmental protection (optimizing the use of materials and reducing atmospheric emissions of pollutants, for plants that use high-temperature processes). These objectives are translated by the sectors and Delegations in accordance with the conditions applicable to their business. Each facility then uses the objectives as a reference framework from which to design an annual EHS policy, taking into account the specific constraints 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 Executive Management. In each sector one or more persons are in charge of designing an EHS policy tailored to the specific context of the sector's operations and implementing it. 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 business line EHS initiatives, and for ensuring compliance with national regulations. To strengthen this network, Point.P, as an example, has set up a team of safety coordinators, currently numbering 20 people, in the 17 French regions where it has sites.

The sector- and Delegation-level managers, with the Group EHS Department and their local correspondents, form a network of professionals that support operations managers in designing EHS policies and facilitating their implementation. 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 guaranteeing consistency with the overall objectives.

The **EHS Committee**, which includes the sector- and Delegation-level managers, meets at least twice a year (it met three times in 2005) to review issues of interest to all Group companies and share feedback. These managers more and more often hold similar meetings in the sectors and Delegations, with their own network of correspondents. The Pipe Division thus held its first EHS Day in February 2005, with participants from every country where the business is represented. In France, where EHS matters had until then been managed separately by each sector, a specific Health and Safety Committee was set up at the end of 2004, to promote additional synergies and ensure greater consistency of EHS measures.

Within the EHS network, doctors and industrial hygienists also meet separately to consider technical aspects of preventive health measures. Finally, meetings of project specialists take place around specific issues such as the Gaia reporting application or the launch of the NOS and TAS projects (see pages 94 and 95).

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 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 dedicated EHS application deployed in 2004 (see page 91).

All these meetings, added to daily exchanges and the use of information available on the EHS portal, allow EHS teams at all levels of the Group to work successfully in a network, ensuring that the company's EHS messages and tools are consistently passed on in ways that build synergies between businesses and countries.

• 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 and its Research & Development teams.

In its work on furnace design, **Saint-Gobain Conceptions Verrières's** brief includes improving the environmental performance of glass melting processes. Three issues are the subject of in-depth work: optimizing combustion to reduce nitrous oxides (NOx); developing energy-saving and CO_2 abatement processes; and recycling products and process waste. The results of this work are then used and applied by the Sectors, especially the Flat Glass Sector which has its own development teams working on these subjects.

Research & Development teams, in 13 research centers and around one hundred development units, work on many environment-related issues. Among the subjects these teams are focusing on are the development of new products like the particulate filter, ways of reducing our facilities' emissions of carbon dioxide and nitrous oxides, or the recycling of our products at the end of their life-cycles. EHS teams are integrated into the organization of several research and development centers, not only so that they can research health and safety matters, but also so that their approach can be worked into the very design of the Group's new products, especially with regard to preventing toxicity risks or optimizing ergonomics.

"Innovation Days" are periodically organized by Saint-Gobain's three research centers (Saint-Gobain Recherche, Northboro R&D Center and Saint-Gobain CREE), each in turn. During these events, mornings are usually open to outside guests, while afternoons are reserved for Saint-Gobain workgroups. This process allows the various concerned communities – R&D, sales and marketing, production or EHS – from all Group businesses to meet and exchange on issues with strong innovation potential for Saint-Gobain. In 2005, a number of the subjects discussed during these days touched on sustainable development themes, such as clean technology (generating less CO_2 and volatile organic compounds) or new energy sources – from fuel cells to solar and wind energy, and including biomass and micro turbines.

In 2005, research expenditure directly related to environmental matters came to €17.1 million. 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 business line level, which require at least three times the initial investment.

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 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, identifying 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 throughout the Group. 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). The Company launched a dedicated self-study program in 2005, through an e-learning process that is freely accessible from the Archibald portal.

The sectors and Delegations, and then the companies themselves, design and develop their own tools, taking into account the specific constraints of their business.

BPB implemented in 2000 the *World-Class Manufacturing* (WCM) method, a quality-centered approach that promotes good working conditions to raise productivity. Safety, industrial health and the environment are its prime focuses.

Evaluations and controls

EHS audits

Actual EHS audits offer the most in-depth and reliable evaluations of the EHS management system at the level of the Group. Whether they are launched at the initiative of the Group or of Delegations, in consultation with sector-level leadership, they rely on a cross-sector process, with audit teams from outside the sector that offer the necessary independence but also know Saint-Gobain's EHS policy thoroughly. These EHS audits are known as "integrated" audits because they deal with all three aspects of environment, health and safety at once. The audit reference grids are in fact in full compliance with both OSHAS 18001 and ISO 14001 standards.

The "20-step" audit is intended for the Group's industrial businesses. A "12-step" audit, created in 2005 to meet the particular needs of distribution operations, was tested in a number of stores in France and abroad in the second half of 2005. In 2005, 137 "20-step" audits and 44 "12-step" audits were conducted.

EHS auditors are drawn from a pool of experienced managers, not only from the EHS field but also from human resources, quality assurance or risk management. They receive specific training for the auditing process. The deployment of this program continued in 2005, with sessions organized in the Benelux countries, Spain, the US, Brazil and China. In France, the Group began in 2005 to set up a professional certification course for its auditors, taught by outside consultants specialized in audit methodology and seasoned in-house auditors providing expertise on the Saint-Gobain auditing process.

The aim of audits is to produce practical recommendations and action plans, the implementation of which is tracked by the plant manager and the local EHS manager, supported by the EHS Department at Delegation level and, for France, at sector level. The most common recommendations concern EHS management, technical issues and the need for training.

Internal audit

The second level of control for practices related to health, safety and environmental protection is performed 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, including EHS. About 50 such internal audit engagements took place in 2005. They are centralized by the parent company and are performed by a dedicated team that also follows up on audit recommendations. If any flags raised in the course of such an internal audit suggest the need for an in-depth EHS audit, EHS teams take over the process.

Self-diagnostic tools

This general-purpose internal control tool is made up of a detailed list of questions and an evaluation grid to allow site managers to review, quickly and easily, their facility's EHS situation.

Here too, two types of self-diagnostics have been designed, one for industrial sites and the other for distribution operations. The first was overhauled in 2005 to make its interface more user-friendly and tailor its content more closely to the needs of the operations it monitors. The second application is only available in France for the time being, but it will be rolled out to all Delegations beginning in the second half of 2006. Unlike the industrial self-diagnostic software, it is intended for small-scale facilities of less than 50 employees and it takes into account two features that are particular to Building Distribution – the presence of customers on the site and a more dispersed management structure that is less hands-on and directive. By the end of 2007, all industrial and distribution sites will be required to complete the self-diagnostic process, except for those that had an EHS audit that year.

Reporting

Since 2004, the Group has been using a new centralized EHS 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 sector 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 possible a previously unheard-of level of interaction among all of the Group's EHS stakeholders.

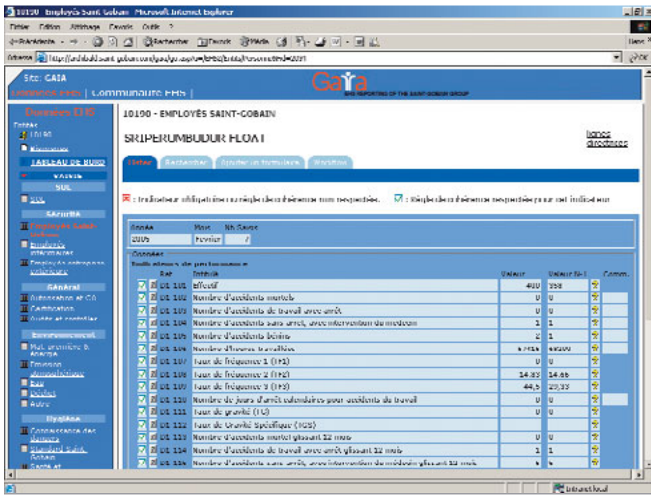
More importantly, it provides EHS leadership at parent company, sector and Delegation levels with real-time access to facilities' results so that needs can be pinpointed and help delivered much more rapidly.

In 2005, following a year of use, Gaia was upgraded with new functions, including one that allows consolidation of results in real time at Delegation, business and entity levels. Among other tools now available, users can access a library that is searchable by subject index, get help from an expert consultant function, follow up on audit findings or look up fellow users in a directory.

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.
- "Crisis" reporting through the "Safety on Line" system, which allows facilities to instantly report any injury resulting in lost workdays and explain 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 industrial 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.



Gaia, 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 remains committed to obtaining environmental certification at those sites for which it is relevant. This includes facilities subject to permit requirements and sites whose environmental impact was deemed significant by the management of the businesses and companies responsible for them.

At December 31, 2005, 30.8% of sites concerned had obtained **environmental certification** under ISO 14001, EMAS or similar standards, which corresponds to 22.3% of the sites included in the safety reporting process, up 67.1% on 2004 (bearing in mind that some facilities included in safety reporting have little or no impact on the environment). BPB also has 19 sites that have attained environmental certification (18 of them under ISO 14001).

A total of 55.8% of sites reporting safety data had **quality certification** under ISO 9001:2000, ISO 9002, QS 9100 or other standards – and this does not include the Point.P and K par K sales outlets, which are certified on a collective basis. Lastly, 13.1% of sites had health and safety certification such as BS 8800 or OSHAS 18001. Point.P is also aiming to obtain its first OSHAS 18001 certification for a pilot region in 2006, with a view to having all its sites certified by 2008. The Packaging Sector is aiming for OSHAS 18001 certification for all its sites by the end of 2007.

Financial resources

In 2005, capital expenditure on environmental protection rose to €75 million, up from €68 million in 2004, supporting the strengthening of the Group's environmental policy.

This figure covers the following:

- protective equipment, e.g. systems for remediation or protection, means of preventing accidental pollution, and measurement and/or alert equipment;
- economizing, e.g. equipment for reducing consumption of raw materials or energy and primary measures to minimize pollution at source;
- recycling, e.g. systems for recycling raw materials, production scrap, water, calories, etc;
- R&D expenditure to optimize product life-cycles.

These amounts calculated above take account of specific environmental investments, as well as, where possible, the estimated environmental portion of various other investment programs (quality, production, EHS, etc.).

Environment-related expenditure dipped slightly in 2005, to €150 million. This includes the wages of all individuals working in the EHS field, EHS training costs, depreciation and amortization on environmental protection assets, insurance cover and guarantees, research and development expenditure, outlays for obtaining or maintaining ISO or EMAS environmental certification, the cost of external contracts and all other environment-related expenses.

In 2005 the Group wrote back €6.5 million from its provisions for environmental risks.

Training and communication

Training

Training offers a unique opportunity to spread the knowledge that 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 one-fifth of training hours provided in 2005, up from 17.3% in 2004.

Each year, the Group updates the core curriculum it has defined for all training courses, which includes 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 identifying risks, industrial health or environmental methods, audits and the resulting feedback.

As an example, the Packaging Sector organized Health and Safety seminars for all senior and middle management teams in France, to make all operations personnel aware of their moral and legal responsibilities in the area of safety. Six of these seminars were held in 2005 and a dozen more have been scheduled for before March 2006.

Lapeyre, for its part, decided to offer courses in workplace first aid (known as *Secouristes Sauveteurs du Travail* or SST), after the management realized that the number of workplace injuries was inversely correlated with the number of employees who had received this type of training, which helps build awareness of safety issues. The company's objective is now to have 25% of its staff at industrial sites trained in SST methods.

Communication

EHS issues are a major focus of internal communications, at Group, sector, Delegation, company and site levels.

Events

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. The UK and Italy, among other Delegations, have set up similar ceremonies of their own, to give their teams added encouragement. Some companies have also done the same at their level: Lapeyre held its own safety awards ceremony for the first time in January 2006.

The Communications Stars awards, the in-house awards for communication initiatives by Group companies, had 18 submissions in the EHS category. The three nominated projects were the following: the Point.P safety guide, which is handed out to the company's 23,500 employees; the "no more accidents" program launched by Saint-Gobain Euroveder Italy, which involved installing a life-sized human figure made of wood and painted red in the precise spot on the factory floor where an accident happened in order to draw everyone's attention; and Saint-Gobain Abrasives's campaign for road safety in Poland. The latter was called "Safe on the road, safe on vacation." It was organized at the outset of summer vacations and was meant to make employees more aware of safety in their daily life. Several other Group entities have taken steps to contribute to educating employees and their families on health issues beyond the workplace. The North American Delegation, as an example, has created the "LiveWell" Program to give Saint-Gobain employees in the US and Canada information on health and well-being, with tips on ways of achieving lifestyle goals.

A follow-up on the international Safety and Health Day of October 2004, announced in September 2005, will take place throughout the Group on June 13, 2006. All employees worldwide will be meeting, site by site, for debates and exchanges around the issues of health and safety. Several Delegations also held similar events for their teams in 2005. India had a safety week from March 4 through 11, with activities like a slogan-creating contest and firefighting drills; China held a safety day on November 4, under the heading of "protecting yourself means preserving your family's harmony"; CertainTeed's November 15 event allowed the 7,000 employees of the company to learn about their objectives for 2006.

In-house publications

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. EHS management has also come out with a new dedicated EHS newsletter, *EcHoeS*.

The Delegations and sectors also include EHS information in their own internal communications publications. The Benelux, Italian and Indian Delegations, among others, also publish specific EHS newsletters, as do the High-Performance Materials Sector, the Lapeyre Group, SGBD-UK and SGG Italy. The Delegation to the UK also created its own, "Safety Matters" campaign in 2005. But communication is especially intense at the level of sites themselves because, like training, it is one of the keys for raising performance.

c) Integrating outside contractors and customers

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.

At sites where **customers** may be present, risk-prevention measures have been taken to guarantee their safety. In Building Distribution businesses, the Group EHS Charter is on display in the "back office" part of the facility, while a slightly different charter, addressed to customers and expressing the site management's concern for their safety, is posted in the customer-facing area. The self-diagnostic software for distribution operations includes the criterion of informing customers on safety issues.

In 2005, Point.P also carried out three major campaigns informing customers on EHS questions. Its "*Carnets de chantier*" publication ran a special feature on environmental management; the company advertised the importance of individual protective equipment; and, in partnership with the Red Cross and trade unions, Point.P offered employees from its customer companies the opportunity to attend first aid training.

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.

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 areas. A new methodology based on common industrial health standards was implemented in 2005. It will allow better risk assessment and monitoring, and will 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. Issues of exposure to noise are of course managed locally and site managers decide on investments in collective protection equipment.

In 2004, the Group pre-empted, across the board, the entry into force of the new European Union Directive on measuring and reducing noise levels in the work environment, by designing its own NOS (*NOise Standard*) program which complies with the Directive. This process for detecting, measuring and controlling potential sources of exposure to noise in the workplace was rolled out to the entire Group in 2005. Its objective is to protect all employees and contractors. Based on the indicators derived from the standard, action plans and monitoring and control processes can be set up over the long term. This standard is applicable to all Group entities, regardless of the requirements of national law, which it may sometimes exceed. The standard also includes a harmonized noise measurement method based on a statistical approach, to ensure consistent implementation at all sites (based on a classification into low, medium or high exposure levels). A Group-designed kit helps the various entities meet the needs of local training with the help of expert trainers, using specific tools. By 2007, the standard should be deployed to all Saint-Gobain sites, via Gaia.

• 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, have 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 at sector and Delegation levels.

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.

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.

At Point.P, muscular-skeletal diseases are the number one health risk for employees, because of the extensive handling operations required in the Building Distribution Sector. For that reason the sector launched, in 2006, an ergonomics action plan, under which it sent occupational hygienists into pilot sites to study risks and potential solutions. Training on gestures and postures already accounts for 25% of the overall training budget.

In the High-Performance Materials Sector, some sites have started using color coding labels on products that need to be handled. A green label indicates that the product can be lifted by a single person, but a red label advises against attempting to pick up the item on one's own.

In addition to providing specific training, Saint-Gobain Weber, within the Construction Products Sector, has started installing variable height tables on hydraulic jacks, at most of its sites.

Lastly, an industrial hygienist was hired in 2005 at the head office of the Pipe Division, to find solutions to the ergonomics issues its businesses face.

• 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 measure and control through appropriate solutions.

Tools

In 2004 Saint-Gobain implemented the Toxic Agent Standard (TAS) to identify, assess and eliminate or control potential sources of exposure to toxic agents in the workplace. In 2005, a pilot project was launched to design a common methodology for measuring exposure to crystalline silica in the workplace across all countries, regardless of local legislation. With comparable exposure data from all sites, it will be considerably easier to implement action plans for risk reduction. On November 30, 2005, the crystalline silica measurement kit was officially deployed. It includes a training guide and other teaching materials, a silica dust measurement protocol, tools to collect samples, the assessment standard and a film presenting the CIP 10 system (for collecting samples) that explains how to use it, including in the laboratory analysis phase. The TAS will continue to be deployed in 2006 and 2007, as the silica kit is cascaded to all companies and as all employees attend training on this issue. Each facility where silica dust has been identified as a risk factor will be required to monitor its employees' exposure, even when local regulations do not demand it. The same methodology will then be adopted for other substances used in Saint-Gobain's industrial processes.

The sectors and Delegations have already implemented a number of risk-reduction solutions that are appropriate for each business. The *Toriman* system, implemented by the High-Performance Materials Sector, meets the requirements of the TAS across all the substances used by the sector's companies. This system has now entered its second phase, which involves coming up with a recommendation for each family of products based on its level of hazardousness and the way in which it used. This can range from replacement with another product to investing in collective protection equipment. In 2005, 300 employees were trained in the use of the *Toriman* system, throughout the world (Europe, US, India and Brazil).

Substances

Because several Group businesses are concerned by the specific issue of crystalline silica, Saint-Gobain decided to play an active role in negotiations on labor regulations taking place at a European level, involving the European Union, industrial companies and trade unions. The Negotiation Platform on Silica (NePSi) should lead in the course of 2006 to an agreement on working conditions, setting out best practice guidelines for reducing exposure of employees, tracking performance in this area and monitoring employee health. This agreement is a first at European level on this issue.

The issue of wood dust mainly concerns Lapeyre. The company undertook five years ago to reduce its employees' exposure to this type of dust, and the number of individuals exposed has declined to 10% in 2005 from 25% in 2001. Lapeyre has set up continuous monitoring, with a requirement to measure exposure levels regularly against annual improvement targets; this was first done in its factories, but also, since 2003, in the workshops at its stores, where technical improvements have been implemented alongside the monitoring and measurement processes.

• Biological risks

Following an outbreak of **legionnaire's disease** in France at the end of 2003, and in accordance with new French regulations issued in 2004, the French authorities took proactive steps to prevent and control risks in this area.

All sectors concerned in France took the necessary measures to ensure compliance, such as monthly or weekly monitoring of water quality, frequent cleaning of pipes to prevent the formation of a bio-film, and audits by approved outside firms. Most sectors also organized seminars on crisis management. Some sites overhauled their plumbing, eliminating any pipe bends where stagnant water could accumulate, as this can promote the development of the bacteria responsible for legionnaire's disease. Although these strict regulatory requirements only apply to France for the time being, several sectors are considering extending these practices to other European countries, as well as outside Europe.

• Nanoparticles

In response to growing international concern regarding the EHS risks posed by **nanoparticles**, a cross-functional watch-group composed of R&D and EHS experts set up at the end of 2004 was charged with monitoring developments in this area, based on a precautionary principle, since there are currently no regulations in this area. It was asked to collect and distribute all information available on this subject, then to issue recommendations.

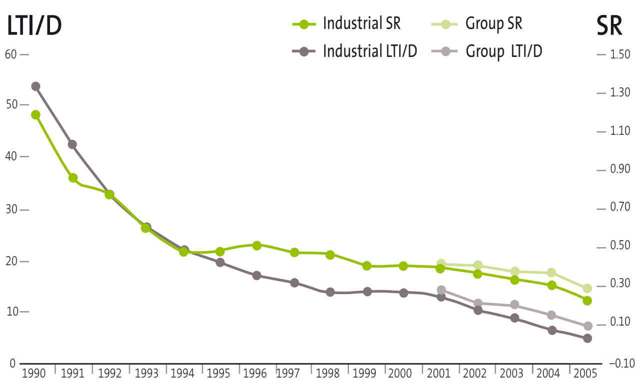
The Group has come to a certain number of positions following the watchgroup's findings. Research and development teams using nanoparticles are required to assess the risk involved in each use and, for some uses, must request prior permission. A person in charge of assessing risks for each R&D project must also be designated at each center. A similar approach will then be rolled out to manufacturing operations and applied to the use of certain products.

b) Safety: encouraging progress, that needs to be furthered and strengthened

• Changes in LTI/D and SR

For 2005, the Group LTI/D (lost time injury/days for every million hours worked) came to 7.1, down 23% on 2004 and 35% lower than in 2003. The severity rate (SR) fell to 0.28, from the 2004 figure of 0.36. This satisfying progress concerns all sectors and almost all Delegations. Nevertheless, some sectors still need to keep up their efforts.

Changes in LTI/D and SR – Group and Industrial Sites



By Sector

Building Distribution recorded a very significant drop in its LTI/D, to 12.4 from 16.2 in 2004, as well as a fall to 0.39 in its SR (from 0.48 in 2004). These improvements are mainly attributable to the application of safety management systems since 2004 throughout this sector. Point.P, as an example, implemented a QSE (Quality Safety Environment) system in 2005, after having assessed the particular EHS risks it faces in its distribution operations. Once objectives had been defined and dedicated procedures developed, the QSE system could be implemented, with three main focuses for the management: maintaining regulatory compliance, involving the senior leadership and generating employee buy-in. Audit and self-diagnostic processes provide the QSE system with the necessary course correction en route to ensure its success over the long term.

The industrial sectors have recorded even more significant decreases in their LTI/Ds, as a result of adopting new policies, many of them rolled out from Group level. The average incidence rate of injuries with lost workdays for the industrial businesses was 4.6 in 2005, a 26% fall from 2004 and 46% down on 2003. The severity rate dropped 23% to 0.23 in 2005 from 0.30 in 2004.

The sector with the sharpest improvement in LTI/D was Construction Products, with a 1.9 point reduction, representing 33%. The Pipe Division made especially impressive efforts in 2005, adjusting its LTI/D objectives downward throughout the year, from 7 originally to 5, before finally hitting 4.7 at the year-end. However, the High-Performance Materials Sector once again came first with the lowest incidence rate of injuries with lost workdays in the Group, coming in at 2.2 days per million hours worked, down from 2.5 in 2004. On average, the falls in LTI/D ranged from 12% to 33% for the Group's industrial businesses.

By Delegation

The vast majority of Delegations recorded improved LTI/D performance, with the Benelux countries and Poland as the only exceptions.

Eight Delegations had an LTI/D rate of less than 5 in 2005, up from six in 2004 and three in 2003: Brazil and Argentina, Asia-Pacific, India, Germany, North America, the Nordic countries and Poland. In 2005 the Asia-Pacific Delegation was the star performer, with an LTI/D of 1.6, reflecting a 27% fall compared with 2004. The remarkable progress achieved by the UK, Italy and France is also worthy of a mention (even though France still has the widest margin for improvement): the three countries' LTI/Ds fell 39%, 43% and 28% respectively.

• Fatal accidents

Despite all the preventive action taken, the Group recorded with great sadness a total of six fatal accidents in the workplace in 2005, as well as five cases of heart failure and four fatal road accidents.

The more stringent in-house procedures for responding to such fatal accidents that had been introduced in 2004 were applied in 2005. The Group EHS manager or his/her deputy goes to the site of the accident to review its circumstances. 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

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, 2005, 99 sites had gained the prestigious membership in the Club; 47 of them had clocked more than a million hours worked without a lost-time injury caused by an accident, and 52 smaller-sized sites had even held this performance for over five years.

The Millionaires' Club – Breakdown of membership at December 31, 2005

Sector	Sites with over 1 million hours worked without a lost-time injury caused by an accident	Sites with over 5 years without a lost-time injury caused by an accident
High-Performance Materials	24	27
Construction Products	10	13
Flat Glass	8	8
Packaging	5	4
TOTAL	**47**	**52**

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 two priorities:

• Optimizing the use of materials in the Group's industrial processes. This key goal involves controlling waste, developing 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 (NO_X) and sulfur oxides (SO_2).

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, used for the first time in 2004. The system continued to be deployed and refined in 2005, resulting in a broadening of 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 greater scope.

Data on emissions per ton produced are based on sellable tons.

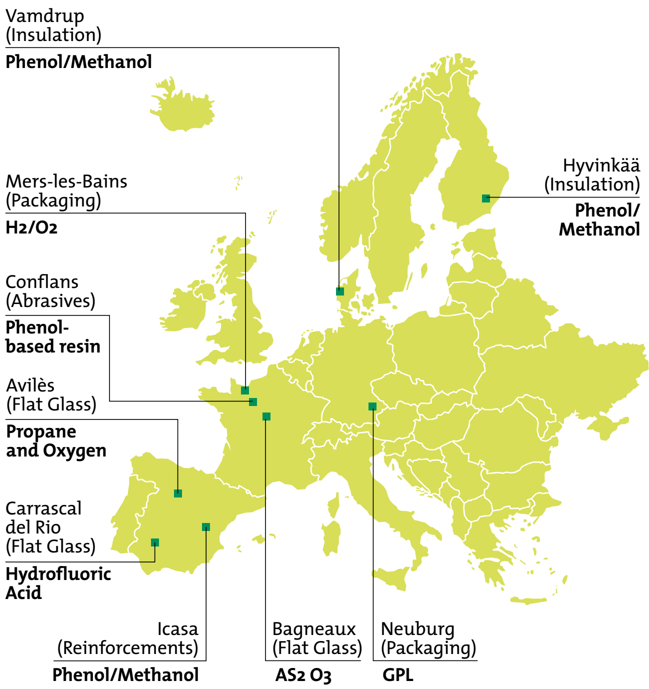
a) Limited and controlled industrial risks

• Three levels of risk

• Nine sites are subject to specific regulations

At December 31, 2005, nine of the Group's Europe-based sites were classified in accordance with the Seveso 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. Classification is not based on the sites' manufacturing processes, which are free of major industrial risks, but on their storage of hazardous materials.

Location of "Seveso-classified" sites



Outside the European Union, the Group has **two other sites subject to regulations equivalent to the Seveso Directive.**

One site in Switzerland is classified as hazardous under the Ordinance Concerning Protection against Major Accidents (OPAM). The Lucens-based site stores hazardous materials used in manufacturing insulation products. It will, however, no longer be subject to its current classification as from April 2006.

In the US, 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 is regulated by both the Risk Management Program Rule (RMP Rule) and the Emergency Planning and Community Right-to-Know Act (EPCRA).

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 2005, the Group did not have to pay any material court-ordered damage settlements related to environmental matters.

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 (crushed recovered glass) in their processes. In 2005, the glass businesses consumed 13.6 million metric tons of new materials and 6.8 million metric tons of cullet (produced both in-house and externally). Glass melted from cullet (from in-house and external sources) accounted for 46.1% 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. However, in 2005, the Flat Glass Sector set up a system for recovering cullet at glass processing sites, installing cullet collection bins and, at Sekurit sites, sorting cullet by type of glass. This policy was gradually extended throughout the year and France, the Benelux countries and Germany have now made considerable headway in implementing the system.

Pipe

To produce cast iron, the Pipe business 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 2005, the proportion of recycled materials per ton produced was 64.3%, 11 percentage points more than in 2004. This increase was largely the result of increased production at the Chinese sites, which only work with secondary smelting, as well as a slight decline in business in Brazil, where secondary smelting also tended to replace primary smelting.

In addition, the Pipe business 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.

• 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 indefinitely 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 small amounts of 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, 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 oil.

In all, the Group generated 3 million metric tons of solid waste in 2005, of which 41% were recycled or reused outside the Group and the remaining 59% were disposed of as final waste. Many sites are in the process of beginning to monitor their waste. They are currently defining what items to include in the reporting process, which will vary from one business to another. The waste reporting process for some Group entities was therefore improved in 2005, resulting in more accurate waste generation figures. The year-on-year increase in this indicator is also due to the increased scope of reporting; the figures for 2004 chiefly covered the Group's main industrial plants.

In 2005, the Group broadened the scope of its reporting and began to use new indicators to track costs incurred by the entities in managing their recycled waste (mainly production scrap recycled both internally and outside the Group) and non-recovered waste (landfilled or incinerated with no energy savings). It also introduced indicators designed to monitor gains from recycling waste in the form of energy savings, lower raw material consumption, etc.

Based on an analysis conducted in 2005 on a representative scope of the Group's businesses:

- managing non-recovered waste accounts for approximately 60% of total waste management costs;
- in value terms, gains from recycling waste represent around one-third of total waste management costs.

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 into an opportunity – by identifying sources of usable raw materials within the waste stream.

At Group level

The new Procure method of environment-friendly waste management, set up in 2003 and gradually deployed since 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 streamline processes and gain more detailed knowledge of waste generation patterns, in order to set up partnerships with specialized regional or national suppliers.

In addition to making waste management more efficient, 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.

Procure waste management agreements continued to be rolled out in France in 2005. They have now been applied at all major Saint-Gobain sites in France, including Distribution facilities. New recycling options have been developed, for example with some of the waste from the Insulation business. The Benelux Delegation continues to mine new opportunities for savings in this area. In Germany, Spain and the US, the implementation of these contracts has led to significant decreases in waste management costs. Poland also took up this approach, drawing upon other countries' experiences. Italy, where negotiations are in progress, expects to finalize agreements in the course of 2006. The UK, China and several Central European countries will also be integrated into the process in the course of 2006.

Within the sectors

Alongside the work of the Purchasing function on this issue, sectors are also endeavoring to enhance the quality of waste management.

The High-Performance Materials Sector gave its sites a short guidebook on waste management, which includes recommendations on mapping 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. In Brazil, a specialized unit was created to recycle all the waste from the country's Abrasives sites.

The Insulation business is now able to recycle the bulk of its production scrap, through two methods. The Oxymelt process allows the recycling of all glass wool scrap, by burning off any organic materials in a furnace and recovering cullet. Many Saint-Gobain plants have adopted it, in Sweden, Korea or France. The facility in Orange, France, which also handles scrap from nearby Chalon sur Saône, recovers in-house more than 95% of its waste by using Oxymelt. The Cyclone method, used with fuel-heated furnaces, was developed in Germany and is in use at two factories there. A few initiatives have also been launched to set up recycling of waste from construction or renovation sites, though these face complex logistical issues.

Lapeyre, in a joint project with Point.P, designed an application for reporting of waste generation and organizing recycling or reuse.

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 70 Group facilities in its first stage of implementation (2005-2007). Of these sites, 68 are glass manufacturing plants, one is a Pipe facility and one an Abrasives site. Allocations by facility have still not been finalized for Poland, which represents about 3% of the overall allocation. As regards BPB, which was acquired in December 2005, four sites are subject to these quotas, with total emissions of slightly less than 100,000 tons of CO_2, amounting to 1.5% of the quotas managed by the Group. They will be included in Saint-Gobain's centralized management process in 2006.

The Group was actively involved in the negotiations on quota allocation and contributed to exchanges of information and feedback among the different countries. In light of the introduction of these quotas, the Group's Glass businesses had 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, plants covered by AERES are independently reviewed by Ernst & Young.

In 2005, Saint-Gobain emitted 12 million metric tons of CO_2, of which 6.8 million were generated in Europe, and 6.35 million fell under the quota system.

Emissions from glass plants today represent an average of 605 kg of CO_2 per metric ton produced. Emissions per ton can vary according to the type of glass manufactured, from 520 kg in Packaging to 992 kg in Reinforcements.

Including recycled materials in production processes is a first emissions-reducing method. In glass operations, 255 kg to 300 kg of CO_2 emissions are avoided for each ton of cullet used.

Most Group companies are on a drive to reduce their energy consumption. On average, producing one metric ton of glass requires 2,558 kWh and a ton of cast iron takes 3,480 kWh.

The Glass businesses' total energy consumption in 2005 amounted to 37,670 Gigawatts/hour (GWh), 3.6% more than in 2004, mostly because of an increase in the total volume of glass produced, but also as a result of changes in the product mix and a more reliable scope of reporting. Fuel oil and natural gas are the main energy sources.

Many of the Flat Glass Sector's products lead to genuine reductions in emissions by their users, particularly low-emission glass and insulation materials which lessen the need for air conditioning and heating (see page 104).

In 2005, the **Pipe business** emitted 1.03 metric ton of CO_2 per ton of cast iron. It consumed 5,240 GWh, a 5% increase on 2004, in line with a 4.7% expansion in production. Energy consumption per ton of cast iron produced was basically unchanged. The main energy sources for this business are coal coke (in blast furnaces and cupola furnaces), but also electricity and natural gas. The efforts of the Pipe business are focused in four directions: improving plant yields and energy performance; making increased use of the less energy-intensive secondary smelting; designing more even production schedules that avoid the "stop and go" effect and its attendant large energy consumption with each restart; and injecting natural gas and oxygen in the melting process.

In the **High-Performance Materials Sector**, energy use remained practically stable in relation to 2004, at 4,788 GWh. The Abrasives site of Worcester, Massachusetts, decided to install T-8 high intensity discharge lightbulbs in all areas of the facility and this yielded savings of USD 250,000 on its electricity bill.

Group expenditure on energy amounted to €1.1 billion, 52% of which were spent on fossil fuels.

• Emissions of substances causing acid rain and nitrification

Saint-Gobain factories, mainly in the Glass and Pipe businesses, emit two types of substances that cause environmental acidification: sulfur oxides (SO2) 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. Both categories of emissions fall under the EU Directive on *Integrated Pollution Prevention and Control*, which aims to reduce pollution from industrial facilities in the European Union.

For several years, the different sectors have made it a priority to **reduce their SO_2 emissions** through the use of higher-quality fuel oil or coal, but also by reducing their energy consumption or setting up desulfuring processes. The Flat Glass and Packaging Sectors have scheduled a series of capital expenditure projects on SO_2 reduction and dust abatement.

The Glass businesses emitted a total of 30,046 metric tons of SO_2 in 2005, an average of 2.04 kg of SO_2 per ton of glass produced. Emissions per metric ton of glass varied according to the type of fuel used, from 0.768 kg in Insulation to 2.88 kg in Flat Glass.

The Pipe business emitted 590 metric tons of SO_2 in 2005, representing 0.39 kg per metric ton of cast iron.

Group companies have been endeavoring to **reduce their NO_X output** for more than ten years, by focusing on primary measures that eliminate or at least limit the generation of these NO_X 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. Saint-Gobain is today one of the world's best performing industrial groups for the reduction of nitrous oxides through such primary measures, particularly in its Glass businesses.

The FENIX (a French acronym for "low NO_X emissions", *Faibles Emissions de NO_X*) 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 can sometimes provide another interesting alternative, since by displacing nitrogen in combustion air they cause far less NOx emission. However, the economics of this technology make it difficult to apply to Flat Glass or Packaging.

The Glass businesses emitted a total of 36,489 metric tons of NO_X in 2005, representing an average of 2.47 kg of NO_X per ton of glass. However, this ratio varies from 1.05 kg per ton in Insulation to 3.69 kg per ton in Reinforcements. The manufacturing of cast iron products caused the release of 1,327 metric tons of NOx, representing 0.88 kg per ton of cast iron produced. The year-on-year increase in figures for the Pipe business reflects an expanded scope of reporting, as the amount of NO_X emitted per ton of cast iron produced remained stable.

• 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 into 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. In response to the European Directive on integrated pollution prevention and control, Saint-Gobain invested in a series of dust abatement upgrades involving electrostatic filters or bag filters, depending on the type of furnace. The Group is also devoting considerable effort to rolling out its Best Available Techniques (BAT) to all sites worldwide.

All glass furnaces and manufacturing lines generated a total of 5,754 metric tons of dust, which amounts to an average of 0.39 kg of particles per ton of glass.

The Pipe Division generates two different types of dust: "point source" dust and "fugitive source" dust. Point source dust – produced in significant amounts – has long been collected and treated. The treatment of this dust is continually improving in line with developments in technology. In 2005, the business generated 634 metric tons of dust after treatment, representing 0.42 kg per metric ton of cast iron. Fugitive source dust emissions are lower in volume but more difficult to treat. Fugitive source dust arises from metal smelting activities and is mainly composed of minerals. No standard methodology has yet been developed to quantify fugitive source dust emissions. However, in 2004 the Pipe business took steps to upgrade the collection and treatment of fugitive source dust. Specific equipment was installed at sites in France and Brazil and will be gradually rolled out to all Pipe facilities.

• Heavy metals

Other regulated hazardous substances emitted by the Group include heavy metals from impurities in raw materials used in furnaces, 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 burned in furnaces or land-filled.

• 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 facilities 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 plant.

In the south of France, the Packaging Sector signed an agreement with the World Wildlife Fund (WWF) for the protection of the Hermann tortoise. The Group purchased a piece of land for the specific purpose of providing a path for the migration of these tortoises, since one of the Group's quarries was on one of their traditional pathways.

• 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 32 quarries in France, the US, Brazil, Italy, Spain, Portugal and Hungary, from which it extracts raw materials for glass manufacturing, such as silica sand – the main ingredient in glass – as well as phonolite, dolomite, limestone and feldspath. In the US, 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.

Each quarry is managed in accordance with applicable local or national 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.

Following the December 2005 acquisition of BPB and the subsequent establishment of the Gypsum business, Saint-Gobain now runs 87 additional quarries. BPB has booked a provision for €45 million covering the remediation of sites at the end of their operating life.

• Purchases of wood

The Building Distribution Sector purchased over 2 million cubic meters of wood in 2005, of which tropical woods accounted for less than 5%. 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 and NGOs.

Within Lapeyre, eight 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 of sustainable forestry management, designed to ensure a balance between the environmental, social and economic imperatives at play. This certified purchasing process, adapted from a method promoted by the UK chapter of the WWF, makes it possible to analyze suppliers by ranking the level of risk they involve and defining what demands can be made of them according to their status. The proportion of wood from managed or certified forests rose to 82% in 2005, from 80% in 2004 and 55% in 2001, mainly as a result of replacing non-certified native essences with managed essences like pine and eucalyptus. Factories are also reducing their use of forest wood through better use of raw materials, by developing the use of reconstituted wood and enhanced gluing processes. At December 31, 2005, Lapeyre had three factories certified by the Forest Stewardship Council (FSC) and one certified by the Pan-European Forest Certification Council (PEFC).

In 2005, Point.P also set up within its supply chain a system for tracking the origin of purchased wood, using an analytical grid to rank suppliers. Point.P's wood-importing subsidiary is certified based on the PEFC and FSC chains of control, and the company also works in cooperation with Friends of the Earth, Greenpeace and other non-governmental organizations. Tropical wood accounts for 7.3% of Point.P's wood purchases. The company's imports from Brazil are made through Lapeyre's local subsidiary, while for other purchases it has set up a sourcing policy that gives precedence to suppliers that comply with local forestry regulations and commit to a code of ethics.

Both Lapeyre and Point.P have also thrown their 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.

Lastly, in the UK, 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 2005, certified wood accounted for 55% of SGBD-UK's total wood purchases by volume. In addition, at December 31, 2005, 130 of SGBD-UK's sales outlets had obtained "Chain of Custody" certification guaranteeing the traceability of their wood products.

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 the amounts drawn from the natural environment. Liquid effluent to be discharged is sometimes treated prior to being re-injected into the municipal network or natural environment from which it came. In 2005, the Group drew 100 million cubic meters of water. The increase in consumption compared with the 2004 figure of 86.4 million cubic meters was mainly due to the greater reliability of the scope of reporting.

Each metric ton of **glass** produced requires an average of 2.2 cubic meters of water, with a range that extends from 1 to 13.5 cubic meters depending on the business and the process used. The upper end of that range is attributable to the particular case of the Reinforcements business, in which 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. A number of local initiatives have been launched to reduce water consumption. One Flat Glass site in India, as an example, installed a rainwater basin with a capacity of 58,000 cubic meters in closed-circuit operation, which represents 100 days' consumption for the site. In all of 2005, this system allowed the collection of 105 thousand cubic meters of rainwater.

The **Pipe** business drew, for its cooling processes, 19 cubic meters of water per metric ton of cast iron produced in 2005, reflecting a 3.2% decrease compared to the previous year, thanks to its action plans to enhance water management and reduce consumption through increased recycling. At the Brazilian site of Barra Mansa, the installation of water recycling equipment brought about a 32% drop in consumption, to 2.9 million cubic meters from 4.3 million. The new Archimedes cement-application process that has already been implemented 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 17.15 million cubic meters of water in 2005, down 5.7% on 2004.

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:

- buildings that protect the environment;
- energy production, with 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 demanding environmental requirements present a remarkable challenge to Saint-Gobain's capacity for innovation, not only in terms of technology but also as regards new services to offer its customers. In November 2005, the Group brought together for the first time all of its "Sustainable Development" products and services for the building industry, and presented them at the Batimat trade fair in Paris.

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 about 10% of Group sales.

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 business (Saint-Gobain Isover, Saint-Gobain Ecophon and Saint-Gobain Eurocoustic) and the Flat Glass Sector (Saint-Gobain Glass) came together two years ago with other manufacturers of building materials to create an industry grouping called "Insulating the Earth from CO_2". In 2005, the grouping continued to champion the following beliefs:

- It is already technically and economically feasible to divide by four the energy consumption and CO_2 emissions of buildings.
- For this to succeed, synergies have to be created between insulation, glazing, ventilation, high-efficiency equipment and renewable energy.
- This objective calls for a concerted effort of all concerned players, including project owners, project managers, companies, distributors of building materials, manufacturers, banks and public authorities.

Toward this end, the grouping organized a large-scale advertising campaign in wide-circulation magazines. It also successfully lobbied in favor of a number of proposals that were adopted in the French framework law on energy and took part in many symposia, conferences and exhibitions (such as the annual Batimat fair in Paris). Finally, it launched a new standard of very high energy efficiency for the building industry. Two sister organizations pursuing the same goals as this French grouping were created in Belgium (Isoterra) and the Netherlands (Spaar het klimaat), at the instigation of the local subsidiaries of Saint-Gobain Isover.

A similar initiative was also undertaken in Germany, when Isover G+H created a CO_2-fighting program called CO_2NTRA. In 2005, this program selected four projects submitted by organizations active in efforts to limit CO_2 emissions as recipients of financial assistance.

Low-emission double glazing offers three times better thermal insulation than standard double glazing, because an invisible metallic layer applied to one of the two glass panes acts as a thermal barrier. The Flat Glass Sector is stepping up its development of ranges of glass with reinforced thermal insulation properties. Its SGG PLANITHERM ULTRA N glass boasts one of the lowest heat loss coefficients (U) ever reached worldwide: 1.1 W/(m^2.K), for double glazing in a 4(16)4 configuration with 90% argon filling. According to the European Association of Flat Glass Manufacturers, of the 765 million metric tons of CO_2 emitted in the building industry by the 25 countries of the European Union, manufacturing of architectural glass accounts only for 4.6 million tons, but could contribute a potential annual saving of 140 million tons of CO_2 if double glazing with reinforced thermal insulation became the norm. For households, the installation cost of this type of glazing 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.

Rock 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, a building insulated with rock wool can avoid CO_2 emissions equivalent to more than five hundred times those generated during production.

Other Group sectors also contribute to better insulation of buildings. Wall facings for thermal insulation of buildings from outside – produced by Saint-Gobain Weber and Saint-Gobain Technical Fabrics – or Lapeyre window fittings provide increasingly effective solutions, especially for eliminating thermal channels.

In addition to building insulation, the Group is actively developing other energy-saving solutions. Its researches in the field of light-emitting diodes (LEDs) for displays and lighting certainly 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. The Pipe business has also designed cast-iron pipes for Canadian well systems, which blow air through underground pipes and use the ground's thermal inertia to add 3% to 5% of fresh air in the summer and hot air in the winter to small-scale collective housing units. A first series of test installations has been completed.

Materials produced by Saint-Gobain's Insulation business 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.

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, Point.P is building up its Mobissimo stores which promote houses with a wood framework, made from environment-friendly materials. The company is also aware that artisans are facing increasing pressure from the public and from new regulations to run "green" building sites. That is why it provided the 150,000 members of its customers' club with CD-ROMs and magazines detailing how to carry out an environmental evaluation of their construction work and giving tips on how to improve their performance in this area.

2. Materials to generate energy

Through some of its current products and several research and development projects, the Group is making a contribution to the emergence of alternatives to fossil fuels, in the form of renewable energy.

In the field of **hydro power** as an example, the Pipe Division supplies equipment for the Norwegian market of micro hydraulic plants.

The Group also 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 is already generating €37.6 million in sales in this rapidly expanding business, with 25% growth on 2004.

In the field of **solar energy,** the Flat Glass Sector offers glass panels for solar cells, which in Europe account for 90% of the market for thermal solar energy.

Solar cells transform solar radiation into household hot water or heating for buildings. At the Interclima exhibition in January 2006, Saint-Gobain Building Distribution presented a prototype for a revolutionary type of solar cell, jointly developed by the Reinforcements & Composites business and a start-up called MIS (Méditerranée Industries Solaires). Instead of the copper tubing found in standard flat cells, the heat absorber is composed of two thermoformed sheets of Twintex®, a composite material made of fiberglass and polypropylene. A glass pane placed above the absorber creates a greenhouse effect within the cell. Because it is 100% corrosion resistant and 100% recyclable, as well as lighter despite its vastly higher heating fluid content, this new-generation cell seems to offer a radical technological breakthrough. It would combine the know-how of several Group businesses, namely Reinforcements, Flat Glass, Construction Products, as well as, for its marketing, Building Distribution.

Solar energy can also be converted into electricity through photovoltaic cells assembled in modules, which can be set up in buildings or in mobile applications. Each module includes one or two layers of glass with very specific properties. The top layer must provide 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 thanks to its minimal absorption and using a geometric effect. These glazing materials are now processed at the Saint-Gobain Photovoltaic Glass plant, which opened its doors in October 2005 in Mannheim, Germany.

In addition, Saint-Gobain's Flat Glass Sector and Shell announced on February 2, 2006, that they had signed a memorandum of understanding for a joint technological development, to produce very competitively priced new-generation solar panels offering strong yields in electricity production. The photovoltaic cells designed by Shell are obtained by depositing a thin coating of CIS (*Copper-Indium-Selenium*) on a glass substrate. Saint-Gobain will contribute its advanced industrial capabilities in the areas of thin coatings and glass processing, developed over many years for the automotive and construction industries. Driven by government incentives, technical progress and falling costs, the photovoltaic glass market is expected to grow by about 30% per year between 2004 and 2010.

Fuel cells represent non-polluting local sources of energy which are going to develop in the automotive industry and in residential housing. Several ambitious research projects on this technology are in progress within the US and European R&D centers of the High-Performance Materials Sector.

This sector is also involved in **other developments concerning energy production and recovery,** such as designing new tiles for the combustion chambers of high-power gas turbines, which allow temperatures to be raised for unparalleled energy yields. The High-Performance Materials Sector also manufactures and markets optimized silicon carbide tiles for waste incinerators with energy recovery systems.

3. Materials for drinking water supply, wastewater treatment and air filtration

By their very nature, the products of the Pipe Division promote sustainable development, by making it possible to **carry drinking water and evacuate waste water.** The first area of expertise of the Pipe business 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 Pipe business 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). In 2005, the Pipe business began work on an 85 km construction project for the drinking water supply of the city of Algiers.

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. From an environmental standpoint, continual enhancement of the centrifuge process for cast iron has made it possible, over the past 15 years, to lighten the weight of standard pipes by 20% to 30%, depending on the product ranges. This has reduced consumption of coke and other sources of energy, and diminished CO_2 emissions during pipe manufacturing.

The Pipe business not only helps its client local governments organize the shipping of the pipes they order, but also makes available to them 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 their 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, waste water or swimming pools **in individual homes.** The transparent quartz tubing manufactured by the Ceramics & Plastics business provides an effective and environmentally safe means of killing bacteria.

Lastly, in the area of **air quality,** the High-Performance Materials Sector has recently launched a photocatalytic air purification system that uses Quartzel quartz fibers as a substrate.

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. Environmental regulations require the following three-step waste management process: limited waste generation, recycling and storage of final waste. That is why, 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 entails.

In the Ceramics & Plastics business, **Valoref,** a company established in 1987, is the European leader for recycling refractories. Valoref offers comprehensive management of refractory materials at the end of their life-cycle, serving the glass, chemical and steel industries by providing 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. Valoref is then able to offer is customers in the refractories or ceramics manufacturing industries a full range of secondary raw materials or manufactured products. In the case of glassmaking furnaces, Valoref is able to offer solutions in which 95% of the demolition waste is reused.

Consumption of recycled glass (cullet) from in-house and external sources accounted for 52.03% of production in the Insulation business and 48.54% 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 2005, Saint-Gobain directly processed more than 950,000 metric tons of cullet. Glass recycling is limited by the ability to recover "clean" cullet that is free of contaminants, particularly to produce flat glass, which has a high quality threshold.

To promote glass recycling, Saint-Gobain Emballage has designed an itinerant educational exhibition entitled "Glass and its Recycling," which is mostly aimed at children and young adults, since they are the best advocates for recycling within families. Among the materials on display are a 3D scale model illustrating the life-cycle of glass, panels showing all different types of bottles and various objects serving to explain the stages of glass manufacturing.

In the automotive sector, the European Directive on end-of-life vehicles (ELV) has been causing the industry's suppliers to search for solutions that they can provide for the end-of-life-cycle recycling of their products. Saint-Gobain has, since 2003, been taking part in setting up the European Recycling Company (ERC). ERC brings together expertise from several different industries to develop and promote methods for recycling thermosetting composite materials, which are widely used by automakers. This company has also designed its own "green label", the ECRC logo, which will be placed on any recyclable part made from composite materials that is produced by a member firm in accordance with European rules. Although this label was originally designed for the automotive sector, it will be extended to other industries, in which the specifications of certified products will similarly include plans for reprocessing at the end of their life-cycles.

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 new service also has the added benefit of giving Point.P a competitive edge.

Some *La Plateforme du Bâtiment* outlets in France, Spain, Hungary, Mexico, the Netherlands and the UK 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,** widely used in vehicle structural parts, bodywork and interiors. Thanks to their lightness, which saves fuel and reduces CO_2 emissions, in addition to their ability to withstand shocks and high temperatures, these composites meet the highest standards for performance, safety and environmental soundness. It is estimated as an example that a bumper beam made of thermoplastic composite is 20% lighter than the same part made of steel. Composites now account for 5% of the weight of vehicles and their share is growing, to the detriment of other materials, by about 5% per year.

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. For a car's other windows too, colored and reflective glass panes minimize heat transmission (by absorbing or reflecting it) and thus considerably reduce the need for air conditioning. 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.

At the end of 2005, the Group plant in Rödental, Germany, inaugurated a production line for highly effective silicon carbide **particulate filters,** to be fitted on diesel engines. These new filters, associated with advanced motor-control technology, eliminate 99.99% of the carbonated particulates produced by the motor as by-products of combustion and deemed harmful to public health. The first sales of these Saint-Gobain filters, which draw upon many patents filed by the Group since 1998, mark the successful outcome of many years of patient work by research and development teams.

The market for particulate filters now has outstanding development prospects for the long term. Indeed, diesel engines represent a very energy-efficient means of propulsion for automobiles and, as such, are among the best available medium- and long-term solutions, but only if polluting emissions can be controlled. This can only be achieved through high-performance particulate filters, which emerging legislation will soon make mandatory throughout the world. The recent European Commission proposal for the Euro 2005 regulations, US standards for 2007 and 2010, as well as Japanese standards for 2009, are all pointing towards an across-the-board use of particulate filters. Saint-Gobain is now one of the global leaders of this industry, and can draw upon a key strength as a producer of the raw material for the ceramics filter – silicon carbide powder.

The Ceramics & Plastics business also helps fight atmospheric pollution by supplying the filtering material for some of the systems found in 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.

Risk Management

Market Risks (interest rate, foreign exchange, equity and credit risk)

Liquidity risk

Liquidity risk relating to the Group's total net debt is managed by the Treasury Department of Compagnie de Saint-Gobain. Except for special cases, the counterparty of Group companies for their long-term financing is Compagnie de Saint-Gobain or the cash pools of the national delegations. The companies' short-term financing needs are mainly met by the parent company or national cash pools.

The main objective of managing overall liquidity risk is to guarantee that the Group's financing sources will be renewed and to optimize annual borrowing costs. Long-term debt systematically represents a high level of overall debt. At the same time, the maturity schedules of long-term debt are such that the financing raised through the markets when the debt is renewed is spread over several years.

Bonds make up the main source of long-term financing used by the Group. However, it also uses a Medium Term Notes program, perpetual bonds, participating securities, bank borrowings and finance leases.

Short-term debt is composed of i) borrowings under French Commercial Paper (*Billets de Trésorerie*), Euro Commercial Paper and US Commercial Paper programs, ii) securitized receivables, and iii) bank overdrafts. Short-term financial assets comprise marketable securities and cash on hand.

Compagnie de Saint-Gobain's US Commercial Paper, Euro Commercial paper, *Billets de Trésorerie* and Medium Term Notes programs are backed by confirmed syndicated lines of credit and bilateral credit facilities.

A breakdown of long- and short-term debt is provided by type and maturity in Note 19. 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 treasury 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 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 derivatives. Where subsidiaries use derivatives to hedge interest-rate risk, Compagnie de Saint-Gobain – the Group parent company – is the exclusive counterparty, except in the case of the Dahl International AB Group which was acquired in 2004 and still has an interest-rate swap portfolio.

The main objective of managing overall interest-rate risk on the Group's consolidated net debt is to fix the cost of medium-term debt and to optimize annual borrowing costs. The Group's policy defines which derivatives can be used to hedge its debt. Derivatives may include interest-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.

Note 20 to the consolidated financial statements provides details on the Group's interest-rate hedges, as well as the interest rates applicable for the main items of gross debt. It also provides a breakdown of net debt by currency, type and rate (fixed or variable), as well as the interest-rate revision schedule.

Foreign exchange risk

The Group's policy on foreign exchange 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 currency contracts to hedge exposure arising from commercial transactions. The subsidiaries set up option contracts exclusively through the Group parent company, Compagnie de Saint-Gobain, which then takes a reverse position on the market.

Most forward currency contracts are for periods of around three months. However, forward currency contracts taken out to hedge firm orders may have terms of up to two years. Subsidiaries are authorized to enter into forward currency 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 foreign exchange risks. Saint-Gobain Compensation hedges these risks solely by means of forward purchases and sales of foreign currencies. This enables companies using the services of Saint-Gobain Compensation 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 foreign exchange risks is hedged with Compagnie de Saint-Gobain on receipt of orders sent by the subsidiaries or by cash pools of the national delegations.

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 in the portfolio were sold in prior years.

Energy risk

In order to limit exposure to energy price fluctuations, the Group sets up swaps and options to hedge part of its natural gas purchases in the United States and fuel oil purchases in Europe.

The BPB Group

In 2005, the financial risk management principles used within the BPB group were consistent with those applied within the Saint-Gobain Group. In 2006, the BPB group's financial risk management function will be fully incorporated into Saint-Gobain's risk management structure.

In order to cover its exposure to foreign exchange risks on assets and liabilities, BPB used net investment hedges, within the meaning of IFRS.

The impact on equity of this type of hedge is described in Note 20.

Industrial and environmental risks

Substantially all of the Saint-Gobain Group's industrial and environmental risks stem from the storage of certain hazardous materials.

Eleven Group sites are classified as presenting "major technological risks" within the meaning of European, Swiss and North American regulations. Accordingly, the sites concerned are subject to specific legislation and are carefully monitored by the regulatory authorities.

In 2005, nine of Saint-Gobain's Europe-based sites were classified in accordance with the Seveso Directive on the prevention of major hazards: 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 Icasa (Reinforcements), Avilés (Flat Glass) and Carrascal del Río (Flat Glass) in Spain. Six of these sites fall within the "lower-tier" category defined in the Seveso Directive and three fall within the "upper-tier" category.

Of the sites that fall within the "upper-tier" category, one stores phenol and formaldehyde, one stores arsenic in the form of arsenious anhydride and one stores hydrofluoric acid.

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 plants classified as "upper-tier" under the Seveso Directive.

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. Internal contingency plans have been set up to deal with emergencies.

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, with the exception of the site at Bagneaux-sur-Loing, operated under a joint venture covered by a separate policy. In the event of an industrial accident, compensation payments to victims would be managed jointly by the joint venture, 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 classified as hazardous under the Ordinance Concerning Protection against Major Accidents (OPAM), the country's equivalent to Seveso legislation. The Lucens-based site (Insulation) 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 that 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 required to run its operations.

Compagnie de Saint-Gobain qualifies for income tax assessment on the basis of consolidated fiscal income, as provided for under Article 209 *quinquies* of the French General Tax Code (CGI), as well as for the integrated tax system (*Intégration Fiscale*) provided for under Article 223 A *et seq.* of the CGI. The approval of the tax authorities has been renewed for the fiscal years 2004 to 2006.

The legal risk to which the Group is most exposed is asbestos-related litigation, in France and – above all – the United States.

In France, between 1997 and December 31, 2005, 558 lawsuits based on "inexcusable fault"("*faute inexcusable*") had been filed concerning asbestos-related occupational diseases against Everite and Saint-Gobain PAM, which in the past carried out fiber-cement operations. At end-2005, 376 of these 558 lawsuits had been completed in relation to both liability and quantum. A further 82 suits based on "inexcusable fault" had been filed at the same date against eleven other French companies in the Group, where equipment containing asbestos had been used to protect against heat from furnaces. At end-2005, compensation due from Everite and Saint-Gobain PAM amounted to a total of €2 million (compared with €1.6 million at end-2004).

Further details of these claims are provided in Note 27 to the consolidated financial statements.

In the United States, after three years (2001-2003) marked by sharp increases in asbestos-related lawsuits, mainly against CertainTeed, the number of new claims filed fell for the second consecutive year in 2005, to about 17,000 (compared with around 18,000 in 2004, 62,000 in 2003, 67,000 in 2002 and 60,000 in 2001). The vast majority of these claims are settled out of court. In 2005, as in 2004, some 20,000 such settlements were entered into, leaving about 100,000 claims outstanding at end-2005, compared with 106,000 one year earlier.

The average individual cost of settlement based on all claims resolved dropped from USD 2,900 in 2004 to about USD 2,800 in 2005. In view of the foregoing and having exhausted its insurance coverage, the Group recorded a €100 million charge for 2005, compared with €108 million at end-2004. At December 31, 2005, the Group's total coverage for asbestos-related claims against CertainTeed amounted to €358 million (end-2004: €295 million), represented primarily by the provision in the balance sheet.

Further details on asbestos-related claims in the United States are provided in Note 27 to the consolidated financial statements.

To the best of the Company's knowledge, no other litigation or arbitration has recently had, or is likely to have, a material impact on the assets and liabilities, financial position, operations 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. The doctrine is formulated by the Risks and Insurance Department, which coordinates and monitors compliance. The doctrine defines the applicable criteria for the coverage of the most significant 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 coverage, such as automobile fleet insurance, the Risks and Insurance Department advises the individual operating units on policy content, broker selection and which market to consult. For such "recurring" risks, a procedure has been set up to monitor claims management and implement the appropriate preventive action.

Policy content in 2005 replicated that applied in 2004. Premiums with respect to property damage were revised downwards. Third-party liability premiums were largely stable.

Thanks to rigorous preventive measures, the captive insurance company set up to provide coverage for property damage proved effective in containing claims experience.

Companies acquired during the year have been integrated into existing insurance programs, with the exception of BPB, which will retain its ongoing insurance policies until they expire during the first half of 2006.

Property damage and business interruption

The Group is covered for non-excluded property damage and business interruption arising from accidental damage to insured assets. This coverage is provided under 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 operate effectively.
- 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 like floods or storms. In extreme scenarios, such events could have a substantial non-insured financial impact in terms of both reconstruction costs and losses linked to production stoppages.

When defining its policy towards insurance coverage, the Risks 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 to which each principal site would be exposed in the event of an accident – particularly fire damage – and detail the financial implications that would arise in a worst-case scenario. The risk evaluation exercise extends to assessing the impact of an earthquake in California 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 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 be activated 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 and concern in particular 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 may be placed on insurance markets in both London and Bermuda. The coverage provided is deemed adequate for the Group's United States operations. Exclusions are in line with current market practice in the United States and concern matters like contractual liability and third-party consequential loss.

Within the operating units, the risk of third-party liability claims and the need to contain the related financial consequences are actively emphasized. In particular, the operating units are required to bear the cost of a deductible, which does 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

The programs discussed above do not handle risks specific to the Group's activities in India and Brazil, where local legislation prohibits their inclusion. Instead, insurance coverage is purchased locally, under the supervision of the Risks and Insurance Department.

Joint ventures and companies not controlled by the Group are likewise excluded from the above programs. Again, separate insurance coverage is purchased based on the advice of the Risks and Insurance Department.

2006 outlook

Outlook and objectives for 2006

Against a backdrop of moderate economic growth, management expects to see further gains in 2006, thanks to the consolidation of BPB (effective December 1, 2005). However, expansion is expected to be strong only in emerging countries; the pace of growth in the United States and Western Europe is likely to be more uncertain and erratic. Downside risks persist in the form of high raw materials, energy and transportation costs, the US dollar exchange rate and geopolitical instability in key energy-exporting regions.

The outlook for the Group's businesses is nevertheless positive. Building Distribution should continue to achieve both expansion and profitability enhancement. The Pipe Division is expected to see further performance gains and Construction Products should benefit from brisk home-improvements demand. The High-Performance Materials Sector should see an upturn in performance, while the Flat Glass and Packaging businesses should achieve moderate growth.

The Group is thus positioned to continue the implementation of its business development model. This will include the integration of BPB, a sustained level of investment in emerging countries, the continued pursuit of bolt-on acquisitions, and the enhancement of working capital management and productivity. A targeted divestment program will also be undertaken, including the sale of Calmar, announced in early 2006.

The specific objectives for 2006 comprise:

- the acceleration of organic growth;
- a 23%-25% increase in operating income at constant exchange rates;
- 18%-20% growth in net income before profit (loss) on sales of non-current assets;
- continuing high levels of free cash flow;
- the preservation of the Group's solid financial structure.

With BPB's performance on track to meet forecasts in both 2005 and 2006, possible favorable developments with regard to asbestos-related legislation and the prospect of strong full-year earnings growth, 2006 promises to be a very good year for Saint-Gobain.

Consolidated financial statements of the Saint-Gobain Group

Consolidated balance sheet

at December 31, 2005

ASSETS *(in € millions)*	Notes	Dec. 31, 2005	Dec. 31, 2004
Goodwill	(3)	10,541	5,203
Other intangible assets	(4)	2,346	1,804
Property, plant and equipment	(5)	12,508	9,367
Investments in associates	(6)	137	64
Available-for-sale and other securities	(7)	161	92
Deferred tax assets	(14)	352	0
Other non-current assets	(8)	282	321
Non-current assets		**26,327**	**16,851**
Inventories	(9)	5,543	4,817
Trade accounts receivable	(10)	5,848	4,789
Current tax receivable		68	155
Other accounts receivable	(11)	932	915
Cash and cash equivalents	(19)	2,080	2,898
Current assets		**14,471**	**13,574**
TOTAL ASSETS		**40,798**	**30,425**

EQUITY AND LIABILITIES *(in € millions)*

	Notes	Dec. 31, 2005	Dec. 31, 2004
Capital stock (at December 31, 2005: 345,256,270 shares with a par value of €4, at December 31, 2004: 340,988,000 shares with a par value of €4)		1,381	1,364
Additional paid-in capital and legal reserve		2,261	2,123
Retained earnings and net income for the year		8,282	7,415
Cumulative translation adjustments		635	(80)
Fair value reserves		16	3
Treasury stock		(310)	(152)
Shareholders' equity		**12,265**	**10,673**
Minority interests		328	237
Total equity		**12,593**	**10,910**
Provisions for pensions and other employee benefits	(12)	3,029	2,750
Deferred tax liabilities	(14)	819	238
Provisions for other liabilities and charges	(15)	704	548
Long-term debt	(19)	11,315	5,629
Investment-related liabilities	(21)	130	0
Non-current liabilities		**15,997**	**9,165**
Current portion of provisions for other liabilities and charges	(15)	411	353
Current portion of long-term debt	(19)	922	1,338
Current portion of investment-related liabilities	(21)	263	0
Trade accounts payable	(16)	4,785	3,954
Current tax liabilities		275	249
Other payables and accrued expenses	(16)	2,859	2,307
Short-term debt and bank overdrafts	(19)	2,693	2,149
Current liabilities		**12,208**	**10,350**
TOTAL EQUITY AND LIABILITIES		**40,798**	**30,425**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated income statement

(in € millions)	Notes	2005	2004
Net sales		35,110	32,172
Cost of sales	(22)	(26,449)	(24,094)
Selling, general and administrative expenses, including research	(22)	(5,812)	(5,317)
Other operating income and expense	(22)	11	(18)
Operating income		**2,860**	**2,743**
Other business income	(22)	84	47
Other business expense	(22)	(390)	(372)
Business income		**2,554**	**2,418**
Net financial expense	(23)	(569)	(535)
Share in net income of associates	(6)	10	8
Income taxes	(14)	(701)	(616)
Net income		**1,294**	**1,275**
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**1,264**	**1,239**
Minority interests		30	36
Earnings per share (in €)			
Weighted average number of shares in issue		336,330,568	337,253,298
Basic earnings per share	(25)	3.76	3.67
Weighted average number of shares assuming full dilution		357,338,208	356,825,103
Diluted earnings per share	(25)	3.62	3.55
Number of shares in issue at December 31		345,256,270	340,988,000
Earnings per share	(25)	3.66	3.63

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated cash flow statement

(in € millions)	Notes	2005	2004
Net income attributable to equity holders of the parent		**1,264**	**1,239**
Minority interests in net income	(*)	30	36
Share in net income of associates, net of dividends received	(6)	(5)	(6)
Depreciation, amortization and impairment of assets	(22)	1,420	1,374
Gains and losses on disposals of assets	(22)	(81)	(40)
Unrealized gains and losses arising from changes in fair value and share-based payments		107	36
Cash flows from operations		**2,735**	**2,639**
(Increase) decrease in inventories	(9)	(77)	(136)
(Increase) decrease in trade accounts and other accounts receivable	(10) (11)	(46)	80
Increase (decrease) in trade accounts payable, other payables and accrued expenses	(16)	383	266
Changes in tax receivable and payable	(14)	(30)	50
Changes in deferred taxes and provisions for other liabilities and charges	(14) (15)	(197)	(171)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**2,768**	**2,728**
Purchases of property, plant and equipment [in 2005: (1,756), in 2004: (1,540)] and intangible assets	(4) (5)	(1,865)	(1,620)
Increase (decrease) in amounts due to suppliers of fixed assets		43	64
Acquisitions of shares in consolidated companies [in 2004: (6,868); in 2004: (623)], net of cash acquired	(2)	(6,436)	(551)
Acquisitions of other investments	(7)	(123)	(34)
Increase (decrease) in investment-related liabilities	(21)	376	0
Investments		**(8,005)**	**(2,141)**
Disposals of property, plant and equipment and intangible assets	(4) (5)	148	162
Disposals of shares in consolidated companies, net of cash divested	(2)	203	0
Disposals of other investments	(7)	19	133
Other divestments		11	(11)
Divestments		**381**	**284**
(Increase) decrease in loans and deposits	(8)	96	196
NET CASH USED IN INVESTING ACTIVITIES/DIVESTMENTS		**(7,528)**	**(1,661)**
Issues of capital stock	(*)	155	136
Minority interests' share in capital increases of subsidiaries	(*)	4	10
(Increase) decrease in treasury stock	(*)	(146)	(241)
Dividends paid	(*)	(430)	(387)
Dividends paid to minority shareholders of consolidated subsidiaries	(*)	(29)	(17)
Increase (decrease) in dividends payable		(9)	0
Increase (decrease) in bank overdrafts and other short-term borrowings		291	36
Increase (decrease) in long-term debt		4,017	(620)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		**3,853**	**(1,083)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(907)**	**(16)**
Net effect of exchange rate changes on cash and cash equivalents		89	1
Cash and cash equivalents at beginning of year		**2,898**	**2,913**
Cash and cash equivalents at end of year		**2,080**	**2,898**

(*) References to the consolidated statement of changes in equity.
The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

	(Number of shares) Issued	Outstanding, excluding treasury stock	*(in € millions)* Capital stock	Additional paid-in capital and legal reserve	Retained earnings and net income for the year	Cumulative translation adjustments	Fair value reserves	Treasury stock	Shareholders' equity	Minority interests	Total equity
At January 1, 2004	**347,824,967**	**336,185,581**	**1,391**	**2,381**	**6,515**	**0**	**31**	**(313)**	**10,005**	**209**	**10,214**
Issues of capital stock											
- Group Savings Plan	4,099,192	4,099,192	16	112	0	0	0	0	128	0	128
- Stock option plans	345,700	345,700	2	6	0	0	0	0	8	0	8
- Other	0	0	0	0	0	0	0	0	0	10	10
Net income for the year	0	0	0	0	1,239	0	0	0	1,239	36	1,275
Dividends paid (€1.15 per share)	0	0	0	0	(387)	0	0	0	(387)	(17)	(404)
Translation adjustments	0	0	0	0	0	(80)	0	0	(80)	(2)	(82)
Treasury stock purchased	0	(6,730,702)	0	0	0	0		(280)	(280)	0	(280)
Treasury stock retired	(11,281,859)	0	(45)	(376)	0	0	0	421	0	0	0
Treasury stock sold	0	1,227,819	0		19	0	0	20	39	0	39
Changes in fair value recognized in equity	0	0	0			0	(28)	0	(28)	0	(28)
Share-based payments	0	0	0		32	0	0	0	32	0	32
Changes in Group structure and other movements	0	0	0		(3)	0	0	0	(3)	1	(2)
At December 31, 2004	**340,988,000**	**335,127,590**	**1,364**	**2,123**	**7,415**	**(80)**	**3**	**(152)**	**10,673**	**237**	**10,910**
Issues of capital stock											
- Group Savings Plan	4,267,470	4,267,470	17	138	0	0	0	0	155	0	155
- Stock option plans	800	800	0	0	0	0	0	0	0	0	0
- Other	0	0	0	0	0	0	0	0	0	4	4
Net income for the year	0	0	0	0	1,264	0	0	0	1,264	30	1,294
Dividends paid (€1.28 per share)	0	0	0	0	(430)	0	0	0	(430)	(29)	(459)
Translation adjustments	0	0	0	0	0	715	0	0	715	37	752
Treasury stock purchased	0	(4,423,117)	0	0	0	0	0	(210)	(210)	0	(210)
Treasury stock retired	0	0	0	0	0	0	0	0	0	0	0
Treasury stock sold	0	1,900,366	0	0	12	0	0	52	64	0	64
Changes in fair value recognized in equity	0	0	0	0	(3)	0	13	0	10	0	10
Share-based payments	0	0	0	0	44	0	0	0	44	0	44
Changes in Group structure and other movements	0	0	0	0	(20)*	0	0	0	(20)	49	29
AT DECEMBER 31, 2005	**345,256,270**	**336,873,109**	**1,381**	**2,261**	**8,282**	**635**	**16**	**(310)**	**12,265**	**328**	**12,593**

(*) "Changes in Group structure and other movements" include i) a €28 million reduction in equity following a change in deferred tax rates in the United Kingdom concerning an item recorded in equity in a previous accounting period, and ii) an €8 million increase corresponding to the equity impact of fair value remeasurements of assets already held by the Group, when it acquires additional equity interests in companies.

At December 31, 2005, the number of shares making up Compagnie de Saint-Gobain's capital stock totaled 345,256,270.

During the year, 4,267,470 shares were issued in connection with the 2005 Group Savings Plan, and 800 shares were allocated further to the exercise of the same number of options, which were granted on November 18, 2004.

At the Ordinary and Extraordinary Shareholders' Meeting of June 9, 2005, shareholders authorized the Board of Directors of Compagnie de Saint-Gobain to issue, on one or several occasions, i) up to 170 million new shares with or without preemptive or priority subscription rights for Compagnie de Saint-Gobain shareholders (eleventh, twelfth and thirteenth resolutions), ii) 16 million new shares to members of the Group Savings Plan (fourteenth resolution), and iii) 10,229,640 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 (fifteenth and sixteenth resolutions).

If the Board of Directors issued all of the shares and stock options authorized in accordance with the above-mentioned resolutions, as well as the stock options available for grant under previous plans (see Note 13), the number of shares making up the Company's capital stock could potentially be increased to 548,941,910.

On November 18, 2005, the Company's Board of Directors used these authorizations to grant 3,922,250 stock options. These options had not been exercised at December 31, 2005.

In addition, if all of the Océane bonds in issue were converted or exchanged for shares (17,523,812 shares), the total number of shares making up the Company's capital stock would be increased to 566,465,722.

Notes to the consolidated financial statements

Note 1 Accounting principles and policies

Basis of preparation

These consolidated financial statements of Compagnie de Saint-Gobain and its subsidiaries (together "the Group") have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union at December 31, 2005.

IFRS were applied retrospectively in the opening balance sheet at the transition date (January 1, 2004), with the exception of certain optional or mandatory exemptions provided for under IFRS 1 – First-time Adoption of International Financial Reporting Standards – and described in Note 33 relating to the impact of the transition to IFRS.

The Group has elected to apply, as of January 1, 2004, IAS 32 and IAS 39 relating to financial instruments and IFRS 2 relating to share-based payment.

The interpretations and amendments to published standards whose application was compulsory for 2005 (IFRIC 1, IFRIC 2, and the amendments to SIC 12 and IAS 39), did not have a material impact on the consolidated financial statements.

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after January 1, 2006. The Group has decided not to early adopt these standards, amendments and interpretations and at the date of this report it is not aware of their possible impact on the consolidated financial statements.

The preparation of consolidated financial statements in compliance with IFRS requires management to make estimates and assumptions that affect the reported amount 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 expenses and income during the year. Actual amounts may differ from those obtained through the use of these assumptions and estimates.

These financial statements were approved by the Board of Directors on March 23, 2006. All amounts are in millions of euros unless otherwise specified.

This report contains the Group's consolidated financial statements prepared for the first time in accordance with IFRS, for the years ended December 31, 2005 and 2004. The financial statements for the years ended December 31, 2004 and 2003 prepared in accordance with French generally accepted accounting principles (GAAP) are available in the Group's 2004 and 2003 annual reports which were filed with the French securities regulator *(Autorité des Marchés Financiers - AMF)* under numbers D.05-0378 and D.04-0526 respectively. The 2003 and 2004 annual reports also contain full analyses of the Group's consolidated financial statements for those years.

Consolidation

Scope of consolidation

The Group's consolidated financial statements include the accounts of Compagnie de Saint-Gobain and of all its majority-owned subsidiaries, as well as those of jointly controlled companies and companies over which the Group exercises significant influence.

Significant changes in the Group's scope of consolidation during 2005 are shown in Note 2 and a summary list of the principal consolidated companies at December 31, 2005 is provided in Note 34.

Consolidation methods

Companies over which the Group exercises exclusive control, either directly or indirectly, are fully consolidated.

The Group recognizes its interests in jointly controlled entities using proportionate consolidation. It has elected not to apply the alternative treatment permitted by IAS 31, under which jointly controlled companies may be accounted for by the equity method.

Companies over which the Group exercises significant influence, either directly or indirectly, are consolidated by the equity method.

Potential voting rights and commitments to purchase treasury stock

Potential voting rights conferred by share call options relating to minority interests are only taken into account in determining whether the Group exclusively controls an entity when the options are currently exercisable.

When calculating its percentage interest in Group companies, the Group takes into consideration the impact of cross put and call options contracted with minority interests in relation to those companies' shares. This approach gives rise to the recognition in the financial statements of an investment-related liability corresponding to the present value of the estimated exercise price for the put option, with a corresponding reduction in minority interests and the recognition of goodwill.

Non-current assets held for sale – Discontinued operations

Assets that are immediately available for sale and for which a sale is highly probable, are classified as non-current assets held for sale. Related liabilities are classified as liabilities directly associated with non-current assets held for sale. When several assets are held for sale in a single transaction, they are accounted for as a disposal group, which also includes any liabilities directly associated with those assets.

The assets, or disposal groups, are measured at the lower of carrying amount and fair value less costs to sell. Depreciation ceases when non-current assets or disposal groups are classified as held for sale. In accordance with IAS 12, deferred tax is recognized on the difference between the carrying amount of the assets sold and their tax base.

Non-current assets held for sale and directly associated liabilities are presented separately on the face of the consolidated balance sheet, and income and expenses are still recognized in the consolidated income statement on a line-by-line basis. The income and expenses of discontinued operations are recorded as a single amount on the face of the consolidated income statement.

At each balance sheet date, the value of these assets and liabilities is reviewed to determine whether a loss or gain should be recognized due to a change in the fair value less costs to sell.

Intragroup transactions

All intragroup balances and transactions are eliminated in consolidation.

Minority interests

When the equity of a consolidated subsidiary is negative at the year-end, the minorities' share of 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.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group.

Translation of the financial statements of foreign companies

Assets and liabilities of subsidiaries outside the euro zone are translated into euros at the closing rate and income and expense items are translated using the average exchange rate for the period.

The Group's share of any translation gains or losses is included in equity under "Cumulative translation adjustments", until the foreign investments to which they relate are sold or liquidated, at which time they are taken to the income statement. As the Group elected to use the exemption allowed under IFRS 1, the cumulative translation differences that existed at the transition date were reset to zero at January 1, 2004.

Foreign currency transactions

Foreign currency transactions are translated into the Company's functional currency (the euro) using the exchange rates prevailing at the transaction date. Assets and liabilities denominated in foreign currencies are translated at the closing rate and any exchange differences are recorded in the income statement. Exchange differences relating to loans and borrowings between Group companies are recorded, net of tax, in equity under "Cumulative translation adjustments", as in substance they are an integral part of the net investment in a foreign subsidiary.

Balance sheet items

Goodwill

When an entity is acquired by the Group, the identifiable assets, liabilities, and contingent liabilities of the entity are recognized at their fair value. Any adjustments to provisional values as a result of completing the initial accounting are recognized from the acquisition date, within twelve months of that date. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity. If the cost of the acquisition is less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Goodwill on the acquisition of companies accounted for by the equity method is included in "Investments in associates".

Other intangible assets

Other intangible assets primarily include patents, brands, software, and development costs.

Acquired retail brands and certain manufacturing brands are treated as intangible assets with indefinite useful lives as they have a strong reputation on a national and/or international scale. These brands are not amortized but are tested for impairment on an annual basis. Other brands are amortized over their useful lives, not to exceed 40 years.

Patents and purchased software are amortized over their estimated useful lives. The applicable useful lives for patents do not exceed 20 years and those for purchased software range from 3 to 5 years.

Research costs are expensed as incurred. Development costs meeting the recognition criteria under IAS 38 are included in intangible assets.

The greenhouse gas emission allowances granted to the Group as at December 31, 2005 were not recognized in the consolidated accounts at that date, as IFRIC 3 – Emission Rights – has been withdrawn. A provision is recorded in the consolidated financial statements to cover any difference between the Group's emissions and the emission rights granted. Details relating to the measurement of emissions allowances available at the balance sheet date are provided in Note 4.

Property, plant and equipment

Land, buildings and equipment are carried at historical cost less depreciation. Cost may include transfers from equity of any gains/losses on qualifying cash flow hedges relating to purchases of property, plant and equipment.

Borrowing costs incurred for the construction and acquisition of property, plant and equipment are recorded under "Net financial expense" and are not included in the cost of the related asset.

The Group has opted not to record any residual value for its property, plant and equipment, with the exception of its head office building, which is its only material non-industrial asset. Most of the Group's industrial assets are intended to be used until the end of their useful lives and are not generally expected to be sold.

Property, plant and equipment other than land is depreciated using the components approach, on a straight-line basis over the following estimated useful lives:

Major factories and offices	30 – 40 years
Other buildings	15 – 25 years
Production machinery and equipment	5 – 16 years
Vehicles	3 – 5 years
Furniture, fixtures, office and computer equipment	4 – 16 years

Gypsum quarries are depreciated over their expected useful lives, determined by reference to the quantity of gypsum extracted during the year compared with the latest available estimate of total reserves.

Provisions for site restoration are set aside when the Group has a present legal or constructive obligation to restore a site in accordance with contractually determined conditions. These provisions are reviewed periodically and may be discounted over the expected useful life of the assets concerned. The cost of the assets concerned may include the amounts recorded in these provisions.

Investment grants relating to purchases of non-current assets are recorded under "Other payables and accrued expenses" and taken to the income statement over the estimated useful lives of the relevant assets.

Leases

Assets held under leases which transfer to the Group substantially all of the risks and rewards of ownership (finance leases) are recognized as property, plant and equipment. They are capitalized at the commencement of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments.

The items of property, plant and equipment acquired under finance leases are depreciated over the shorter of the estimated useful life of the asset – determined using the same criteria as for assets owned by the Group – or the lease term. The corresponding liability is shown net of related interest in the balance sheet.

Rental payments under operating leases are expensed as incurred.

Non-current financial assets

Non-current financial assets include "Available-for-sale and other securities" and "Other non-current assets" which primarily comprise long-term loans and deposits.

Investments in non-consolidated companies classified as "available for sale" are carried at fair value through equity. Where there is an indication of a prolonged decline in the fair value of these securities below their cost, an impairment loss is recorded in the income statement.

Impairment of assets

The Group tests its property, plant and equipment, goodwill and other intangible assets for impairment on a regular basis. These tests consist of comparing the asset's carrying amount with its recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use, calculated by reference to the present value of the future cash flows expected to be derived from the asset.

For property, plant and equipment and amortizable intangible assets, this impairment test is performed whenever an asset generates operating losses due to either internal or external factors, and when the annual budget or related business plan does not forecast a recovery.

For goodwill and other intangible assets (including retail brands with indefinite useful lives), an impairment test is systematically performed each calendar year based on the related five-year business plan. Goodwill is reviewed systematically and exhaustively at the level of each cash-generating unit (business line and geographic region) and where necessary more detailed tests are carried out.

The method used for these impairment tests is consistent with that employed by the Group for the valuation of companies upon business combinations or acquisitions of equity interests. The carrying amount of the assets is compared with the present value of future cash flows excluding interest but including tax. Cash flows for the fifth year of the business plan are rolled forward over the following two years and are then projected to perpetuity for goodwill using a low growth rate (generally 1%, except for emerging markets or businesses with a high growth potential where the rate may be increased to 2%). The discount rate used for these cash flows corresponds to the Group's cost of capital, weighted with respect to the specific geographic region of the operations concerned.

Recoverable amount calculated using a post-tax discount rate gives the same result as a pre-tax rate applied to pre-tax cash flows.

Different assumptions measuring the sensitivity of the method used are systematically tested using the following parameters:

- +/- 1% change in annual average growth rate for cash flows,
- +/- 0.5% change in discount rate applied to cash flows.

When the annual impairment test reveals that an asset's fair value is lower than its carrying amount, an impairment loss is recorded to reduce the carrying amount of the asset or goodwill concerned to its recoverable amount.

Any impairment losses recognized for goodwill and other non-amortizable intangible assets are not reversed.

For property, plant and equipment and intangible assets other than goodwill, an impairment loss recognized in a prior period may be reversed if there is an indication that the impairment no longer exists and that the recoverable amount of the asset concerned exceeds its carrying amount.

Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories includes the costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Cost is generally determined using the weighted average cost method, and in some cases, the First-In-First-Out method. Cost of inventories may also include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

Operating receivables and payables

Operating receivables and payables are stated at nominal value as they generally have maturities of under three months. Provisions for impairment are established to cover the risk of full or partial non-recovery.

For commercial receivables transferred under securitization programs, the contracts concerned are analyzed and if substantially all the risks related to the receivables are not transferred to the financing institutions, they remain recognized in the balance sheet and a corresponding liability is recognized in short-term debt.

Net debt

Long-term debt

Long-term debt includes bonds (including Océane bonds), Medium Term Notes, perpetual bonds, participating securities and all other types of long-term debt including borrowings under finance leases and the fair value of derivatives qualifying as interest-rate hedges.

Under IAS 32, the distinction between financial liabilities and equity is based on the substance of the contracts concerned rather than their legal form. As a result, participating securities have been classified as debt, and Océane bonds have been broken down into a liability component and an equity component.

At the balance sheet date, bonds and private placement notes are measured at amortized cost, and premiums and issuance costs are amortized using the yield-to-maturity method.

Short-term debt

Short-term debt includes the current portion of the long-term debt described above, as well as short-term financing programs such as commercial paper, bank overdrafts and other short-term bank borrowings, as well as the fair value of debt derivatives not qualifying for hedge accounting.

Cash and cash equivalents

Cash and cash equivalents mainly consist of cash on hand, bank accounts, and marketable securities that are short-term, highly liquid investments readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Marketable securities are measured at fair value through profit or loss.

Further details about long- and short-term debt are provided in Note 19.

Foreign exchange, interest rate and commodity derivatives (swaps, options, futures)

The Group uses interest rate, foreign exchange and commodity derivatives to hedge its exposure to changes in interest rates, exchange rates and commodity prices that may arise in its ordinary business operations.

In accordance with IAS 32 and IAS 39, all of these instruments are recognized in the balance sheet at fair value, irrespective of whether or not they are part of a hedging relationship that qualifies for hedge accounting under IAS 39.

Changes in the fair value both of derivatives that are designated and qualify as fair value hedges and derivatives that do not qualify for hedge accounting are taken to the income statement. However, the effective portion of the gain or loss arising from changes in fair value of derivatives that qualify as cash flow hedges is recognized directly in equity, whereas the ineffective portion is recognized in the income statement.

Fair value hedges

A significant proportion of the interest-rate derivatives used by the Group to swap fixed rates for variable rates are designated and qualify as fair value hedges, as they are used to hedge exposure to changes in the fair value of fixed rate borrowings. Fair value accounting enables the hedged debt designated by the Group as forming part of a hedging relationship to be measured at fair value. As the effective portion of the gain or loss on the fair value hedge offsets the loss or gain on the underlying hedged item, the income statement is only impacted by the ineffective portion of the hedge.

Cash flow hedges

Cash flow hedge accounting is applied by the Group mainly to derivatives used to fix the cost of future purchases of gas and fuel (fixed-for-variable price swaps). These instruments are matched to highly probable purchases. By using cash flow hedges, the Group can defer the impact on the income statement of the effective portion of changes in the fair value of these instruments by recording them in a special hedging reserve in equity. The reserve is reclassified into the income statement at the date the hedged transaction occurs, at which time the hedged item is also recognized in the income statement. In the same way as for fair value hedges, cash flow hedging limits the Group's exposure to changes in the fair value of these price swaps to the ineffective portion of the hedge.

Derivatives that do not qualify for hedge accounting

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in the income statement. The instruments concerned mainly include cross-currency swaps; gas, currency and interest-rate options; currency, commodity and energy swaps; and futures.

Investment-related liabilities

Investment-related liabilities correspond to commitments to purchase shares in non-consolidated companies from minority interests, as well as liabilities relating to the acquisition of shares in Group companies, including additional purchase consideration. They are reviewed on a periodic basis. The impact of the passage of time on these liabilities is recognized in financial income and expense.

Employee benefits – defined benefit plans

After retirement, the Group's former employees receive pensions in accordance with the applicable laws and regulations in the respective countries in which the Group operates. There are additional pension obligations in certain Group companies, both in France and other countries.

In France, employees receive bonuses on retirement, based on past service and other terms in accordance with the respective collective bargaining agreements.

The Group's obligations with respect to pensions and retirement bonuses are determined using a method based on projected end-of-career salaries, taking into account the specific economic conditions applicable in each country. These obligations are covered by pension funds and provisions recorded in the balance sheet.

Deferred variances consist primarily of actuarial gains and losses, as well as the effects of any modifications to the plans (past service cost). Actuarial gains or losses are the result of year-on-year changes in the actuarial assumptions used to measure the Group's obligations and plan assets, as well as experience adjustments (differences between the actuarial assumptions and what has actually occurred).

Actuarial gains and losses arising after January 1, 2004 are amortized using the "corridor" approach, whereby only the portion of net cumulative actuarial gains and losses that exceeds the greater of 10% of either the projected benefit obligation or the fair value of plan assets are charged or credited to income over the employees' expected average remaining working lives. Past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, past service cost is recognized immediately.

In the United States, Spain, and Germany, the Group's 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.

Actuarial provisions are also established for a certain number of additional benefits, such as jubilee or other long-service benefits and deferred compensation or termination benefits in various countries. Any actuarial gains and losses relating to these benefits are recognized immediately.

The Group has elected to recognize the interest costs for these obligations and the estimated return on plan assets as financial income or expense.

Employee benefits – defined contribution plans

Contributions to defined contribution plans are expensed as occurred.

Employee benefits – share-based payment

The Saint-Gobain Group has elected to apply IFRS 2 from January 1, 2004 to all its stock option plans since the plan launched on November 20, 2002.

Costs related to stock option plans are calculated using the Black & Scholes option pricing model, based on the following parameters:

- 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.

- Assumptions relating to the average holding period of options, based on actual behavior of option holders observed in recent years for the plans established between 1993 and 1997.
- Expected dividends, as assessed on the basis of historical information dating back to 1988.
- The risk-free interest rate, which is the yield on long-term government bonds.

The cost calculated using this method is recognized in the income statement over the vesting period of the options, ranging between 3 and 5 years, depending on the plan concerned.

For stock subscription options, the sums received by the Company when the options are exercised are recorded in "Capital stock" for the portion representing the par value of the shares, with the balance – net of directly attributable transaction costs – recorded under "Additional paid-in capital".

In order to calculate the costs relating to its Group Savings Plan, the Group applies a method which takes into account the fact that shares granted to employees under the plan are subject to a five-year holding period. The cost relating to this holding period 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 that determined by the Board of Directors and corresponds to the average of the opening share prices quoted over the 20 trading days preceding the date of grant, less a 20% discount.
- 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 borrowing cost relating to the shares during the holding period is the rate that would be applied by a bank to an individual with an average risk profile for a general purpose five-year consumer loan.

The related cost is recorded in full at the close of the subscription period.

Equity

Additional paid-in capital and legal reserve

This item includes capital contributions in excess of the par value of capital stock as well as the legal reserve which corresponds to an accumulated portion of the net income of Compagnie de Saint-Gobain.

Retained earnings and net income for the year

Retained earnings and net income for the year correspond to the Group's share in the accumulated consolidated income of all consolidated companies, net of dividends paid.

Treasury stock

Treasury stock is stated at cost as a deduction from equity. Gains and losses on disposals of treasury stock are recognized directly in equity and have no impact on net income for the year.

Provisions for other liabilities and charges

A provision is booked when the Group has a present legal or constructive obligation towards a third party as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

If the timing or the amount of the obligation cannot be measured with sufficient reliability, it is classified as a contingent liability and constitutes an off-balance sheet commitment. However, contingent liabilities relating to business combinations are recognized in the balance sheet.

Provisions for other material liabilities and charges whose timing can be estimated reliably are discounted to present value.

Income statement items

Revenue recognition

Revenue generated by the sale of goods or services is recognized when the risks and rewards of ownership have been transferred to the customer or when the service has been rendered, net of rebates, discounts and sales taxes.

Construction contracts

Group companies account for construction projects using the percentage of completion method as follows:

- When the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognized as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the balance sheet date.
- When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable.
- When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Construction contracts do not represent a material portion of the Group's sales.

Operating income

Operating income is used to measure the performance of the Group's sectors and divisions and has been used by the Group as its key external and internal management indicator for many years.

Restructuring costs and income and expenses relating to business disposals do not form part of the Group's normal operating cycle and are therefore recorded as other business income and expense. Foreign exchange gains and losses are included in operating income, as are changes in the fair value of financial instruments that do not qualify for hedge accounting when they relate to operating items.

Other business income and expense

Other business income and expense mainly includes allocations to and reversals of provisions for claims and litigation and environmental provisions, gains and losses relating to the sale of assets, impairment losses, and restructuring costs incurred upon the disposal or discontinuation of operations as well as costs related to arrangements for personnel affected by workforce reduction measures.

Business income

Business income includes all income and expenses other than financial income and expense, the Group's share in net income of associates, and income taxes.

Financial income and expense

Financial income and expense includes borrowing and other financing costs, income from cash and cash equivalents, financial expense relating to pensions and other post-employment benefits, net of return on plan assets, and other financial income and expenses. Financial income has not been presented on a separate line in the consolidated income statement as the amounts concerned are not material. Disclosures relating to financial income are provided in Note 23.

Income taxes

Under an agreement with the French tax authorities, Compagnie de Saint-Gobain is assessed for income tax purposes on its consolidated taxable income.

Deferred taxes are recorded by the liability method for temporary differences between the carrying amount of assets and liabilities and their tax basis. Tax rates applicable to future periods are used to calculate year-end deferred income tax amounts.

Deferred tax assets are recognized only if it is considered probable that there will be sufficient future taxable income against which the unused tax losses and credits can be utilized.

No provision is made in respect of tax payable on earnings of subsidiaries that are not intended to be distributed.

In accordance with interpretation SIC 21, a deferred tax liability is recognized for retail brands that are identified in the accounts.

Deferred taxes are recognized as income or expense in the income statement, except if they relate to items that are recognized directly in equity, in which case the deferred taxes are also recognized in equity.

Earnings per share

Basic earnings per share are calculated by dividing net income by the average number of shares in issue during the year, excluding treasury stock.

Diluted earnings per share are calculated based on adjusted net income (see Note 25) and including in the average number of shares in issue the conversion of all outstanding dilutive instruments, such as stock options and convertible bonds. The Group applies the treasury stock method for the purpose of this calculation, under which it is assumed that the proceeds from the exercise of dilutive instruments are assigned on a priority basis to the purchase of common shares in the market.

The Group also discloses earnings per share calculated by dividing net income by the number of shares outstanding at the end of each financial reporting period.

Cash flow statement

"Cash flow from operations" as presented in the consolidated cash flow statement corresponds to net cash generated from operating activities before the impact of changes in working capital requirements, changes in current taxes and movements in provisions for other liabilities and charges and deferred taxes.

Inflows and outflows relating to interest and tax are not included in the consolidated cash flow statement. However, in order to ensure compliance with IAS 7, this information is disclosed in Notes 14 and 23.

Segment reporting

The Group's primary reporting segment is based on sectors and divisions and the secondary reporting format is based on geographic regions, reflecting the Group's internal structure.

Note 2 Changes in Group structure

Changes in Group structure were as follows in 2005:

2005	France	Outside France	Total
Fully consolidated companies			
At January 1	218	902	1,120
Newly consolidated companies	27	286	313
Merged companies	(24)	(19)	(43)
Deconsolidated companies	(2)	(6)	(8)
Change in consolidation method		14	14
At December 31	**219**	**1,177**	**1,396**
Proportionately consolidated companies			
At January 1	2	15	17
Newly consolidated companies		1	1
Change in consolidation method		(7)	(7)
At December 31	**2**	**9**	**11**
Companies accounted for by the equity method			
At January 1	7	64	71
Newly consolidated companies	4	14	18
Merged companies		(3)	(3)
Deconsolidated companies	(3)	(1)	(4)
Change in consolidation method		(7)	(7)
At December 31	**8**	**67**	**75**
TOTAL AT DECEMBER 31, 2005	**229**	**1,253**	**1,482**

The increase in the number of consolidated companies during the year primarily reflects the acquisition of the BPB group at the beginning of December 2005, representing 243 newly consolidated companies.

At December 31, 2005, the impact on the balance sheet of changes in Group structure and in consolidation methods was as follows:

(in € millions)	Acquisition of BPB	Increases (excluding BPB)	Decreases	Total
Impact on assets				
Non-current assets	6,894	920	(160)	7,654
Inventories	268	204	(54)	418
Trade accounts receivable	486	254	(76)	664
Other current assets excluding cash and cash equivalents	65	28	(5)	88
	7,713	**1,406**	**(295)**	**8,824**
Impact on equity and liabilities				
Shareholders' equity and minority interests	17	44	(4)	57
Provisions for pensions and other employee benefits	377	19	(8)	388
Long-term liabilities	178	61	0	239
Trade accounts payable	245	153	(39)	359
Other payables and accrued expenses	390	92	(19)	463
	1,207	**369**	**(70)**	**1,506**
Acquisitions/disposals of shares in consolidated companies, including net debt acquired/ disposed of (a)	**6,506**	**1,037**	**(225)**	**7,318**
Impact on consolidated net debt*				
Impact on cash and cash equivalents	272	94	(4)	362
Impact on net debt excluding cash and cash equivalents (b)	915	192	(22)	1,085
	643	**98**	**(18)**	**723**
Acquisitions/disposals of shares in consolidated companies, net of cash acquired/ disposed of (a) - (b)	**5,591**	**845**	**(203)**	**6,233**

* representing debt, short-term credit facilities and cash and cash equivalents of companies acquired/divested.

In the first half of 2005, the Group acquired the entire capital stock of the Swiss company Sanitas Troesch for €226 million (€210 million including net cash acquired). This entity was fully consolidated from March 1, 2005. The impact on the Group's sales in 2005 was €298 million.

On April 6, 2005 the Group acquired a controlling stake in Hankuk Glass Industries (HGI) – a group in which it already held 46% of the voting rights – by purchasing 34% of the minority interests for €158 million. This acquisition led to the full consolidation of six companies which had previously been consolidated using the proportionate method. This change in consolidation method had a €105 million positive impact on the Group's net sales in 2005.

In the second half of 2005, the Group acquired the entire capital of the Norway-based building materials distributor, Optimera Gruppen AS, for €203 million (€280 million including net debt assumed). This company was fully consolidated from August 1, 2005. The related impact on the Group's net sales in 2005 was €279 million.

In 2005 the Group also acquired the BPB group through a cash offer which closed on December 2, 2005. At that date, 86.12% of BPB's shares had been tendered to the offer. Saint-Gobain then launched a buyout procedure relating to the remainder of the group's shares which ended in early 2006.
The Saint-Gobain Group therefore fully controlled BPB at December 31, 2005. The total acquisition cost was €5,928 million (€6,506 million including net debt assumed).
BPB was fully consolidated as from December 1, 2005.

The impact of this acquisition on the Group's 2005 income statement was as follows:
- Net sales: €237 million positive impact.
- Operating income: €8 million negative impact.
- Business income: €57 million negative impact.
- Net financial expense: €18 million negative impact.
- Net income: €54 million negative impact.

Finally, the Group concluded the sale of Saint-Gobain Stradal to the CRH Group on August 16, 2005. This company, which was included in assets held for sale at June 30, 2005, had net sales of €85 million in 2005.

There were no other significant changes in Group structure in 2005.

Changes in Group structure in 2004

In 2004, the Group acquired the entire capital stock of Dahl International AB for €384 million, or €696 million including net debt assumed. Dahl International AB was fully consolidated as from May 1, 2004. The impact of this acquisition on the Group's net sales in 2004 was €1,052 million.

Final allocation of goodwill arising on prior-year acquisitions

In 2005, goodwill recognized on the acquisition of Dahl International AB during 2004 was allocated to retail brands in an amount of €352 million, or €235 million net of deferred taxes. Adjusted for this allocation, the balance sheet items concerned would be as follows at December 31, 2004:

(in € millions)	Dec. 31, 2004	Allocation	Dec. 31, 2004 after allocation
Goodwill	5,203	(235)	4,968
Other intangible assets	1,804	352	2,156
Deferred tax liabilities	238	117	355

Note 3 Goodwill

(in € millions)	2005	2004
At January 1		
Gross value	5,248	4,755
Accumulated impairment	(45)	0
Net	**5,203**	**4,755**
Movements during the year		
Changes in Group structure	5,311	623
Allocation of goodwill related to the previous year (see Note 2)	(235)	(23)
Impairment	(36)	(47)
Translation adjustments	298	(105)
Total	**5,338**	**448**
AT DECEMBER 31		
Gross value	10,579	5,248
Accumulated impairment	(38)	(45)
NET	**10,541**	**5,203**

The increase in goodwill at December 31, 2005 was due mainly to the following acquisitions: Sanitas Troesch Group (acquisition cost: €226 million; goodwill: €54 million after allocation to retail brands in an amount of €69 million net of deferred taxes), Optimera Gruppen AS (acquisition cost: €203 million; goodwill: €184 million) and BPB (acquisition cost: €5,928 million; goodwill: €4,904 million).

The allocation of goodwill relating to the BPB group was not completed at December 31, 2005. As the acquisition only took place in early December, it was not possible to determine the fair value of all of the group's identifiable assets, liabilities and contingent liabilities prior to the balance sheet date. It is therefore possible that these assets and liabilities and the related goodwill included in the Group's consolidated financial statements for 2005 may change during the 12-month period after the acquisition during which fair value adjustments are permitted.

In 2004, "Changes in Group structure" mainly corresponded to the €517 million in goodwill recognized on the purchase of Saint-Gobain's interest in Dahl International AB, acquired for €384 million. The allocation of goodwill related to the previous year corresponded to the allocation of the Pum Plastiques brand in an amount of €35 million, less €12 million in deferred tax.

Note 4 Other intangible assets

(in € millions)	Patents	Retail brands	Software	Development costs	Other	Total
At January 1, 2004						
Gross value	140	1,469	406		216	2,231
Accumulated amortization and impairment	(104)		(254)		(117)	(475)
Net	**36**	**1,469**	**152**	**0**	**99**	**1,756**
Movements during the year						
Changes in Group structure	(10)		16		25	31
Allocation of goodwill related to the previous year		35				35
Acquisitions			47		33	80
Disposals			(2)		(3)	(5)
Translation adjustments	(1)		(4)		(4)	(9)
Amortization and impairment	(4)		(56)		(24)	(84)
Total	**(15)**	**35**	**1**	**0**	**27**	**48**
At December 31, 2004						
Gross value	119	1,504	478		266	2,367
Accumulated amortization and impairment	(98)		(325)		(140)	(563)
Net	**21**	**1,504**	**153**	**0**	**126**	**1,804**
Movements during the year						
Changes in Group structure	1	104	33	4	(17)	125
Allocation of goodwill related to the previous year (see Note 2)		352				352
Acquisitions	2		50	26	31	109
Disposals			(1)			(1)
Translation adjustments	1	16	11	1	11	40
Amortization and impairment	(3)		(69)	(2)	(9)	(83)
Total	**1**	**472**	**24**	**29**	**16**	**542**
AT DECEMBER 31, 2005						
Gross value	140	1,976	584	35	291	3,026
Accumulated amortization and impairment	(118)		(407)	(6)	(149)	(680)
NET	**22**	**1,976**	**177**	**29**	**142**	**2,346**

Development costs relating to significant projects in the development, validation or manufacturing phase were recorded as assets in the consolidated balance sheet at December 31, 2005. At December 31, 2004, the Group did not identify any significant projects whose development costs met the asset recognition criteria under IAS 38.

In 2005, "Changes in Group structure" concerning retail brands corresponded to the allocation of the Sanitas Troesch brand.

Greenhouse gas emission allowances allocated to the Group's European companies together represent a total of about 6.5 million metric tons of CO_2 for 2005 and around 13 million tons for 2006 and 2007. The unit value of these allowances varies between €8 per metric ton of CO_2 (at January 1, 2005) and approximately €21 per ton (at December 31, 2005 on the Powernext Carbon market), depending on the market concerned.

The aggregate allowances granted to the Group's companies exceed the amount of actual greenhouse gases emitted by the Group as a whole, by some 0.3 million metric tons of CO_2.

Note 5 **Property, plant and equipment**

(in € millions)	Land	Buildings	Machinery and equipment	Assets under construction	Total
At January 1, 2004					
Gross value	1,195	5,253	13,968	862	21,278
Accumulated depreciation and impairment	(96)	(2,503)	(9,593)	(1)	(12,193)
Net	**1,099**	**2,750**	**4,375**	**861**	**9,085**
Movements during the year					
Changes in Group structure	22	73	111	28	234
Acquisitions	31	98	469	970	1,568
Disposals	(31)	(77)	(51)	(8)	(167)
Translation adjustments	(1)	(14)	(71)	(18)	(104)
Depreciation and impairment	(9)	(226)	(1,009)	(5)	(1,249)
Transfers	0	148	743	(891)	0
Total	**12**	**2**	**192**	**76**	**282**
At December 31, 2004					
Gross value	1,218	5,415	14,610	944	22,187
Accumulated depreciation and impairment	(107)	(2,663)	(10,043)	(7)	(12,820)
Net	**1,111**	**2,752**	**4,567**	**937**	**9,367**
Movements during the year					
Changes in Group structure	413	500	933	328	2,174
Acquisitions	50	121	582	1,024	1,777
Disposals	(36)	(29)	(59)	(16)	(140)
Translation adjustments	53	164	346	71	634
Depreciation and impairment	(22)	(230)	(1,046)	(6)	(1,304)
Transfers	0	203	763	(966)	0
Total	**458**	**729**	**1,519**	**435**	**3,141**
AT DECEMBER 31, 2005					
Gross value	1,826	6,732	18,536	1,389	28,483
Accumulated depreciation and impairment	(257)	(3,251)	(12,450)	(17)	(15,975)
NET	**1,569**	**3,481**	**6,086**	**1,372**	**12,508**

As an industrial group, Saint-Gobain does not have a significant non-operating property portfolio, except for its head office building.

In 2005, "Changes in Group structure" primarily corresponded to the €1,869 million impact of the acquisition of the BPB group (see Note 2).

During the year, acquisitions of property, plant and equipment included new finance leases in the amount of €21 million, which are not shown in the cash flow statement. At December 31, 2005, total property, plant and equipment acquired under finance leases amounted to €213 million (see Note 26).

The increase in acquisitions of property, plant and equipment in 2005 stems from the Group's continued efforts to step up its capital expenditure program in emerging markets, particularly in Asia. The higher impact of translation adjustments during the year was primarily due to the stronger US dollar and Brazilian real.

Note 6 Investments in associates

(in € millions)	2005	2004
At January 1		
Equity in associates	61	75
Goodwill	3	3
Investments in associates	**64**	**78**
Movements during the year		
Changes in Group structure	63	(20)
Translation adjustments	3	0
Transfers, share issuances and other movements	2	0
Dividends paid	(5)	(2)
Share in net income of associates	10	8
Total	**73**	**(14)**
AT DECEMBER 31		
Equity in associates	129	61
Goodwill	8	3
INVESTMENTS IN ASSOCIATES	**137**	**64**

The increase in investments in associates at December 31, 2005 primarily reflects the first-time consolidation by the equity method of BPB group companies, representing €47 million, and of other companies acquired during the year, representing €30 million.

Net sales recorded in the individual financial statements of all of the Group's associates totaled €731 million, and aggregate net income came to €26 million. Total assets and liabilities of these companies amounted to €539 million and €341 million, respectively, at December 31, 2005.

Note 7 Available-for-sale and other securities

(in € millions)	2005	2004
At January 1		
Gross value	123	304
Provisions for impairment in value	(31)	(56)
Net	**92**	**248**
Movements during the year		
Changes in Group structure	(44)	(82)
Acquisitions/Increases	123	34
Disposals/Decreases	(13)	(106)
Impairment losses	(1)	(2)
Translation adjustments	3	0
Transfers and other movements	1	0
Total	**69**	**(156)**
AT DECEMBER 31		
Gross value	193	123
Provisions for impairment in value	(32)	(31)
NET	**161**	**92**

The increase in other securities in 2005 mainly corresponds to the acquisition of the entire capital of the China-based company Xugang (Xuzhou General Iron and Steel Works). This acquisition was approved by the Chinese authorities in December 2005 and the company will be consolidated in 2006.

The decrease in available-for-sale securities in 2004 reflected the sale of the Group's remaining holding in Vivendi Universal.

The fair value of these investments approximates their carrying amount.

Note 8 Other non-current assets

(in € millions)	Capitalized loans and deposits	Prepaid pension costs	Total
At January 1, 2004			
Gross value	492	14	506
Provisions for impairment in value	0	0	0
Net	**492**	**14**	**506**
Movements during the year			
Changes in Group structure	10	1	11
Increases/(Decreases)	(196)		(196)
Impairment losses	(5)		(5)
Translation adjustments	(7)		(7)
Transfers and other movements	12		12
Total	**(186)**	**1**	**(185)**
At December 31, 2004			
Gross value	312	15	327
Provisions for impairment in value	(6)	0	(6)
Net	**306**	**15**	**321**
Movements during the year			
Changes in Group structure	33		33
Increases/(Decreases)	(96)	12	(84)
Impairment losses	(2)		(2)
Translation adjustments	22	2	24
Transfers and other movements	(10)		(10)
Total	**(53)**	**14**	**(39)**
AT DECEMBER 31, 2005			
Gross value	264	29	293
Provisions for impairment in value	(11)	0	(11)
NET	**253**	**29**	**282**

Changes in other non-current assets principally reflect changes in the advances paid in relation to the claims and litigation explained in Note 27, as well as changes in the collection of receivables on asset disposals.

Note 9 Inventories

(in € millions)	12/31/2005	12/31/2004
Gross value		
Raw materials	1,335	1,150
Work in progress	329	306
Finished goods	4,275	3,745
Gross inventories	**5,939**	**5,201**
Provisions for impairment in value		
Raw materials	(92)	(95)
Work in progress	(15)	(12)
Finished goods	(289)	(277)
Provisions for impairment in value	**(396)**	**(384)**
NET	**5,543**	**4,817**

In 2005, "Cost of sales" came to €26,449 million, compared with €24,094 million in 2004.

Impairment of inventories recorded in the 2005 income statement amounted to €117 million. Impairment reversals recorded due to increases in the net realizable value of inventories were deducted from expenses for the year in an amount of €64 million.

Note 10 Trade accounts receivable

(in € millions)	12/31/2005	12/31/2004
Gross value	6,218	5,129
Provisions for impairment in value	(370)	(340)
NET	**5,848**	**4,789**

The net expense in respect of irrecoverable and doubtful receivables amounted to €74 million for 2005, compared with €80 million for 2004.

Note 11 Other accounts receivable

(in € millions)	12/31/2005	12/31/2004
Advances to suppliers	105	78
Prepaid payroll taxes	34	24
Other prepaid and recoverable taxes (other than income tax)	257	295
Accrued income	96	168
Other	446	356
Provisions for impairment in value	(6)	(6)
OTHER ACCOUNTS RECEIVABLE	**932**	**915**

Note 12 Provisions for pensions and other employee benefits

(in € millions)	12/31/2005	12/31/2004
Pension obligations	2,229	2,055
Retirement bonus obligations	223	215
Post-employment healthcare benefit obligations	428	366
Total provisions for pensions and other post-employment benefit obligations	**2,880**	**2,636**
Healthcare benefits	61	49
Long-term incapacity benefits	38	25
Other long-term benefits	50	40
PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS	**3,029**	**2,750**

The following tables set out the obligations and provisions for pensions and other post-employment benefits by geographic area:

DECEMBER 31, 2005 *(in € millions)*	France	Other European countries	North America	Rest of the world	Total
Projected benefit obligation – funded plans	349	5,020	1,985	122	7,476
Projected benefit obligation – unfunded plans	180	642	462	5	1,289
Fair value of plan assets	139	3,896	1,636	102	5,773
Deficit	390	1,766	811	25	2,992
Deferred variances	(64)	(146)	(140)	5	(345)
Asset ceiling					38
Insured plans					166
Total pension and other post-employment benefit obligations					**2,851**
Prepaid pension costs (see Note 8)					**29**
Total provisions for pensions and other post-employment benefit obligations					**2,880**

DECEMBER 31, 2004 *(in € millions)*	France	Other European countries	North America	Rest of the world	Total
Projected benefit obligation – funded plans	289	2,975	1,484	109	4,857
Projected benefit obligation – unfunded plans	176	467	377	3	1,023
Fair value of plan assets	118	2,050	1,255	79	3,502
Deficit	347	1,392	606	33	2,378
Deferred variances	(4)	(11)	52	(7)	30
Asset ceiling					24
Insured plans					189
Total pension and other post-employment benefit obligations					**2,621**
Prepaid pension costs (see Note 8)					**15**
Total provisions for pensions and other post-employment benefit obligations					**2,636**

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, ceilings have been introduced in relation to supplementary pension plans, in excess of which they are converted into defined contribution 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 defined contribution scheme.

Provisions for other long-term benefits amounted to €149 million at December 31, 2005 compared with €114 million in 2004. This item covers all other employee benefits, notably long-service awards in France, "jubilee" benefits in Germany and employee benefits in the United States. The amounts recorded are generally calculated on an actuarial basis.

Measurement of pension and other employee benefit obligations

Pensions and other post-employment benefit obligations are determined by actuarial valuations using a method based on projected end-of career salaries (the projected unit credit method).

The Group's obligations for other employee benefits including long-term incapacity benefits and other long-term benefits are also calculated on an actuarial basis and recognized in the same way as pension obligations.

The Group's total pension and other employee benefit obligations amounted to €8,765 million at December 31, 2005, versus €5,880 million one year earlier.

The consolidation of the BPB group led to a €1,460 million increase in these obligations.

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 €331 million in 2005 and €236 million in 2004 and the actual return on plan assets came to €664 million in 2005.

The fair value of plan assets – which came to €5,773 million at December 31, 2005 (end-2004: €3,502 million) – is deducted from the amount of the Group's obligation valued according to the projected unit credit method in order to calculate the related provision.

The consolidation of the BPB group led to a €1,141 million increase in the value of plan assets.

Actuarial assumptions used for valuing pension obligations and plan assets

Assumptions related to mortality, employee turnover and future salary increases take into account the economic conditions specific to each country and company. Interest rates used in 2005 to determine the present value of future obligations were generally between 4% and 6.5%, depending on the country concerned.

The rates used in the countries in which the Group's obligations are the most significant are as follows:

	France	Other European countries		United States
		Euro zone	United Kingdom	
Discount rate	4.25%	4.25%	4.75%	5.75%
Salary increases	2.40%	2.50% to 3.50%	3.20% to 3.45%	3.00%
Expected return on plan assets	4.90%	3.50% to 5.00%	6.00% to 7.00%	8.75%

The same assumptions concerning mortality, employee turnover and interest rates are used to determine the Group's projected benefit obligation for other long-term employee benefits. In the United States, the annual growth rate for medical treatment received by retirees has been set at 9%.

Deferred variances

Deferred variances consist primarily of actuarial gains and losses (€345 million at December 31, 2005), as well as the effects of any plan modifications. Actuarial gains or losses are the result of year-on-year changes in the actuarial assumptions used to measure the Group's obligations and plan assets as well as experience adjustments (differences between the actuarial assumptions and what has actually occurred).

Total deferred variances amounted to a positive €345 million at December 31, 2005, compared with a negative €30 million the previous year, and are deducted or added to the provision for pensions and other employee benefits. They are amortized using the "corridor" approach, whereby only the portion of net cumulative actuarial gains and losses that exceeds the greater of 10% of either the projected benefit obligation or the fair value of plan assets are charged or credited to income over the employees' expected average remaining working lives. The related amount recognized in the 2005 income statement came to €1 million.

Prepaid pension costs

A prepaid pension cost is recorded under "Other non-current assets" whenever the assets of a pension plan exceed the related projected benefit obligation, less any unrecognized actuarial gains or losses (see Note 8), provided the asset represents future economic benefits for the Group. In the opposite case, the asset recognized is reduced by the amount of the asset ceiling thus determined.

Insured plans

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 €166 million at December 31, 2005 and €189 million at December 31, 2004.

Movements in provisions for pensions and other post-employment benefits

Changes in provisions for pensions and other post-employment benefits (excluding other employee benefits) can be broken down as follows by geographic area:

(in € millions)	France	Other Western European countries	North America	Emerging markets and Asia	Total
At January 1, 2004					
Total provisions for pensions and other post-employment benefit obligations	**350**	**1,510**	**781**	**30**	**2,671**
Movements during the year					
Charge for the year	29	112	75	4	220
Contributions and benefits paid	(42)	(160)	(149)	(3)	(354)
Changes in Group structure	7	80	0	0	87
Other (reclassifications and translation adjustments)	0	60	(49)	1	12
Total	**(6)**	**92**	**(123)**	**2**	**(35)**
At December 31, 2004					
Total provisions for pensions and other post-employment benefit obligations	**344**	**1,602**	**658**	**32**	**2,636**
Movements during the year					
Charge for the year	27	116	65	10	218
Contributions and benefits paid	(41)	(257)	(148)	(7)	(453)
Changes in Group structure	(4)	375	0	3	374
Other (reclassifications and translation adjustments)	0	7	97	1	105
Total	**(18)**	**241**	**14**	**7**	**244**
AT DECEMBER 31, 2005					
TOTAL PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS	**326**	**1,843**	**672**	**39**	**2,880**

Charge for pensions and other post-employment benefits

The Group's charge for pensions and other post-employment benefits (excluding other employee benefits) is as follows:

(in € millions)	2005	2004
Vested rights	166	150
Interest cost	356	323
Return on plan assets	(277)	(232)
Amortization of variances	1	0
Curtailments and settlements	(4)	(1)
Total	**242**	**240**
Employee contributions	(24)	(20)
TOTAL	**218**	**220**

Note 13 Stock options and Group Savings Plan

Compagnie de Saint-Gobain stock option plans

Compagnie de Saint-Gobain has stock option plans available to certain categories of employees, and a Group Savings Plan ("PEG"), or employee stock purchase plan.

Under the stock option plans, the Board of Directors may grant options which entitle the holder to obtain Saint-Gobain shares at a price based on the average share price for the 20 trading days preceding the grant date. 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 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, 2004 and 2005, the plans involved subscription options for new shares.

Further to the four-for-one stock split of June 27, 2002, the number of options for 1998 to 2001 has been multiplied by four in order to permit meaningful year-on- year comparisons.

The following table provides summary information relating to stock options outstanding in 2004 and 2005:

	€4 par value shares	Average exercice price (in euros)
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**
Options granted	3,922,250	45.71
Options exercised	(1,901,166)	33.54
Options forfeited	(112,000)	39.25
OPTIONS OUTSTANDING AT DECEMBER 31, 2005	**21,738,119**	**38.06**

At December 31, 2005, 8,358,469 options were exercisable at an average exercise price of €36.50.

At December 31, 2005, 6,307,390 options were available for grant under the authorization given by the General Meeting of June 9, 2005. This figure amounts to an overall ceiling for options and shares granted without consideration.

The following table summarizes information about stock options outstanding at December 31, 2005:

Grant date		Options exercisable		Options not exercisable		Total options outstanding	Type of options
	Exercice price (in euros)	Number of options	Average remaining contractual life (in months)	Exercice price (in euros)	Number of options	Number of options	
1998	29.54	350,880	11			350,880	Purchase
1999	40.63	1,341,810	47			1,341,810	Purchase
2000	37.69	2,146,895	59			2,146,895	Purchase
2001	40.22	3,172,651	71			3,172,651	Purchase
2002	23.53	1,346,233	83	23.53	2,001,400	3,347,633	Purchase
2003	35.67		95	35.67	3,655,000	3,655,000	Subscription
2004	43.56		107	43.56	3,801,000	3,801,000	Subscription
2005	45.71		119	45.71	3,922,250	3,922,250	Subscription
TOTAL		**8,358,469**			**13,379,650**	**21,738,119**	

The expense relating to stock options recorded in the income statement amounted to €32 million in 2005 and €18 million in 2004. The fair value of the options granted in 2005 – calculated using the same assumptions as those applied to measure the expense under IFRS 2 – totaled €41 million.

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 trading days preceding the date of the Board of Directors' Meeting 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 4,267,470 and 4,099,192 new shares to employees in 2005 and 2004, respectively, at an average price per share of €36.48 in 2005 and €31.41 in 2004.

The expense relating to this plan recorded in the income statement amounted to €11 million in 2005 and €14 million in 2004. As explained in Note 1, the interest rate applicable to employee share awards and used to determine the borrowing cost relating to the shares held during the holding period is the rate that would be applied by a bank to an individual with an average risk profile for a general purpose five-year consumer loan (6.30% in 2005 and 6.65% in 2004).

A 1% decrease in the rate applied would have led to an additional expense of €7.6 million for 2005.

Note 14 Current and deferred taxes

Compagnie de Saint-Gobain is assessed for income tax purposes on its consolidated taxable 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 taxable 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.

(in € millions)	2005	2004
Current taxes	**(686)**	**(648)**
France	(233)	(237)
Outside France	(453)	(411)
Deferred taxes	**(15)**	**32**
France	44	78
Outside France	(59)	(46)
TOTAL INCOME TAX EXPENSE	**(701)**	**(616)**

Taxes paid in 2005 amounted to €716 million.

In 2005, the income tax expense represented 35% of the net pre-tax income of companies included in the tax group, compared to 33% in 2004. The effective tax rates can be analyzed as follows:

(in %)	2005	2004
Current income tax rate	33	33
Surcharge on French income tax	1	1
Technical assistance fees and net capital gains taxed at lower rates	(1)	(1)
Other	2	0
EFFECTIVE RATE	**35**	**33**

In the balance sheet, changes in net deferred tax liabilities break down as follows:

(in € millions)	
At January 1, 2004	**249**
Deferred tax expense/(benefit) for the year	(32)
Allocation of goodwill related to 2003 (see Note 2)	12
Translation adjustments	14
Equity impact	0
Effect of changes in Group structure and other	(5)
At December 31, 2004	**238**
Deferred tax expense/(benefit) for the year	15
Allocation of goodwill related to 2004 (see Note 2)	117
Translation adjustments	(28)
Equity impact	28
Effect of changes in Group structure and other	97
AT DECEMBER 31, 2005	**467**

The principal components of net deferred tax liabilities are as follows:

(in € millions)	2005	2004
Deferred tax assets	352	350
Deferred tax liabilities	(819)	(588)
Net deferred tax liabilities	**(467)**	**(238)**
Pensions	685	652
Retail brands	(659)	(501)
Depreciation, amortization, excess tax depreciation and provisions recorded for tax purposes	(920)	(799)
Tax loss carryforwards	215	160
Other	212	250
TOTAL	**(467)**	**(238)**

At December 31, 2005, deferred taxes were reclassified in the balance sheet to reflect the net deferred tax position by country. This led to the recording of €352 million in assets, primarily relating to the United States (€231 million) and Germany (€82 million). The Group also recorded €819 million in liabilities relating to various countries including France (€376 million) and the United Kingdom (€180 million). Other countries accounted for significantly lower amounts.

Deferred tax assets and the tax credits whose recovery the Group does not deem probable are not recognized in the balance sheet. These unrecognized items represented €468 million at December 31, 2005 and primarily related to Germany, the United Kingdom and the United States.

Note 15 Provisions for other liabilities and charges

(in € millions)	Provision for claims and litigation	Provision for environ-mental risks	Provision for restruc-turing costs	Provision for personnel costs	Provision for customer warranties	Provision for other contin-gencies	Total
At January 1, 2004							
Current portion	148	9	58	24	71	64	374
Non-current portion	220	63	91	65	76	70	585
Total provisions for other liabilities and charges	**368**	**72**	**149**	**89**	**147**	**134**	**959**
Movements during the year							
Additions	111	4	95	23	46	32	311
Reversals	(3)					(2)	(5)
Utilizations	(138)	(2)	(104)	(26)	(48)	(10)	(328)
Changes in Group structure		(4)	(1)	1	1	(5)	(8)
Other (reclassifications and translation adjustments)	(12)	4	(3)	(3)	(5)	(9)	(28)
Total	**(42)**	**2**	**(13)**	**(5)**	**(6)**	**6**	**(58)**
At December 31, 2004							
Current portion	137	10	59	21	69	57	353
Non-current portion	189	64	77	63	72	83	548
Total provisions for other liabilities and charges	**326**	**74**	**136**	**84**	**141**	**140**	**901**
Movements during the year							
Current portion	104	5	117	26	58	32	342
Reversals	(1)	(11)	(11)	(5)	(19)	(19)	(66)
Utilizations	(88)	(8)	(77)	(14)	(41)	(22)	(250)
Changes in Group structure	0	45	23	2	9	30	109
Other (reclassifications and translation adjustments)	35	2	5	7	9	21	79
Total	**50**	**33**	**57**	**16**	**16**	**42**	**214**
At December 31, 2005							
Current portion	131	18	98	24	74	66	411
Non-current portion	245	89	95	76	83	116	704
TOTAL PROVISIONS FOR OTHER LIABILITIES AND CHARGES	**376**	**107**	**193**	**100**	**157**	**182**	**1,115**

Provision for claims and litigation

The provision for claims and litigation has been set up to provide for the costs of asbestos-related lawsuits filed against the Group. The provision covers the costs of lawsuits currently in progress as well as potential new claims. Asbestos-related risks are described in further detail in Note 27.

Provision for environmental risks

This provision covers costs relating to environmental protection measures, as well as site restorations and clean-ups.

Provision for restructuring costs

The provision for restructuring costs came to €193 million at December 31, 2005 (including net additions of €117 million during the year), compared with €136 million at December 31, 2004. The provision primarily concerns the United Kingdom (€59 million), Germany (€48 million), France (€38 million), and the Benelux countries (€19 million).

Provision for personnel costs

This provision mainly covers indemnities due to personnel that are unrelated to the Group's reorganization operations.

Provision for customer warranties

This provision covers the Group's commitments in relation to warranties granted to customers.

Provision for other contingencies

At December 31, 2005, provisions for other contingencies amounted to €182 million and related mainly to France (€34 million), Germany (€37 million), the United Kingdom (€33 million), North America (€30 million) and Latin America (€21 million).

Note 16 Trade accounts payable, other payables and accrued expenses

(in € millions)	2005	2004
TRADE ACCOUNTS PAYABLE	**4,785**	**3,954**
Customer deposits	152	105
Payable to suppliers of non-current assets	361	268
Grants received	53	25
Accrued personnel expenses	1,029	825
Accrued taxes other than on income	306	326
Other	958	758
TOTAL OTHER PAYABLES AND ACCRUED EXPENSES	**2,859**	**2,307**

Note 17 Treasury stock

Compagnie de Saint-Gobain capital stock held by consolidated Group companies is shown as a separate component of equity under "Treasury stock", and is stated at historical cost.
Total shares held in treasury stock were 8,383,161 at December 31, 2005 and 5,860,410 at December 31, 2004. They were all held by Compagnie de Saint-Gobain.

In 2005, the Group purchased 4,423,117 Compagnie de Saint-Gobain shares on the market (6,730,702 in 2004) and sold 1,900,366 of them (1,227,819 in 2004) in connection with stock option plans.

No shares were canceled in 2005, compared with 11,281,859 in 2004 (6,799,832 and 4,482,027 canceled by the Board of Directors in their meetings of January 29, 2004 and November 18, 2004 respectively).

Note 18 Risk factors

Market risks (interest rate, foreign exchange, equity and credit risk)

Liquidity risk

Liquidity risk relating to the Group's total net debt is managed by the Treasury Department of Compagnie de Saint-Gobain. Except for special cases, the counterparty of Group companies for their long-term financing is Compagnie de Saint-Gobain or the cash pools of the national delegations. The companies' short-term financing needs are mainly met by the parent company or national cash pools.

The main objective of managing overall liquidity risk is to guarantee that the Group's financing sources will be renewed and to optimize annual borrowing costs. Long-term debt systematically represents a high level of overall debt.
At the same time, the maturity schedules of long-term debt are such that the financing raised through the markets when the debt is renewed is spread over several years.

Bonds make up the main source of long-term financing used by the Group. However, it also uses a Medium Term Notes program, perpetual bonds, participating securities, bank borrowings and finance leases.

Short-term debt is composed of i) borrowings under French Commercial Paper *(Billets de Trésorerie)*, Euro Commercial Paper and US Commercial Paper programs, ii) securitized receivables, and iii) bank overdrafts. Short-term financial assets comprise marketable securities and cash on hand.

Compagnie de Saint-Gobain's US Commercial Paper, Euro Commercial paper, *Billets de Trésorerie* and Medium Term Notes programs are backed by confirmed syndicated lines of credit and bilateral credit facilities.

A breakdown of long- and short-term debt is provided by type and maturity in Note 19. Details of amounts, currencies, and early repayment terms and conditions of the Group's financing programs and confirmed credit lines are also discussed in Note 19.

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 treasury 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 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 derivatives. Where subsidiaries use derivatives to hedge interest-rate risk, Compagnie de Saint-Gobain – the Group parent company – is the exclusive counterparty, except in the case of the Dahl International AB Group, which was acquired in 2004 and still has an interest-rate swap portfolio.

The main objective of managing overall interest-rate risk on the Group's consolidated net debt is to fix the cost of medium-term debt and to optimize annual borrowing costs. The Group's policy defines which derivatives can be used to hedge its debt. Derivatives may include interest-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.

Note 20 provides details on the Group's interest-rate hedges, as well as the interest rates applicable for the main items of gross debt. It also provides a breakdown of net debt by currency, type and rate (fixed or variable), as well as the interest-rate revision schedule.

Foreign exchange risk

The Group's policy on foreign exchange 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 currency contracts to hedge exposure arising from commercial transactions. The subsidiaries set up option contracts exclusively through the Group parent company, Compagnie de Saint-Gobain, which then takes a reverse position on the market.

Most forward currency contracts are for periods of around three months. However, forward currency contracts taken out to hedge firm orders may have terms of up to two years. Subsidiaries are authorized to enter into forward currency 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 foreign exchange risks. Saint-Gobain Compensation hedges these risks solely by means of forward purchases and sales of foreign currencies. This enables companies using the services of Saint-Gobain Compensation 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 foreign exchange risks is hedged with Compagnie de Saint-Gobain on receipt of orders sent by the subsidiaries or by cash pools of the national delegations.

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, which has been fully sold.

Energy risk

In order to limit exposure to energy price fluctuations, the Group sets up swaps and options to hedge part of its natural gas purchases in the United States and fuel oil purchases in Europe.

THE BPB GROUP

In 2005, the financial risk management principles used within the BPB group were consistent with those applied within the Saint-Gobain Group. In 2006, the BPB group's financial risk management function will be fully incorporated into Saint-Gobain's risk management structure.

In order to cover its exposure to foreign exchange risks on assets and liabilities, BPB used net investment hedges, within the meaning of IFRS. The impact on equity of this type of hedge is described in Note 20.

Note 19 Net debt

Long- and short-term debt

Long- and short-term debt consist of the following:

(in € millions)	2005	2004
Bond issues	4,993	4,767
Medium Term Notes	42	77
Perpetual bonds and participating securities	203	203
Acquisition-related bank borrowings	5,341	0
Other long-term debt including finance leases	802	628
Fair value of interest-rate hedges	(66)	(46)
Total long-term debt (excluding current portion)	**11,315**	**5,629**
Current portion of long-term debt	**922**	**1,338**
Short-term financing programs (US CP, euro CP and *Billets de trésorerie*)	782	415
Bank overdrafts and other short-term bank borrowings (including securitization)	1.937	1,767
Fair value of derivatives relating to borrowings not qualified as hedges (*)	(26)	(33)
Short-term borrowings and bank overdrafts	**2,693**	**2,149**
Total debt – gross	**14,930**	**9,116**
Cash and cash equivalents	(2,080)	(2,898)
TOTAL NET DEBT INCLUDING ACCRUED INTEREST	**12,850**	**6,218**

* The fair value of exchange rate swaps included in debt at December 31, 2005, amounting to a positive €8 million, was not included at December 31, 2004 (negative amount of €6 million).

Long-term debt repayment schedule

The repayment schedule for gross long-term debt at December 31, 2005 breaks down as follows:

Maturity *(in € millions)*	**Currency**	**Within 1 year**	**1 to 5 years**	**Beyond 5 years**	**Total**
Bond issues	EUR	0	3,692	485	4,177
	USD	508	423	170	1,101
	GBP	0	223	0	223
Medium Term Notes	EUR	8	0	0	8
	USD	0	42	0	42
	Other	35	0	0	35
Perpetual bonds and participating securities	EUR	0	0	203	203
Acquisition-related bank borrowings	EUR	0	2,678	0	2,678
	GBP	0	2,663	0	2,663
Other long-term debt	All currencies	191	719	83	993
Fair value of interest-rate hedges	EUR	0	(57)	(4)	(61)
	USD	0	0	0	0
	GBP	0	(5)	0	(5)
TOTAL, EXCLUDING ACCRUED INTEREST		**742**	**10,378**	**937**	**12,057**

On June 7, 2005 and December 15, 2005 respectively, the Group redeemed the GBP 450 million and €345 million bonds that had reached maturity. The original amount issued in relation to the euro-denominated bonds was €500 million.
The balance redeemed was €345 million, as 155 million bonds were exchanged in 2004.

Long-term debt includes €400 million worth of bonds maturing in 2010, and two $100 million tranches of US private placements maturing in 2013 and 2015 respectively, issued by BPB plc.

OCÉANE BONDS

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 face value of €210 each, and the total issue came to €920 million. The annual interest rate on these Océane bonds is 2.625%, payable in arrears on January 1 each year.

At December 31, 2005, Compagnie de Saint-Gobain had not used its entitlement to repurchase any of the Océane bonds. In addition, 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 5.08% of the capital stock of Compagnie de Saint-Gobain at December 31, 2005.

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 to Libor. These securities are not redeemable and the interest paid on them is included in financial expense.

At December 31, 2005, 18,496 perpetual bonds had been bought back and canceled. At that date, 6,504 perpetual bonds were outstanding, representing a total face value of €33 million.

Participating securities

In the 1980s, Compagnie de Saint-Gobain issued 1,288,299 TMO-indexed non-voting participating securities (indexed to average bond rates) and 194,633 non-voting participating securities indexed to the Euribor (minimum). These securities are not redeemable and the interest paid on them is included in financial expense.

Some of these securities were repurchased in the market over the course of time. At December 31, 2005, there were 606,883 TMO-indexed securities outstanding and those indexed to Euribor (minimum) totaled 77,516, representing an aggregate face value of €170 million.

The interest paid on the 606,883 TMO-indexed securities comprises, subject to a cap of 125% of average bond yields, a fixed portion and a variable portion based on the Group's earnings. Interest paid on the 77,516 securities indexed to a minimum of Euribor, comprises (i) a fixed portion, applicable to 60% of the security, of 7.5% per year and (ii) a variable portion applicable to the remaining 40% of the security, which is linked to consolidated net income of the previous year, subject to the cap specified in the issue agreement.

Net interest paid on participating securities for 2005 came to €9.5 million, compared with €11 million in 2004.

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, 2005, these programs were as follows:

Programs *(in millions of currency)*	Currency	Drawdown period	Authorized ceiling at Dec. 31, 2005	Drawn down at Dec. 31, 2005	Drawn down at Dec. 31, 2004
Medium Term Notes	EUR	1 to 30 years	2,500	85	110
US commercial paper	USD	up to 12 months	1,000 (*)	0	0
Euro commercial paper	USD	up to 12 months	1,000 (*)	0	0
Billets de Trésorerie	EUR	up to 12 months	1,500	782	415

(*) equivalent to €848 million based on the exchange rate at December 31, 2005.

The authorized ceilings on the Medium Term Notes and *Billets de Trésorerie* programs were raised to €5 billion and €3 billion respectively on January 26, 2006.

Billets de Trésorerie, Euro Commercial Paper and US Commercial Paper issues generally have a life of one to six months. In view of their frequent renewal, the Group treats them as variable-rate debt.

Compagnie de Saint-Gobain's US Commercial Paper, Euro Commercial Paper, *Billets de Trésorerie* and Medium Term Notes programs are backed by confirmed syndicated lines of credit totaling €2,000 million, expiring in November 2010. These lines were extended for one year at December 31, 2005, and may be extended for a further period of one year at December 31, 2006. Compagnie de Saint-Gobain also had 8 bilateral credit lines totaling €663 million at December 31, 2005. None of these lines were drawn down during the year.

The main 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 (assessed every six months):
  - ratio of net debt to consolidated cash flow from operations 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 pre-tax profit excluding net interest expense.

This constraint covers four bilateral lines representing €459 million.

• default on bank borrowings in excess of certain ceilings.

In January and February 2006, four bilateral credit lines of the BPB group were canceled. These credit lines represented a total of €102 million and were fully drawn down at December 31, 2005.

The Saint-Gobain Group obtained a further syndicated line of credit in 2005, in the amount of €9 billion, for the acquisition of the BPB group, as well as for refinancing certain debts of the BPB and Saint-Gobain groups. This line, of which €5.4 billion had been drawn down at December 31, 2005, is composed of tranches with maturities of up to five years.

The main early-repayment scenarios for the €9 billion syndicated credit facility are as follows:

• failure to comply with either of the following ratios (assessed every six months):
  - ratio of net debt to operating income (excluding consolidated depreciation, amortization and impairment) below 3.75;
  - interest cover ratio of over 3.5.

• default on bank borrowings in excess of certain ceilings.

Saint-Gobain complied with these covenants at December 31, 2005.

The aggregate commitment fees for all of these facilities amounted to €6.2 million in 2005, compared with €3.1 million in 2004.

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.

Securitization of receivables

The Group has set up two securitization programs for commercial receivables through its US subsidiary, CertainTeed Receivables Corporation, and through its subsidiary in the UK, Jewson Ltd.

The US program concerns an amount of €431 million at December 31, 2005 (€378 million at December 31, 2004). The difference between the face value of the sold receivables and the proceeds received is treated as a financial expense. In 2005, the expense recorded in the income statement came to €13.6 million (2004: €7.8 million).

The UK program concerns €233.5 million at December 31, 2005, compared with €227 million at December 31, 2004. The total amount recorded under financial expense in relation to this program came to €10.4 million in 2005 (2004: €10.1 million).

Collateral

At December 31, 2005, €69.9 million of Group debt was secured by various non-current assets (real estate and securities).

Note 20 Financial instruments

Derivatives

The following table presents a breakdown of the principal derivatives used by the Group:

(in € millions)	Fair value at December 31, 2005	Nominal value broken down by maturity date at December 31, 2005: Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	Total	Fair value at December 31, 2004
Fair value hedges						
Interest-rate swaps	67	0	1,468	300	1,768	46
Cash flow hedges						
Commodity swaps	24	123	30	0	153	(3)
Forward currency contracts	0	0	0	0	0	0
Derivatives not qualifying as hedges						
Interest-rate swaps	(4)	151	588	0	739	(3)
Cross-currency swaps	21	138	49	0	187	37
Exchange-rate swaps	8	2,237	0	0	2,237	(6)
Commodity swaps	0	0	0	0	0	0
Forward currency contracts	(29)	2,778	1	0	2,779	3
Currency options purchased	0	8	0	0	8	1
Currency options sold	0	0	0	0	0	0
Interest-rate conversion options	0	0	0	0	0	0
Commodity options purchased	1	4	0	0	4	0
Commodity options sold	0	3	0	0	3	0
TOTAL	**88**	**5,442**	**2,136**	**300**	**7,878**	**74**
of which: derivatives linked to net debt	92					80

The fair value of financial instruments is generally determined by reference to the market price resulting from transactions on a national stock market or over-the-counter financial market.

When no listed market price is available, the fair value is based on estimates performed by financial discounting or other techniques.

Interest-rate swaps

The interest-rate swaps used by the Group allow a portion of debt contracted in the bond markets at fixed rates to be converted to variable rates. They have also been used to convert a portion of BPB's variable-rate debt to fixed rate.

Cross-currency swaps

The Group uses cross-currency swaps in connection with the financing of its US subsidiaries. Under these swaps, the Group is the euro lender and the dollar borrower.

Exchange-rate swaps

The Group uses exchange-rate swaps as part of its day-to-day cash management as well as, in certain cases, to utilize euro-denominated financing for assets denominated in currencies other than the euro.

Currency options and forward currency contracts

Currency options and forward currency contracts enable Group companies to hedge their foreign currency transactions, particularly their commercial transactions (purchases and sales) and investments.

Commodity swaps and options

Commodity swaps are used to hedge the risk of changes in the purchase price of raw materials, particularly heavy fuel oils in Europe and natural gas in the United States. Commodity options enable BPB companies to hedge the risk of changes in the purchase price of natural gas in the United States and Europe.

Group debt structure

The weighted average interest rate on total gross debt under IFRS and after hedging (cross-currency swaps, exchange-rate swaps, interest-rate swaps and caps) was 4.4 % at December 31, 2005, compared with 4.8% at the end of 2004.

The average internal rates of return for the Group's main long-term debt items, before hedging, breaks down as follows:

Internal rate of return on outstandings at Dec. 31	2005	2004
Bond issues	5.49%	5.67%
Medium Term Notes	4.94%	4.30%
Perpetual bonds and participating securities	5.09%	5.47%
Acquisition-related borrowings	4.14%	–

The 4.14% internal rate of return on acquisition-related borrowings represents an average at December 31, 2005 between the 2.90% rate on euro-denominated drawdowns and the 5.41% rate on drawdowns denominated in pounds sterling. As of January 10, 2006, all drawdowns denominated in pounds sterling have been converted into euros.

The table below presents the breakdown by currency and by type of rate (fixed or variable) of the Group's net debt at December 31, 2005, after hedging by means of interest-rate swaps, exchange-rate swaps and cross-currency swaps.

Currency (of net debt) *(in € millions)*	Variable rate	After hedging Fixed rate	Total
EUR	3,598	3,446	7,044
USD	809	994	1,803
GBP	3,222	10	3,232
SEK	340	67	407
CHF	9	0	9
Other	142	135	277
TOTAL	**8,120**	**4,652**	**12,772**
	64%	**36%**	**100%**
Fair value of related derivatives			(92)
Accrued interest			170
TOTAL NET DEBT			**12,850**

At June 30, 2005 (before the impact of acquisition financing related to BPB), the breakdown of the Group's net debt between variable and fixed rate was 35% and 65% respectively.

Revision schedule of interest rates applicable to financial assets and debt

The schedule at December 31, 2005 of revisions to the interest rates on gross debt and financial assets after hedging is presented below. The net interest rate position is the net of the lender and borrower positions.

(in € millions)	Total	Within 1 year	Between 1 and 5 years	Over 5 years
Gross debt after hedging	14,930	10,878	3,372	680
Impact of interest-rate swaps	0	1,197	(1,223)	26
Cash and cash equivalents	(2,080)	(2,080)	0	0
NET DEBT AFTER HEDGING	**12,850**	**9,995**	**2,149**	**706**

Impact of financial instruments on equity

The equity component of the Océane bonds amounted to €100.9 million at December 31, 2005, unchanged from December 31, 2004.

At December 31, 2005, the reserve recorded under equity relating to forward exchange contracts and commodity swaps treated for accounting purposes as cash flow hedges totaled zero and €12.54 million respectively, compared with zero and a negative €3.4 million at December 31, 2004. This reserve is taken to the income statement when the hedged forecast transactions affect net income.

Substantially all the accumulated amount recorded in the cash flow hedge reserve at December 31, 2005 will be taken to the income statement during 2006.

Equity also includes a reserve to cover foreign exchange risks on net investment hedges – within the meaning of IFRS – used by the BPB group. This reserve totaled €1.9 million at December 31, 2005, for a total €250 million worth of underlying external debt that qualifies for hedge accounting.

Impact of financial instruments on the income statement

The fair value of derivatives which are classified under financial assets and liabilities at fair value through profit or loss amounted to €23 million, compared with €32 million at December 31, 2004.

Embedded derivatives

Saint-Gobain regularly analyzes its contracts in order to separately identify financial instruments that may be classified as embedded derivatives under IFRS.

At December 31, 2005, no embedded derivatives deemed to be material at Group level were identified.

Note 21 Investment-related liabilities

Due to the acquisition of BPB, for the first time the Group has recorded a separate line in the balance sheet for investment-related liabilities. At December 31, 2005, the short- and long-term portions of these liabilities totaled €263 million and €130 million respectively. Of the overall amount, €243 million of the short-term portion related to BPB, with the balance corresponding to additional purchase consideration and commitments to purchase minority interests recorded in 2005.

Note 22 Business income and expense

(in € millions)	2005	2004
Personnel costs:		
Salaries and payroll taxes	(7,038)	(6,681)
Share-based payment [(a)]	(41)	(32)
Pensions and other post-employment benefits	(177)	(171)
Depreciation and amortization	(1,339)	(1,287)
Other [(b)]	(23,655)	(21,258)
Operating expense	**(32,250)**	**(29,429)**
Gains on disposals of assets	81	41
Recognition of negative goodwill in the income statement	3	6
Other business income	**84**	**47**
Restructuring costs	(184)	(153)
Provisions and expenses relating to claims and litigation	(106)	(112)
Impairment of assets	(105)	(104)
Other	5	(3)
Other business expense	**(390)**	**(372)**

(a) Including share-based compensation under the Group Savings Plan, amounting to €11 million in 2005 and €14 million in 2004.

(b) Mainly relating to the costs of goods sold by the Distribution Sector (€11,833 million in 2005 and €10,510 million in 2004), as well as transport costs, the costs of raw materials and other production costs in the other sectors.

In 2005, research and development costs recorded under operating expense amounted to €305 million, compared with €312 million the previous year.

Gains on disposals of assets totaled €81 million, compared with €41 million in 2004. The increase in this item in 2005 reflects the sales of Saint-Gobain Stradal, Ibiden France, Saint-Gobain Oberland's glass brick business, and Saint-Gobain TM KK's ceramic fiber operations.

Restructuring costs mainly consisted of employee termination benefits, representing €108 million, versus €105 million in 2004.

As in 2004, provisions and expenses relating to claims and litigation primarily included the asbestos-related litigation charge explained in Notes 15 and 27.

Impairment of assets primarily included €36 million in impairment of goodwill, €37 million in impairment of property, plant and equipment, and €11 million in impairment of other intangible assets, compared with €47 million, €33 million and €13 million, respectively, in 2004. The balance corresponds to impairment of financial and current assets.

Note 23 Financial income and expense

(in € millions)	2005	2004
Interest expense on borrowings – gross	(465)	(450)
Income from cash and cash equivalents	52	64
Interest expense on borrowings – net	**(413)**	**(386)**
Interest cost relating to pensions – gross	(367)	(327)
Return on plan assets	277	232
Interest cost relating to pensions – net	**(90)**	**(95)**
Other financial income and expense	(66)	(54)
NET FINANCIAL EXPENSE	**(569)**	**(535)**

In 2005, total interest paid and received came to €383 million.

Net translation losses recognized in cost of sales came to €4 million in 2005, compared with €20 million in 2004.

Note 24 Net income excluding capital gains

Net income excluding capital gains totaled €1,284 million in 2005, compared with €1,289 million in 2004. Based on the 345,256,270 shares outstanding at December 31, 2005 (2004: 340,988,000), earnings per share (EPS) excluding capital gains amounted to €3.72 in 2005, versus €3.78 in 2004.

The difference between net income and net income excluding capital gains can be analyzed as follows:

(in € millions)	2005	2004
Net income attributable to equity holders of the parent	**1,264**	**1,239**
Less		
Gains on disposals of assets	81	41
Impairment of property, plant and equipment and intangible assets	(102)	(95)
Tax impact	5	4
Impact of minority interests	(4)	0
NET INCOME EXCLUDING CAPITAL GAINS	**1,284**	**1,289**

Note 25 Earnings per share (EPS)

The calculation of EPS is shown below.

(in € millions)	Net income attributable to equity holders of the parent	Cancellation of interest paid on Océane bonds	Adjustment of the tax impact	Adjusted net income attributable to equity holders of the parent	Number of shares	EPS (in €)
2005						
Weighted average number of shares in issue	1,264			1,264	336,330,568	3.76
Weighted average number of shares assuming full dilution	1,264	45	(16)	1,293	357,338,208	3.62
Number of shares in issue at December 31	1,264			1,264	345,256,270	3.66
2004						
Weighted average number of shares in issue	1,239			1,239	337,253,298	3.67
Weighted average number of shares assuming full dilution	1,239	45	(16)	1,268	356,825,103	3.55
Number of shares in issue at December 31	1,239			1,239	340,988,000	3.63

The weighted average number of shares is issue is calculated by deducting treasury stock (8,383,161 shares at December 31, 2005) from the average number of shares in issue during the year.

The weighted average number of shares assuming full dilution is calculated based on the weighted average number of shares in issue, assuming conversion of all dilutive instruments. The Group's dilutive instruments include stock options – corresponding to a weighted average number of 3,483,828 shares in 2005 – and Océane bonds, convertible into 17,523,812 shares.

Note 26 Commitments

The Group's contractual obligations and commercial commitments are described below, except for commitments related to debt and financial instruments, which are discussed in Notes 19 and 20, respectively.

The Group has no other material commitments.

Contractual obligations

Obligations under finance leases

Non-current assets acquired under finance leases are capitalized in the consolidated financial statements and a corresponding liability is also recorded in the balance sheet.

In 2005, €134 million of minimum future lease payments due under finance leases corresponded to land and buildings. Capitalized finance leases represented a total carrying amount of €213 million in 2005.

(in € millions)	2005
Minimum future lease payments	
Within one year	31
Between one and five years	95
Beyond five years	51
Total	**177**
Less estimated executory costs included in capitalized finance leases	(5)
Total minimum future lease payments	**172**
Less interest costs	(24)
PRESENT VALUE OF MINIMUM FUTURE LEASE PAYMENTS	**148**

Obligations under operating leases

The Group leases equipment and office, manufacturing and warehouse space under various operating leases. Lease terms generally range from 1 to 9 years. Certain contracts contain renewal options for various periods of time as well as clauses for payment of real estate taxes and insurance. In most cases, management expects that in the normal course of business, these leases will be renewed or replaced by other leases.

Net rental expense was €453 million in 2005, corresponding to rental expense of €468 million, including €254 million relating to land and buildings, less €15 million of subletting revenue.

Future minimum commitments under operating leases are as follows:

	Total	Payments due			Total
(in € millions)	2005	Within one year	Between 1 and 5 years	Beyond 5 years	2004
Operating leases					
Rental expense	2,126	383	893	850	1,885
Subletting revenue	(61)	(13)	(21)	(27)	(110)
TOTAL	**2,065**	**370**	**872**	**823**	**1,775**

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 non-current assets.

	Total	Payments due			Total
(in € millions)	2005	Within one year	Between 1 and 5 years	Beyond 5 years	2004
Non-cancelable purchase commitments					
Non-current assets	112	106	3	3	44
Raw materials	187	130	56	1	222
Services	133	57	62	14	137
Other purchases	98	65	29	4	82
TOTAL	**530**	**358**	**150**	**22**	**485**

The Group grants seller's warranties in relation to the sale of certain subsidiaries. A provision is set aside whenever a risk is identified and the related cost can be estimated reliably.

The Group has also received guarantees, amounting to €40 million at December 31, 2005, compared with €53 million the previous year.

Commercial commitments

(in € millions)	Total 2005	Period: Within one year	Between 1 and 5 years	Beyond 5 years	Total 2004
Security for borrowings	5	4	1	0	5
Other commitments given	136	60	32	44	69
TOTAL	**141**	**64**	**33**	**44**	**74**

At December 31, 2005, pledged assets amounted to €245 million, versus €178 million at December 31, 2004. They mainly concerned non-current assets in India, South Korea and China.

The Group held €48 million of receivables secured by guarantees at December 31, 2005, compared with €45 million at December 31, 2004. Out of the 2005 total, €7 million concerned guaranteed receivables related to Pipe, and Ceramics & Plastics export contracts. The majority of these commitments have a term of less than one year.

Note 27 Litigation

In France, further individual lawsuits were filed in 2005 by former employees (or persons claiming through them) of Everite and Saint-Gobain PAM ("the employers") – which in the past had carried out 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 authorities. A total of 558 such lawsuits have been issued against the two companies since 1997.

At the end of 2005, 376 of these 558 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 363 of these 376 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 €2 million in compensation in the 13 other lawsuits.

Out of the 182 lawsuits outstanding against Everite and Saint-Gobain PAM at December 31, 2005, the merits of 47 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 ["*inopposabilité*"]).

Out of the 135 remaining lawsuits, 4 have been dismissed following a claim made to the French Asbestos Victims Compensation Fund (FIVA). At December 31, 2005, the procedures relating to the merits of the other 131 cases were at different stages: 33 are involved in administrative proceedings with the French Social Security authorities, 69 are pending with the Social Security courts, appeals have been issued to the Court of Appeal in 10 cases in which the employers were held liable for inexcusable fault (including 7 cases in which statute of limitations and/or liability issues have been raised as mentioned above), 2 cases are pending hearing by the Court of Cassation and 17 have been heard by the Court of Cassation and referred to the Versailles Court of Appeal.

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In addition, 82 suits based on inexcusable fault have been filed by current or former employees of eleven other French companies in the Group, in particular involving circumstances where equipment containing asbestos had been used to protect against heat from furnaces.

At December 31, 2005, 13 suits had been dismissed at the request of employees or former employees further to claims made to the Asbestos Victims Compensation Fund. At that date, 22 lawsuits were completed, of which only one ruling in 2004 held the employer liable for "inexcusable fault".

For the 47 suits outstanding at the end of 2005, 3 are at the investigation stage by the French Social Security authorities, 9 are pending before the Social Security courts and 27 before the Courts of Appeal, and 8 cases have been appealed to the Court of Cassation.

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 2005

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 with 19,000 in 2000), new suits filed in 2004 fell, and subsequently decreased for the second consecutive year in 2005, representing approximately 17,000 versus 18,000 in 2004. This decline was felt in all of the states concerned but was particularly pronounced in the states which had the sharpest rises in previous years. In Mississippi, for example, new claims filed fell from 29,000 in 2003 to 2,000 in 2004 and 300 in 2005, following changes in local legislation and recent case law. As in previous years, the vast majority of the 17,000 or so new claims are class 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. For example, two class-action suits filed in Kentucky and Texas in 2005 represented approximately 6,000 claims in total.

Almost all of the claims against CertainTeed are settled out of court. Some 20,000 claims were settled out of court in 2005, compared with 44,000 in 2002, 54,000 in 2003 and 20,000 in 2004. In addition, 3,000 claims were placed on the inactive docket, which means that they will not be heard until the plaintiff provides evidence of actual loss or injury. Taking into account the 106,000 outstanding cases at the end of 2004 and the new cases filed in 2005, as well as claims settled, some 100,000 claims were outstanding at December 31, 2005 – a notable decrease compared with end-2004.

The average individual cost of settlement came to around USD 2,800 in 2005, compared with USD 2,900 in 2004 and USD 2,100 in 2003. This trend mainly reflects the lower proportion of settlements relating to class actions which have decreased significantly since 2004 as described above.

Impact on the Group's results

The Group recorded a €100 million charge in 2005 to cover future developments in relation to these claims. This amount is slightly lower than the €108 million recorded in 2004, and the same as those recorded in 2002 and 2003. At December 31, 2005, the Group's total cover for asbestos-related claims against CertainTeed in the United States amounted to €358 million (USD 422 million), compared with €295 million at December 31, 2004 (USD 402 million). The coverage is achieved almost entirely through the balance sheet provision, as most available insurance had been used by 2004.

Cash flow impact

Total compensation paid for these cases – including claims settled prior to 2005 but only paid out in 2005, and those fully resolved and paid in 2005 – amounted to €71 million during the year (USD 88 million), versus €113 million (USD 140 million) in 2004.

Outlook for 2006

If the fall in the number of new suits that has occurred in the past two years continues in 2006, the average individual cost of settlement may rise. This is because class actions would represent a lower proportion of the total number of claims settled or pending settlement, whereas this type of claim has a lower 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 currently proposed Asbestos bill becomes federal law in the United States, claimants will no longer be able to file the type of claims described above in the country. 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 was not put to the vote of the full Senate. A new bill was adopted on May 26, 2005 by the US Senate Judiciary Committee and was referred to the full Senate in February 2006. However, the new law has not yet been adopted, as after their debate Senators voted to send the bill back to the Judiciary Committee. Certain local legislative reforms and rulings have also been implemented in a number of states, including Mississippi, Texas, and Ohio, aimed at introducing stricter admissibility conditions for asbestos-related claims.

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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, 2005 and they do not represent a material risk for the companies concerned.

Note 28 Environment - Health - Safety

Environment-related expenditure

Environment-related expenditure includes the salaries of employees working in the environmental and health and safety area, depreciation and amortization charges for non-current assets used for environmental purposes, warranties and guarantees given, research and development expenditure, expenses incurred for obtaining and maintaining ISO and EMAS environmental certification, expenses related to external contracts, and all other environment-related costs.

Environment-related expenditure amounted to €150 million in 2005, compared with €154 million in 2004, and mainly concerned France (€55 million), Germany and Central Europe (€25 million), Italy and Greece (€11 million) and North America (€27 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 2005, capitalized environmental costs amounted to €75 million in the consolidated balance sheet, against €68 million the previous year. The costs relate to pollution-abatement and environmental protection equipment, investments for the recycling of raw materials and waste, measures to reduce consumption of energy and certain raw materials, as well as research into improving product life cycles.

Environmental liabilities

When the Group considers that it is exposed to an environmental risk, a provision for the estimated future costs is recorded in provisions for other liabilities and charges. At December 31, 2005, this provision amounted to €107 million, compared with €74 million at end-2004. The increase is essentially due to changes in Group structure, as BPB held 87 quarries, for which the company had set aside a €45 million provision relating to site restoration costs.

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 costs concerned are deemed to be immediately payable and the related provision is not discounted.

Environment-related risks and industrial sites subject to specific regulations are monitored by the Environment, Health and Safety Department.

Note 29 Related party transactions

Balances and transactions with associates

(in € millions)	Dec. 31, 2005	Dec. 31, 2004
Assets		
Financial receivables	4	0
Inventories	0	0
Other receivables	16	11
Cash and cash equivalents	2	6
Provisions for impairment in value	2	0
Liabilities		
Short-term debt	1	1
Cash advances	1	3
Expenses		
Purchases	16	5
Income		
Sales	64	57

Revenue from transactions with proportionately consolidated companies

Transactions with proportionately consolidated companies are treated as transactions with external parties and the Group's share of any revenue arising from such transactions is not eliminated on consolidation. In 2005 this revenue amounted to €9 million, compared with €14 million in 2004.

Management compensation

The expense recorded in relation to compensation and benefits allocated to members of the Board of Directors and the Group's senior managers breaks down as follows:

(in € millions)	2005
Attendance fees	0.5
Gross compensation and benefits in kind:	
- fixed portion	9.6
- variable portion	5.4
Estimated expense related to pensions and other post-employment benefits (IAS 19)	0.9
Stock-option expense	8.9
Termination benefits	6.4
TOTAL	**31.7**

Employers' social security contributions relating to the above compensation represented an estimated €4.9 million.

Note 30 Joint ventures

The amounts recorded in the 2005 balance sheet and income statement corresponding to the Group's share of the assets, liabilities, income and expense of proportionately consolidated companies are as follows:

- Non-current assets: €132 million.
- Current assets: €89 million.
- Non-current liabilities: €12 million.
- Current liabilities: €69 million.
- Net sales: €168 million (*)
- Operating expense: €108 million.

(*) This figure does not include sales of companies that were proportionately consolidated at December 31, 2004 and whose consolidation method changed in 2005. This information is provided in Note 2 relating to changes in the scope of consolidation.

Note 31 Employees

Average number of employees

	2005	2004
Fully consolidated companies		
Managers	21,943	16,927
Other non-manual employees	70,815	68,865
Manual employees	92,514	88,455
Sub-total	**185,272**	**174,247**
Proportionately consolidated companies (*)		
Managers	57	32
Other non-manual employees	240	545
Manual employees	697	936
Sub-total	994	1,513
TOTAL	**186,266**	**175,760**

(*) Proportion of headcount allocated to the Group.

The increase in the average number of employees between 2004 and 2005 is due to the Group's acquisitions, whose impact was smoothed over the twelve months of the year.

At December 31, 2005, the total number of Group employees – including proportionately consolidated companies – came to 199,630, of which 12,771 work for BPB group companies.

Note 32 **Segment reporting**

Segment information by sector and division

Segment information is presented as follows:

- Building Distribution Sector
- High-Performance Materials (HPM) Sector
  - Ceramics & Plastics and Abrasives
  - Reinforcements
- Flat Glass Sector
- Packaging Sector
- Construction Products Sector (CP)
  - Building Materials
  - Insulation
  - Gypsum
  - Pipe

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 and meet the requirements of IAS 14. Intercompany ("internal") sales are generally carried out based on the same conditions as sales to external customers and are eliminated in consolidation. The accounting policies applied are the same as those applied for the Group, as described in these notes.

	Building Distribution	High-Performance Materials				Flat Glass	Packaging	Construction Products						Other *	Total
(in € millions)		Ceramics & Plastics and Abrasives	Reinforcements	Items eliminated HPM	Total			Building Materials	Insulation	Gypsum	Pipe	Items eliminated CP	Total		
2005															
External sales	15,450	3,527	1,228		4,755	4,652	4,002	2,574	2,082	237	1,351		6,244	7	35,110
Internal sales	1	64	78	(17)	125	28	6	159	162	26	123	(20)	450	(610)	0
Net sales	**15,451**	**3,591**	**1,306**	**(17)**	**4,880**	**4,680**	**4,008**	**2,733**	**2,244**	**263**	**1,474**	**(20)**	**6,694**	**(603)**	**35,110**
Operating income	888	462	49		511	453	385	223	292	(8)	107		614	9	2,860
Business income	874	378	33		411	443	375	247	278	(57)	91		559	(108)	2,554
Share in net income of associates	1	6			6		1	1		1			2		10
Depreciation and amortization	221	153	105		258	331	252	91	110	10	54		265	12	1,339
Impairment of assets	1	46	3		49	4			2	14	11		27		81
Net goodwill	2,551	1,311	247		1,558	193	588	446	86	4,877	233		5,642	9	10,541
Retail brands	1,976														1,976
Total segment assets	**11,316**	**3,905**	**1,754**		**5,659**	**4,892**	**3,832**	**1,741**	**1,498**	**7,594**	**1,509**		**12,342**	**257**	**38,298**
Total segment liabilities	**3,400**	**1,219**	**361**		**1,580**	**1,855**	**1,168**	**680**	**784**	**1,297**	**595**		**3,356**	**822**	**12,181**
Investments during the year															
• capital expenditure	344	187	84		271	485	306	102	146	52	58		358	13	1,777
• securities (net of cash acquired)	580	18	18		36	118	97	42	10	5,553	0		5,605	0	6,436
Cash flows from operations	667	342	104		446	528	432	212	287	(31)	91		559	103	2,735

* "Other" corresponds to the elimination of intercompany transactions for internal sales and to holding operations for the other captions.

(in € millions)	Building Distribution	High-Performance Materials: Ceramics & Plastics and Abrasives	Reinforcements	Items eliminated HPM	Total	Flat Glass	Packaging	Construction Products: Building Materials	Insulation	Gypsum	Pipe	Items eliminated CP	Total	Other *	Total
2004															
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
Net 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 associates		6			6			1			1		2		8
Depreciation and amortization	199	155	103		258	307	256	92	106		57		255	12	1,287
Impairment of assets	4	27	6		33	32			5		14		19	(1)	87
Net goodwill	2,388	1,203	219		1,422	182	478	424	67		233		724	9	5,203
Retail brands	1,504														1,504
Total segment assets	**9,964**	**3,593**	**1,571**		**5,164**	**4,236**	**3,379**	**1,714**	**1,314**		**1,297**		**4,325**	**304**	**27,372**
Total segment liabilities	**3,115**	**1,142**	**318**		**1,460**	**1,695**	**1,056**	**604**	**697**		**517**		**1,818**	**768**	**9,912**
Investments during the year															
• capital expenditure	271	132	107		239	451	303	102	144		53		299	5	1,568
• securities (net of cash acquired)	480	(4)	11		7	46	(1)	22	(1)		(1)		20	(1)	551
Cash flows from operations	524	354	134		488	511	492	203	266		71		540	84	2,639

* "Other" corresponds to the elimination of intercompany transactions for internal sales and to holding operations for the other captions.

Information by geographic area

(in € millions)	France	Other Western European countries	North America	Emerging markets and Asia	Internal sales	TOTAL
2005						
Net sales	11,467	15,060	6,029	4,474	(1,920)	35,110
Total segment assets	9,349	17,283	5,839	5,827		38,298
Capital expenditure	415	558	260	544		1,777

(in € millions)	France	Other Western European countries	North America	Emerging markets and Asia	Internal sales	TOTAL
2004						
Net sales	10,771	13,801	5,739	3,577	(1,716)	32,172
Total segment assets	8,394	10,514	4,680	3,784		27,372
Capital expenditure	388	486	273	421		1,568

The geographical breakdown of external sales for 2005 and 2004 is as follows:

(in € millions)	France	Other Western European countries	North America	Emerging markets and Asia	Internal sales	TOTAL
2005						
Net sales	9,969	14,544	5,828	4,769		35,110
2004						
Net sales	9,398	13,269	5,505	4,000		32,172

Note 33 Transition to International Financial Reporting Standards

The accounting policies adopted by the Saint-Gobain Group for the transition to International Financial Reporting Standards (IFRS) and those used to prepare its 2004 consolidated financial statements under IFRS comply with all standards in effect in the European Union pursuant to Regulation (EC) No 1606/2002 of the European Parliament and the Council, dated July 19, 2002.

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 and mandatory exemptions provided for in IFRS 1, First-time Adoption of International Financial Reporting Standards.

The purpose of this Note concerning the transition to IFRS is to present any significant impacts resulting from the change in accounting standards on the financial statements for the year ended December 31, 2004. A detailed explanation of the opening balance sheet restatements at January 1, 2004, together with restatements relating to the 2004 income statement and cash flow statement, was provided in Note 35 to the consolidated financial statements in the Group's 2004 annual report.

Comments are provided below on the impact of IFRS, successively dealing with equity, other balance sheet items, the income statement and the cash flow statement. In order to avoid repetition, this Note does not include all of the information published in the consolidated financial statements for 2004 and the first half of 2005.

The main accounting options used are as follows:

Application of IAS 32, IAS 39 and IFRS 2

The Group has elected to apply, as of January 1, 2004, IAS 32 and IAS 39 relating to financial instruments and IFRS 2 relating to share-based payment.

Recognition of cumulative actuarial gains and losses at January 1, 2004

Cumulative actuarial gains and losses were recognized in full under provisions for pensions and other post-employment benefits, with a corresponding reduction in equity.

Reclassification of cumulative translation adjustments at January 1, 2004

Cumulative translation adjustments at January 1, 2004 were reclassified to retained earnings. This reclassification did not have an impact on total reserves and equity.

No restatement of business combinations prior to January 1, 2004

Apart from the conversion of goodwill into local currency, goodwill relating to periods prior to January 1, 2004 has not been retrospectively restated.

No measurement of property, plant and equipment at fair value at the transition date

The Group applied IAS 16 retrospectively at January 1, 2004 and elected to state property, plant and equipment at historical cost, rather than at revalued amounts. The assets' useful lives were reviewed in compliance with the components approach, leading to an increase in the overall useful lives of property, plant and equipment and a corresponding reduction in accumulated depreciation at January 1, 2004.

Reclassification of interest cost relating to pensions to financial income and expense

In compliance with IAS 19, the Group has elected to recognize under financial income and expense the interest cost of pension obligations and the expected return on plan assets. These amounts were previously recorded under operating items.

Impact of IFRS on equity

(in € millions)	Shareholders' equity (French GAAP)	Goodwill (b)	Other intangible assets (c)	Property, plant and equipment (d)	Pensions and other employee benefits (e)	Group Savings Plan (PEG) and stock options (f)	Deferred taxes (g)	Financial instru-ments (h)	Other adjust-ments (i)	Total IFRS impact	Share-holders' equity (IFRS)	Minority interests (IFRS)	Total equity (IFRS)
At January 1, 2004	**11,087**	**(111)**	**(23)**	**289**	**(1,642)**	**0**	**350**	**63**	**(8)**	**(1,082)**	**10,005**	**209**	**10,214**
Net income for 2004	1,083	161	(3)	27	23	(32)	(13)	(3)	(4)	156	1,239	36	1,275
Issues of capital stock	136									0	136	10	146
Dividends	(387)									0	(387)	(17)	(404)
Acquisitions and disposals of treasury stock	(241)									0	(241)		(241)
Translation adjustments	(109)				47		(18)			29	(80)	(2)	(82)
Other movements	(13)	(3)	(2)	3	17	32	(7)	(28)	2	14	1	1	2
At December 31, 2004	**11,556**	**47**	**(28)**	**319**	**(1,555)**	**0**	**312**	**32**	**(10)**	**(883)**	**10,673**	**237**	**10,910**

a) Translation adjustments at January 1, 2004

The Group elected to use the option available under IFRS 1 and to fully recognize in retained earnings all cumulative translation differences existing at January 1, 2004. This had no impact on total shareholders' equity.

b) Goodwill

The following restatements were made relating to goodwill:

- Goodwill of foreign companies previously denominated in euros was converted into local currency, leading to a decrease in this item of €163 million at January 1, 2004 and €166 million at December 31, 2004.
- Unamortized negative goodwill at January 1, 2004 was eliminated, leading to increases in equity of €52 million and €25 million at January 1, 2004 and December 31, 2004 respectively.
- Goodwill amortization recognized during the period was canceled, which had no impact on equity at January 1, 2004 but led to a €188 million increase at December 31, 2004. Net of negative goodwill, this cancellation had a €161 million impact on the income statement for fiscal 2004.

This cancellation of goodwill amortization is the main reason why the goodwill restatement figure increased from a negative €111 million at January 1, 2004 to a positive €47 million at December 31, 2004.

c) Other intangible assets

Restatements leading to a reduction in intangible assets and equity relate primarily to the elimination of start-up costs representing €16 million at January 1, 2004 and €15 million at December 31, 2004.

d) Property, plant and equipment

The following adjustments were made to property, plant and equipment:

- A retrospective adjustment to depreciation at January 1, 2004, resulting in an increase in the carrying amount of property, plant and equipment and in equity, representing €316 million at January 1, 2004 and €343 million at December 31, 2004.
- A €27 million retrospective decrease in the carrying amount of property, plant and equipment at January 1, 2004 to adjust for borrowing costs previously capitalized under French GAAP (€24 million at December 31, 2004).

e) Pensions and other employee benefits

Restatements relating to pensions and other employee benefits led to an overall decrease in equity as a result of i) the recognition under provisions for pensions and other post-employment benefits of actuarial gains and losses and the unamortized portion of past service cost for pension plans operated by subsidiaries in the US and the UK (€1,513 million at January 1, 2004), ii) the change in the method used to measure benefits under certain pension plans (“hourly plans”) in the US (€62 million at January 1, 2004), and iii) other adjustments totaling €67 million at January 1, 2004, including the capping of plan assets for certain actuarial calculations and the recognition of other post-employment benefits.

f) Group Savings Plan (PEG) and stock options

In compliance with IFRS 2, an adjustment relating to the Group’s coverage of stock compensation benefits granted to eligible employees was recognized in the income statement, with a corresponding increase in equity. This restatement had no impact on equity at December 31, 2004, but led to the recording of a €32 million expense in the 2004 income statement.

g) Deferred taxes

The impact of the various adjustments described above, particularly in relation to provisions for pensions and other post-employment benefits, led to a €480 million decrease in net deferred tax liabilities – i.e., deferred tax assets less deferred tax liabilities (see Note 14) – at January 1, 2004 and a €442 million decrease at December 31, 2004. This decrease was partially offset, however, by adjustments to deferred tax liabilities recorded in relation to the Group’s retail brands, which led to increases of €130 million at both January 1, 2004 and December 31, 2004.

h) Financial instruments

The overall positive impact of financial instruments on equity reflects the combined effect of:

- The restatement of available-for-sale securities at market value, leading to impacts of €31 million at January 1, 2004 and €5 million at December 31, 2004, following the disposal of Vivendi Universal shares in the second half of 2004.
- The reclassification of the equity component of the Océane bonds less accrued interest, representing €59 million at January 1, 2004 and €38 million at December 31, 2004.
- The marking to market of derivatives and various other restatements that led to reductions of €27 million at January 1, 2004 and €11 million at December 31, 2004.

i) Other adjustments

Various other adjustments were recorded, relating notably to provisions for other liabilities and charges, inventories and finance leases.

Impact of IFRS on the balance sheet

		JANUARY 1, 2004			DECEMBER 31, 2004		
(in € millions)	Notes	French GAAP	IFRS impact	IFRS	French GAAP	IFRS impact	IFRS
Goodwill	(j)	4,902	(147)	4,755	5,170	33	5,203
Other intangible assets	(k)	1,836	(80)	1,756	1,883	(79)	1,804
Property, plant and equipment	(l)	8,686	399	9,085	8,939	428	9,367
Investments in associates		75	3	78	61	3	64
Available-for-sale and other securities	(m)	217	31	248	87	5	92
Other non-current assets	(n)	1,521	(1,015)	506	1,375	(1,054)	321
Non-current assets		**17,237**	**(809)**	**16,428**	**17,515**	**(664)**	**16,851**
Inventories	(o)	4,509	(26)	4,483	4,838	(21)	4,817
Trade accounts receivable	(p)	4,240	299	4,539	4,467	322	4,789
Current tax receivable		187	0	187	157	(2)	155
Other accounts receivable	(q)	848	(5)	843	942	(27)	915
Short-term loans	(r)	160	(160)	0	69	(69)	0
Cash and cash equivalents		2,914	(1)	2,913	2,899	(1)	2,898
Current assets		**12,858**	**107**	**12,965**	**13,372**	**202**	**13,574**
TOTAL ASSETS		**30,095**	**(702)**	**29,393**	**30,887**	**(462)**	**30,425**
Shareholders' equity		11,087	(1,082)	10,005	11,556	(883)	10,673
Minority interests	(s)	223	(14)	209	250	(13)	237
Total equity		11,310	(1,096)	10,214	11,806	(896)	10,910
Participating securities	(t)	170	(170)	0	170	(170)	0
Provisions for pensions and other post-employment benefits	(u)	2,305	534	2,839	2,249	501	2,750
Deferred tax liabilities	(v)	599	(350)	249	548	(310)	238
Provisions for other liabilities and charges	(w)	1,032	(73)	959	597	(49)	548
Long-term debt	(x)	6,518	162	6,680	5,396	233	5,629
Non-current liabilities		**10,624**	**103**	**10,727**	**8,960**	**205**	**9,165**
Current portion of provisions for other liabilities and charges		0	0	0	357	(4)	353
Current portion of long-term debt		550	17	567	1,335	3	1,338
Trade accounts payable		3,592	(22)	3,570	3,967	(13)	3,954
Current tax liabilities		221	0	221	249	0	249
Other payables and accrued expenses	(y)	2,135	(66)	2,069	2,410	(103)	2,307
Short-term debt and bank overdrafts	(z)	1,663	362	2,025	1,803	346	2,149
Current liabilities		**8,161**	**291**	**8,452**	**10,121**	**229**	**10,350**
TOTAL EQUITY AND LIABILITIES		**30,095**	**(702)**	**29,393**	**30,887**	**(462)**	**30,425**

j) Goodwill

The change in this item under IFRS is due to the measurement of goodwill arising on the acquisition of a foreign entity in that entity's local currency rather than in euros as under French GAAP (see note b), and for the year ended December 31, 2004, the cancellation of goodwill amortization recognized under French GAAP (see note b). In addition, certain other intangible items, including purchased goodwill, acquired in business combinations were reclassified to goodwill in an amount of €44 million at December 31, 2004.

k) Other intangible assets

The change in this item under IFRS is due to the reclassification from intangible assets of (i) purchased goodwill to goodwill (see note j), and (ii) land use rights in China, India and Poland to other accounts receivable. It also reflects the elimination of start-up costs and other miscellaneous items against equity (see note c).

l) Property, plant and equipment

Retrospective application of IFRS led to a change in depreciation at January 1, 2004, which: (i) increased the carrying amount of property, plant and equipment, and (ii) decreased the amount of property, plant and equipment relating to previously capitalized borrowing costs (see note d).
The impact of reclassifying operating leases as finance leases was an increase in property, plant and equipment and in net debt, amounting to €100 million at December 31, 2004. Various other reclassifications to property, plant and equipment were also recorded, including spare parts with a useful life of more than one year (previously recorded in inventories under French GAAP), in the amount of €19 million at December 31, 2004.

m) Available-for-sale and other securities

In accordance with IAS 39, the Group has marked-to-market its available-for-sale securities relating to its shares in listed, non-consolidated subsidiaries. This mainly related to unrealized gains amounting to €29 million at January 1, 2004 on Vivendi Universal shares held by Compagnie de Saint-Gobain. The total impact on "available-for-sale and other securities" was a €5 million increase at December 31, 2004, as a result of the disposal of Vivendi Universal shares in the second half of 2004.

n) Other non-current assets

Other non-current assets decreased due to the following factors:
- The cancellation of the additional minimum liability accrual recognized in accordance with FAS 87 with a contra-entry to provisions for pensions and other post-employment benefits, in an amount of €1,021 million.
- The reclassification of loans to non-consolidated companies, representing €69 million at December 31, 2004.
- The elimination of unamortized actuarial gains and losses in respect of prepaid pension cost and other restatements.

o) Inventories

As explained in note l, spare parts with a useful life of more than one year were reclassified from inventories to property, plant and equipment.

p) Trade accounts receivable

In compliance with IAS 32 and IAS 39, receivables transferred under a securitization program in the United States have been taken back onto the Group's consolidated balance sheet.
As a result, the Group's operating receivables increased, with a corresponding €378 million increase in short-term debt at December 31, 2004.

q) Other accounts receivable

The change in this item mainly relates to the restatement of financial instruments, partially offset by the reclassification of land use rights in China, India and Poland, which were recognized under intangible assets or property, plant and equipment under French GAAP.

r) Short-term loans

As explained in note n, this change relates to the reclassification under financial assets of loans to non-consolidated companies in the amount of €69 million at December 31, 2004.

s) Minority interests

Mineracao Jundu Ltda (a construction materials company based in Brazil) was fully consolidated under French GAAP, as the Group exercises de facto operational control. As IAS 27 does not recognize de facto control, Mineracao Jundu Ltda has been proportionately consolidated in the IFRS financial statements. This change did not have an impact on shareholders' equity, but did lead to a €12 million reduction in minority interests at December 31, 2004.

t) Participating securities

The application of IAS 32 and IAS 39 led to the reclassification of participating securities to long-term debt in the amount of €170 million.

u) Provisions for pensions and other post-employment benefits

The IFRS impact on the provision for pensions and other post-employment benefits is essentially attributable to the following factors:
- The recognition of actuarial gains and losses and past service cost relating to US and UK pension plans (see note e).
- The change of method used to measure benefits accruing from pension plans of certain US employees (see note e).
- The cancellation of the additional minimum liability accrual recognized in accordance with FAS 87 with a contra-entry to provisions for pensions and other post-employment benefits (see note n).
- The elimination of unamortized actuarial gains and losses in respect of prepaid pension cost (see note n).
- Various other restatements and reclassifications of other liabilities (see note y).

v) Deferred tax liabilities

Deferred tax liabilities decreased due to various restatements, primarily the adjustment to provisions for pensions and other post-employment benefits. The overall decrease was, however, partially offset by the increase caused by the adjustment of deferred tax liabilities recognized in respect of the Group's retail brands (see note g).

w) Provisions for other liabilities and charges

As explained in note b, negative goodwill has been eliminated, with a corresponding increase in equity, or has been reclassified as a deduction from goodwill.

x) Long-term debt

The impact of IFRS adjustments on long-term debt is due to the following:
- The reclassification of participating securities to long-term debt, in the amount of €170 million.
- The reclassification of a portion of the Océane bonds to equity in the amount of €101 million at December 31, 2004.
- The recognition in the opening balance sheet of additional accrued interest, following the recalculation of interest on the Océane bonds based on the market interest rate. This restatement represented €63 million at December 31, 2004.
- The restatement of certain finance lease contracts with an impact on long-term debt of €97 million at December 31, 2004.
- The reclassification and elimination of certain issue premiums.
- The marking to market of interest-rate and exchange-rate swaps.

y) Other payables and accrued expenses

Provisions relating to the medical coverage of US employees were reclassified from other payables and accrued expenses to provisions for pensions and other employee benefits.

z) Short-term debt and bank overdrafts

As explained in note p, the inclusion in the consolidated balance sheet of securitized receivables in the United States led to an increase in the Group's operating receivables, with a corresponding increase in short-term debt. This item also included €33 million in negative adjustments to the value of financial instruments at December 31, 2004.

Impact of IFRS on the income statement

(in € millions)	Notes	2004 French GAAP	IFRS impact	IFRS
Net sales	(aa)	32,025	147	32,172
Cost of sales	(bb)	(23,929)	(165)	(24,094)
Selling, general and administrative expenses, including research	(bb)	(5,124)	(193)	(5,317)
Other operating income and expense	(bb)	(340)	322	(18)
Operating income		**2,632**	**111**	**2,743**
Other business income and expense		(321)	(10)	(331)
Amortization of goodwill	(cc)	(155)	161	6
Business income		**2,156**	**262**	**2,418**
Net financial expense	(dd)	(441)	(94)	(535)
Share in net income of associates		8	0	8
Income taxes	(ee)	(603)	(13)	(616)
Net income		**1,120**	**155**	**1,275**
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**1,083**	**156**	**1,239**
Minority interests		37	(1)	36
Earnings per share (in €)				
Weighted average number of shares in issue		337,253,298		337,253,298
Basic earnings per share		3.21		3.67
Weighted average number of shares assuming full dilution		357,590,028		356,825,103
Diluted earnings per share		3.07		3.55
Number of shares in issue at December 31		340,988,000		340,988,000
Earnings per share		3.18		3.63

aa) Net sales

The net sales figure increased under IFRS due a combination of the following changes:

- 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 reclassified from other operating income and expenses under French GAAP to net sales.
- Rebilled freight costs have been reclassified to net sales, and customer discounts are now recorded as a deduction from net sales, leading to a net €40 million decrease in the net sales figure for 2004.
- The other impacts relate to i) recognizing net sales at the exchange rate prevailing at the transaction date and not at the hedging rate (IAS 21), ii) the change of accounting method regarding the elimination of sales relating to proportionately consolidated companies, and iii) switching from full to proportionate consolidation for Mineracao Jundu.

bb) Operating income and expense

Certain costs included under other operating expenses and income under French GAAP have been reclassified in the IFRS income statement to cost of sales, and selling, general and administrative expenses including research costs. These costs mainly relate to employee profit-sharing, amortization charged against intangible assets and ancillary revenue reclassified to net sales.

A number of adjustments also impacted operating income for 2004:

- The reclassification of interest cost relating to pensions to financial expense, representing €95 million.
- Adjustments to the pension charge under IFRS, resulting in a €23 million increase in operating income under IFRS.
- The recognition in selling, general and administrative expenses of a €32 million charge relating to stock option plans and the Group Savings Plan.
- The review of the useful lives of property, plant and equipment, leading to a positive €29 million impact on the depreciation charge for the year.
- Various other non-material adjustments.

cc) Amortization of goodwill

Net amortization of goodwill has been eliminated in the IFRS financial statements. This item amounted to €6 million, reflecting the negative goodwill generated in 2004.

dd) Net financial expense

The increase in this item mainly corresponds to the reclassification of the interest cost relating to pensions, which represented €95 million in 2004.

ee) Income taxes

Transition to IFRS did not substantially impact this item, as the main restatement concerning pre-tax income relates to the elimination of goodwill amortization which is not tax deductible and does not therefore give rise to deferred taxes. The net impact of the restatements set out above led to an additional deferred tax charge of €13 million in 2004.

Impact of IFRS on cash flows

(in € millions)	Notes	2004 French GAAP	IFRS impact	IFRS
Net income		**1,083**	**156**	**1,239**
Depreciation, amortization and impairment of assets		1,454	(80)	1,374
Other impacts on cash flows from operations		75	(49)	26
Cash flows from operations	**(ff)**	**2,612**	**27**	**2,639**
Change in working capital requirements during the year		269	(9)	260
Change in provisions for other liabilities and charges		(168)	(3)	(171)
Net cash generated from operating activities		**2,713**	**15**	**2,728**
Purchases of property, plant and equipment		(1,537)	(3)	(1,540)
Acquisition of shares in consolidated companies, net of cash acquired		(551)		(551)
Acquisitions of other investments		(116)	66	(50)
Disposals of shares in consolidated companies				0
Disposals of other investments		133		133
Disposals of property, plant and equipment and intangible assets		162		162
Other divestments		168	17	185
Net cash generated from (used in) investing activities/divestments		**(1,741)**	**80**	**(1,661)**
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)	(97)	(584)
Net cash generated from/(used in) financing activities		**(988)**	**(95)**	**(1,083)**
Net increase (decrease) in cash and cash equivalents		**(16)**	**0**	**(16)**
Net effect of exchange rate changes on cash and cash equivalents		1	0	1
Cash and cash equivalents at beginning of year		**2,914**	**(1)**	**2,913**
Cash and cash equivalents at end of year	**(gg)**	**2,899**	**(1)**	**2,898**

ff) Cash flows from operations

The IFRS impacts on cash flows from operations are essentially attributable to the restatement of finance leases. The amount recorded under cash flows from operations was increased as a result of eliminating the portion of lease costs deemed to be the repayment of borrowings under finance leases, which are now included in financing activities. The other main impacts relate to the elimination of goodwill amortization and reclassifications of impairment of assets.

gg) Cash and cash equivalents at end of year

In accordance with IFRS, the Group has altered the presentation of its cash flow statement to show changes in both cash and cash equivalents, which include marketable securities (€1,412 million at December 31, 2004).

Note 34 **Principal fully consolidated companies**

The table below shows the Group's principal consolidated companies, notably those with net sales of over €100 million.

		% interest (held directly and indirectly)
PRINCIPAL FULLY CONSOLIDATED COMPANIES AT DECEMBER 31, 2005		
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	99.96%
Raab Karcher BV	Netherlands	100.00%
Dahl International AB	Sweden	100.00%
Optimera Gruppen AS	Norway	100.00%
Sanitas Troesch	Switzerland	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	99.96%
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	99.75%
Saint-Gobain Sekurit Benelux SA	Belgium	99.90%
Saint-Gobain Autover Distribution SA	Belgium	99.90%
Koninklijke Saint-Gobain Glass	Netherlands	99.75%
Cebrace Cristal Plano Ltda	Brazil	50.00%
Saint-Gobain Vidros	Brazil	100.00%

		% interest (held directly and indirectly)
PRINCIPAL FULLY CONSOLIDATED COMPANIES AT DECEMBER 31, 2005		
Saint-Gobain Cristaleria SA	Spain	99.67%
Solaglas Ltd	United Kingdom	99.96%
Saint-Gobain Glass Italia	Italy	100.00%
Saint-Gobain Sekurit Italia	Italy	100.00%
Hankuk Glass Industries	South Korea	80.47%
Hankuk Sekurit Limited	South Korea	90.14%
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	99.59%
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%
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	99.90%
CertainTeed Corporation	United States	100.00%
Saint-Gobain Ecophon Group	Sweden	99.65%
GYPSUM		
BPB Plc	United Kingdom	100.00%
BPB America Inc	United States	100.00%
BPB Canada Inc	Canada	100.00%
BPB Gypsum (Pty) Ltd	South Africa	100.00%
BPB Gypsum Inc	United States	100.00%
BPB Iberplaco SA	Spain	100.00%
BPB Italia SpA	Italy	100.00%
British Gypsum Ltd	United Kingdom	100.00%
Gypsum Industries Ltd	Ireland	100.00%
Placoplatre SA	France	99.71%
Rigips GmbH	Germany	100.00%
PIPE		
Saint-Gobain PAM SA	France	100.00%
Saint-Gobain Gussrohr KG	Germany	100.00%
Saint-Gobain Pipelines Plc	United Kingdom	99.96%
Saint-Gobain Canalizacion SA	Spain	99.93%
Saint-Gobain Condotte SpA	Italy	100.00%
Saint-Gobain Canalizaçao SA	Brazil	100.00%

Statutory Auditors' report on the consolidated financial statements

For the year ended December 31, 2005

To the shareholders,

Following our appointment as Statutory Auditors by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Compagnie de Saint-Gobain for the year ended December 31, 2005.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit. These consolidated financial statements have been prepared for the first time in accordance with IFRS as adopted by the European Union. They include comparative information restated in accordance with the same standards in respect of financial year 2004.

I - Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable 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 the 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 the assets and liabilities and of the financial position of Compagnie de Saint-Gobain and its subsidiaries as of December 31, 2005, and of the results of its operations for the year then ended in accordance with IFRS as adopted by the European Union.

II - Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:

Impairment of property, plant and equipment and intangible assets

The Group carries out impairment tests on its property, plant and equipment, intangible assets and goodwill at each balance sheet date, and also assesses whether there is any indication of impairment of non-current assets, based on the methods described in Note 1 to the consolidated financial statements. We examined the methods applied in implementing this test and the cash flow forecasts and assumptions used, and we verified that the information disclosed in Note 1 is appropriate.

Employee benefits

The methods applied for assessing employee benefits are set out in Note 1. These benefit obligations were reviewed by external actuaries. Our work consisted of assessing the data and assumptions used, examining the calculations performed and verifying that the information disclosed in Note 12 to the consolidated financial statements is appropriate.

Provisions

The types of provisions recorded under "Other liabilities" are described in Note 15 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, as well as the disclosures relating to said provisions provided in the Notes to the consolidated financial statements at December 31, 2005, were appropriate.

We assessed whether these estimates were reasonable.

The assessments were made in the context of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the unqualified opinion we formed which is expressed in the first part of this report.

III - Specific verification

In accordance with professional standards applicable in France, we have also verified the information given in the Group's management report. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Paris La Défense, March 23, 2006

The Statutory Auditors

PricewaterhouseCoopers Audit

Pierre Coll   Rémi Didier

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.

Financial statements of Compagnie de Saint-Gobain (Parent Company)

Statement of income

for the year ended December 31

(in € thousands)	2005	2004	2003
Operating revenue			
Royalties	102,715	92,008	100,989
Other services	69,964	66,402	62,391
Net sales	**172,680**	**158,410**	**163,379**
Expense transfers	1,483	885	1,463
Other operating income	150	83	126
Total I	174,313	159,378	164,969
Operating expense			
Other purchases and external charges	(118,129)	(99,946)	(94,919)
Taxes other than on income	(4,906)	(4,278)	(6,140)
Wages and salaries	(37,799)	(34,820)	(33,656)
Payroll taxes	(17,377)	(16,680)	(15,822)
Depreciation, amortization and provisions • non-current assets	(4,919)	(3,864)	(6,671)
Other operating expenses	(2,148)	(2,321)	(2,583)
Total II	**(185,278)**	**(161,909)**	**(159,790)**
Operating income/(loss)	**(10,964)**	**(2,531)**	**5,178**
Share in profits of joint ventures			
Gains **Total III**		**46**	**382**
Losses **Total IV**		**(1)**	**(12)**
Financial income			
Income from investments in subsidiaries and affiliates	579,639	720,263	415,750
Income from loans and other investments	301,036	315,577	349,321
Income from other non-current investment securities	43	73	85
Other interest income	140,284	127,238	135,999
Write-backs of impairment, provisions and expense transfers	24,328	16,394	49,581
Foreign exchange gains	97,679	118,096	305,614
Net income from sales of marketable securities	11,432	18,105	12,085
Total V	**1,154,441**	**1,315,746**	**1,268,435**
Financial expense			
Allowances for impairment in value of investments	(83,888)	(27,779)	(19,058)
Interest expense	(489,592)	(485,708)	(522,942)
Foreign exchange losses	(92,350)	(117,471)	(305,462)
Net expense from sales of marketable securities			
Total VI	**(665,830)**	**(630,958)**	**(847,462)**
Net financial income	**488,611**	**684,788**	**420,972**
INCOME BEFORE TAX AND EXCEPTIONAL ITEMS	**477,646**	**682,301**	**426,521**

(in € thousands)		**2005**	**2004**	**2003**
Exceptional income				
On revenue transactions		1,055	19,892	14,232
On capital transactions		3,034,334	162,214	128,619
Reversals of depreciation, amortization, impairment and provisions		14,003	16,634	340
	Total VII	**3,049,392**	**198,740**	**143,191**
Exceptional expense				
On revenue transactions		(41,746)	(20,114)	(1,406)
On capital transactions		(3,015,767)	(139,785)	(113,218)
Depreciation, amortization, impairment and provisions		(341)	(529)	(11,402)
	Total VIII	**(3,057,854)**	**(160,428)**	**(126,026)**
Net exceptional income/(loss)		**(8,462)**	**38,312**	**17,164**
Income taxes	**Total IX**	**55,945**	**45,403**	**69,888**
Total income		**4,434,091**	**1,719,313**	**1,646,865**
Total expense		**(3,908,961)**	**(953,296)**	**(1,133,291)**
NET INCOME		**525,130**	**766,017**	**513,574**

Since December 31, 2004, the statement of income has been 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 2003 has therefore been adjusted.

Accordingly, changes in provisions for investments in subsidiaries and affiliates, investment securities and provisions for contingencies and charges relating to treasury shares are now included in financial income/expense.

Balance sheet
at December 31

ASSETS

(in € thousands)	Dec. 31, 2005 GROSS	Dec. 31, 2005 Deprecia-tion, amorti-zation, impair-ment and provisions	Dec. 31, 2005 NET	Dec. 31, 2004	Dec. 31, 2003
NON-CURRENT ASSETS					
Intangible assets (note 5)					
Goodwill [1]	567	(499)	68	91	113
Other intangible assets	48,153	(33,227)	14,926	5,263	7,209
Other intangible assets in progress	1,806		1,806	10,947	4,153
Property and equipment (note 6)					
Land	620		620	620	620
Buildings	487	(266)	221	231	242
Other	10,050	(7,857)	2,193	2,413	2,910
In progress	2,727		2,727	0	0
Financial investments [2] (note 7)					
Investments in subsidiaries and affiliates	7,720,595	(1,761)	7,718,834	7,718,765	7,791,258
Investment-related receivables	10,331,139		10,331,139	4,338,465	4,790,181
Other investment securities	373,333	(67,262)	306,071	222,019	404,747
Loans	1,477,635		1,477,635	1,108,263	1,649,507
Other financial investments	613		613	535	1,103
Total I	**19,967,725**	**(110,872)**	**19,856,853**	**13,407,612**	**14,652,043**
CURRENT ASSETS (note 8)					
Other receivables [3]	94,739		94,739	112,107	108,764
Marketable securities			0	1,211,659	1,214,718
Cash and cash equivalents	2,468,415		2,468,415	2,287,959	1,681,339
Accruals					
Prepayments [3]	3,355		3,355	1,543	2,407
Total II	**2,566,509**	**0**	**2,566,509**	**3,613,268**	**3,007,228**
Deferred charges					
Total III	**27,528**		**27,528**	**5,543**	**7,957**
Translation adjustments - assets — **Total IV**	**–**	**–**	**–**	**–**	**–**
TOTAL ASSETS	**22,561,762**	**(110,872)**	**22,450,890**	**17,026,423**	**17,667,228**

(1) including leasehold rights			–	–	–
(2) of which due within one year			3,800,976	3,979,151	3,295,454
(3) of which due in over one year			8,550	4,827	771

LIABILITIES AND SHAREHOLDERS' EQUITY

(in € thousands)

		Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
SHAREHOLDERS' EQUITY (note 9)				
Capital stock		1,381,025	1,363,952	1,391,300
Additional paid-in capital		2,122,870	1,986,291	2,241,803
Reserve for revaluation of assets		56,262	56,262	56,262
Reserves:				
• Legal reserve [a]		138,103	136,395	139,130
• Untaxed reserves		2,617,757	2,831,482	2,541,092
• Other reserves		301,428	106,415	106,415
Unappropriated retained earnings		1,276,093	921,176	1,090,363
Net income for the year		525,130	766,017	513,574
Untaxed provisions (note 11)		6,442	6,444	6,615
	Total I	**8,425,109**	**8,174,434**	**8,086,554**
OTHER EQUITY (note 10)				
Non-voting participating securities	**Total I bis**	**170,035**	**170,035**	**391,034**
PROVISIONS (note 11)				
Provisions for contingencies		366,443	358,012	357,031
Provisions for charges		11,257	10,976	10,474
	Total II	**377,700**	**368,988**	**367,505**
DEBT AND PAYABLES [1] (note 12)				
Other bonds		976,815	976,811	1,231,873
Bank borrowings [2]		5,928,156	700,790	612,411
Other borrowings		6,495,002	6,584,479	6,947,306
Taxes and social charges payable		63,018	36,091	12,206
Other payables and accrued expenses		14,250	14,795	18,339
Accruals				
Other payables				
	Total III	**13,477,241**	**8,312,966**	**8,822,135**
Translation adjustments - liabilities	**Total IV**	**804**	**–**	**–**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**22,450,890**	**17,026,423**	**17,667,228**

	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
(a) of which reserve for long-term capital gains	14,225	14,225	14,225
(1) of which due in over one year	10,054,060	5,055,899	6,157,132
of which due within one year	3,423,181	3,257,067	2,665,003
(2) of which short-term bank loans and overdrafts	314,389	382,540	280,397

Statement of cash flows

(in € thousands)	**2005**	2004	2003
Net income	**525,130**	**766,017**	**513,574**
Depreciation and amortization	7,277	8,856	9,738
Changes in provisions	43,539	(9,713)	(22,380)
Gains and losses on sales of non-current assets, net	(18,567)	(35,287)	(15,401)
Cash flows from operations	**557,379**	**729,873**	**485,531**
(Increase) decrease in other receivables	(8,787)	(5,057)	(11,622)
Increase (decrease) in taxes and social charges payable	26,927	23,885	342
Increase (decrease) in other payables	(545)	(3,544)	(66,131)
Net change in working capital	**17,595**	**15,284**	**(77,411)**
Cash flows from operating activities	**574,974**	**745,157**	**408,120**
Acquisitions of intangible assets	(4,795)	(9,725)	(4,147)
Purchases of property and equipment	(3,122)	(530)	(1,210)
Disposals of property and equipment and intangible assets	54	100	19
Acquisition of investments in subsidiaries and affiliates and other investment securities	(2,932,008)	(15)	3,059
Purchases of treasury stock	(209,563)	(280,036)	(238,190)
Disposals of investments in subsidiaries and affiliates and other investment securities	3,034,280	162,113	128,600
(Increase) decrease in investment-related receivables	(5,992,674)	451,716	749,781
(Increase) decrease in long-term loans	(369,372)	541,243	(107,316)
(Increase) decrease in other financial investments	(78)	568	(23)
Cash flows from (used in) investing activities/divestments	**(6,477,278)**	**865,434**	**530,573**
Issues of capital stock	155,359	135,906	143,509
Dividends paid	(429,812)	(387,384)	(379,141)
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	6,857	(55)	–
Increase (decrease) in short- and long-term debt	4,449,146	(312,180)	356,015
Increase (decrease) in bank overdrafts and other short-term debt	688,747	(217,330)	456,109
Decrease (increase) in marketable securities	1,211,659	3,059	(1,137,775)
Increase (decrease) in reserves for revaluation of assets	804	–	–
Cash flows from (used in) financing activities	**6,082,760**	**(1,003,971)**	**(561,283)**
Increase (decrease) in cash and cash equivalents	**180,456**	**606,620**	**377,410**
Cash and cash equivalents at beginning of year	2,287,959	1,681,339	1,303,929
Cash and cash equivalents at end of year	2,468,415	2,287,959	1,681,339
Analysis of cash and cash equivalents at December 31			
Cash at banks	186,584	196,603	90,174
Cash on hand	12	4	7
Cash advances to subsidiaries	2,281,819	2,091,352	1,591,158
Total	2,468,415	2,287,959	1,681,339

Notes to the parent company financial statements

The financial statements cover the twelve-month period from January 1 to December 31, 2005.

The following notes form an integral part of the annual financial statements.

These financial statements were approved by the Board of Directors on March 23, 2006.

Note 1 Accounting principles and methods

The financial statements of Compagnie de Saint-Gobain have been drawn up in accordance with the accounting principles 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.

Since December 31, 2004, the statement of income has been 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 2003 has therefore been adjusted.

Accordingly, changes in provisions for 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/expense.

The 2005 financial statements were prepared by applying the same presentation methods as those used in 2004.

In accordance with opinion 2005-A issued by the CNC's Emerging 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 Saint-Gobain recorded this tax under retained earnings in the amount of €4,987,500 as a contra-entry to amounts payable to the French State.

In accordance with the third resolution of the General Meeting of June 9, 2005 and the application of Article 39 of the Amended Finance Act *(Loi de finances rectificative)* of December 30, 2004, the following transactions were recorded in 2005:

- an amount of €200,000,000 was deducted from the special long-term capital gains reserve and credited to "Other reserves";
- an amount of €4,987,500, representing the exceptional tax on the reserves transferred, was deducted from "Other reserves" and credited to retained earnings.

Intangible assets

Assigned goodwill not covered by any form of legal protection is amortized over 25 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	40/50 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

At January 1, 2005, the Company applied CRC regulation no. 2002-10 of December 12, 2002 relating to the depreciation and impairment of assets and CRC regulation no. 2004-06 of November 23, 2004 relating to the definition, recognition and measurement of assets. Taking into account the accounting principles previously applied by the Company, the implementation of these two regulations had no impact on shareholders' equity at January 1, 2005.

Financial investments, investments in subsidiaries and affiliates and other investment securities

The gross value of these items represents cost excluding incidental 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.

At December 31, 2005, 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 assigned for allocation under stock option 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. At December 31, 2005, there are no marketable securities in the portfolio.

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. 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. Unrealized foreign exchange gains on receivables denominated in Brazilian reals are included under translation adjustments in liabilities and are therefore not included in income for the period.

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, 2005 is unchanged from prior years.

The main financial instruments used to hedge foreign exchange risks are forward purchase and sale contracts and options. The related 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 for accounting purposes 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 fluctuations in interest-rates.

Financial 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 decreased by €196 million, due to the combined impact of:

- a €140.6 million fall in income from investments in subsidiaries and affiliates;
- a €1.5 million decrease in income from loans and investments and other interest income;
- a €3.9 million increase in interest charges and related expenses;
- a €4.7 million rise in net foreign exchange gains;
- a €48.2 million increase in the amortization charge and net additions to provisions for financial items (including €30.9 million in provisions for impairment in value and provisions for risks and contingencies relating to treasury stock);
- a €6.7 million decrease in net income from sales of marketable securities.

Note 3 **Exceptional items**

The Company reported an exceptional expense of €8.5 million. This is mainly due to the following items:

- the sale to the Group's Building Materials subsidiary of shares in Aldwych Plc, a UK holding company which carried BPB Plc's shares following the successfully completed tender offer:

Sale price of SG Aldwych shares:	€2,968.3 million
Net book value:	€2,931.9 million
Net gain:	€36.4 million

- the capital loss on the sale of own shares upon the exercise of stock options in an amount of €20 million. This loss was covered by a write-back of the provision for impairment recorded under net financial income;
- the sale at the start of 2005 of the remaining shares of the RTL Group, leading to a capital gain of €2.1 million;
- exceptional charges related to the acquisition of shares (€33.8 million) and the reorganization of the head office (€7.8 million);
- write-backs of provisions for taxes no longer required (€13.8 million).

Note 4 **Income tax**

The net tax benefit amounted to €55.9 million.

- Under the consolidated tax regime and the French integrated tax systems, the income tax benefit attributable to Compagnie de Saint-Gobain is estimated at €42 million for the year ended December 31, 2005, breaking down as follows:
  - €30 million tax benefit for 2005;
  - €12 million tax benefit due to an adjustment to the provision booked at December 31, 2004 for fiscal year 2004;
- The net tax credit of our German branch came to €13.9 million under the integrated tax system *(organschaft)*.

Note 5 **Intangible assets**

Intangible assets represent goodwill and other intangible assets, such as software, which are amortized over periods of between three and five years.

	Non-current assets				Amortization			
(in € thousands)	Gross at beginning of year	Increase	Decrease	Gross at end of year	Accumulated at beginning of year	Increase	Decrease	Accumulated at end of year
Goodwill	567			567	476	23		499
Other intangible assets	34,217	13,936		48,153	28,954	4,273		33,227
In progress	10,947	4,780	(13,921)	1,806	-			-
TOTAL	**45,731**	**18,716**	**(13,921)**	**50,526**	**29,430**	**4,296**	**0**	**33,726**

Note 6 Property and equipment

(in € thousands)	Non-current assets Gross at beginning of year	Increase	Decrease	Gross at end of year	Depreciation Accumulated at beginning of year	Increase	Decrease	Accumulated at end of year
Land	620			620	–			–
Buildings	487			487	256	10		266
Other	9,907	395	(252)	10,050	7,494	612	(249)	7,857
In progress	–	2,727		2,727	–			–
TOTAL	**11,014**	**3,122**	**(252)**	**13,884**	**7,750**	**622**	**(249)**	**8,123**

Note 7 Financial investments

Financial investments

(in € thousands)	Non-current assets Gross at beginning of year	Increase	Decrease	Gross at end of year
Investments in subsidiaries and affiliates	7,719,982	2,932,545	(2,931,932)	7,720,595
Investment-related receivables	4,338,465	13,970,018	(7,977,344)	10,331,139
Other investment securities	247,601	209,563	(83,831)	373,333
Loans	1,108,263	24,127,546	(23,758,174)	1,477,635
Other financial investments	535	174	(96)	613
TOTAL	**13,414,846**	**41,239,846**	**(34,751,377)**	**19,903,315**

Changes in investments in subsidiaries and affiliates

(in € thousands)	Increase	Decrease
Subscription to capital increases of Saint-Gobain Aldwych	2,931,932	
Disposal of Saint-Gobain Aldwych to S.G.M.C.		(2,931,932)
Purchase of SG Isover G+H shares (German branch)	76	
Adjustment to the gross value of SG Glass Deutschland Gmbh shares	537	
TOTAL	**2,932,545**	**(2,931,932)**

Changes in other investment securities

(in € thousands)	Increase	Decrease
Purchases of treasury stock on the market	209,563	
Sales of treasury stock		(83,758)
Other sales of shares		(73)
TOTAL	**209,563**	**(83,831)**

Other financial investments

(in € thousands)	Gross	Maturity within one year	Maturity over one year
Investment-related receivables	10,331,139	2,323,962	8,007,177
Loans [1]	1,477,635	1,477,014	621
Other	613		613
TOTAL	**11,809,387**	**3,800,976**	**8,008,411**

(1) Loans granted during the year	24,127,546
Loans repaid during the year	23,758,174

Changes in treasury stock

(in € thousands)	Number of shares held	Gross	Net
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**
Acquisitions in 2005	4,423,117	209,563	209,563
Disposals in 2005	(1,900,366)	(83,758)	(63,733)
Cancellations in 2005	–	–	–
Adjustments to provision for impairment in value	–	–	(61,650)
AT DECEMBER 31, 2005	**8,383,161**	**372,857**	**305,649**

Note 8 **Current assets**

Current assets contracted by €1,046.7 million in 2005 to €2,567 million. This change reflects the combined impact of a €180.4 million increase in cash and cash equivalents, a €1.8 million rise in prepayments, a €1,211.6 million decrease in marketable securities, and a €17.4 million decrease in other receivables.

Maturity of receivables

(in € thousands)	Gross	Maturity within one year	Maturity over one year
Other receivables	94,739	86,617	8,122
Prepayments	3,355	2,927	428
TOTAL	**98,094**	**89,544**	**8,550**

Note 9 Shareholders' equity

Changes in shareholders' equity

(in € thousands)	Amount
Shareholders' equity before appropriation of net income for 2004	**8,174,434**
Payment in 2005 of the dividend relating to 2004	(429,812)
Employee share issue (capital and premiums after deduction of expenses)	155,359
Changes in untaxed provisions	(2)
Net income for 2005	525,130
Cancellation of shares	None
SHAREHOLDERS' EQUITY BEFORE APPROPRIATION OF NET INCOME FOR 2005	**8,425,109**

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	Amount *(in € thousands)*
Capital stock at beginning of year	**340,988,000**	**1,363,952**
Shares issued under the Group Savings Plan	4,267,470	17,070
Shares issued on early exercise of stock options granted in 2004	800	3
Cancellation of shares	–	–
CAPITAL STOCK AT YEAR-END	**345,256,270**	**1,381,025**

Capital stock increased by €17,073 thousand, the legal reserve by €1,707 thousand and the share issue premium by €136,579 thousand as a result of subscriptions to 4,267,470 shares in connection with the Group Savings Plan, and to 800 shares as part of the stock option plans.

The following changes took place in retained earnings during the year:

• Balance at December 31, 2004:	€921,176 thousand
Changes resulting from the third resolution of the AGM of June 9, 2005 (income appropriation):	
• Net income for 2004:	€766,017 thousand
• Adjustment for €13,725 thousand of the provisional allocation to the 2003 special long-term capital gains reserve	€13,725 thousand
• Final dividend taking into account the actual number of treasury shares held:	€(429,812) thousand
• 2.5% long-term capital gains tax charge:	€4,987 thousand
• Balance at December 31, 2005:	€1,276,093 thousand

An amount of €200,000 thousand euros was deducted from the special long-term capital gains reserve account and credited to "Other reserves".

Stock purchase and stock subscription plans

Compagnie de Saint-Gobain has stock option plans available to certain categories of employees, and a Group Savings Plan ("PEG"), or employee stock purchase plan.

Under the stock option plans, the Board of Directors may grant options which entitle the holder to obtain Saint-Gobain shares at a price based on the average share price for the 20 trading days preceding the grant date. 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 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, 2004 and 2005, the plans involved subscription options for new shares.

Further to the four-for-one stock split of June 27, 2002, the number of options for 1998 to 2001 has been multiplied by four in order to permit meaningful year-on-year comparisons.

Movements relating to stock options outstanding in 2003, 2004 and 2005 are listed below:

	Shares (€4 par value)	Average exercise price (in €)
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**
Options granted	3,922,250	45.71
Options exercised	(1,901,166)	33.54
Options forfeited	(112,000)	39.25
OPTIONS OUTSTANDING AT DECEMBER 31, 2005	**21,738,119**	**38.06**

At December 31, 2005, 8,358,469 options were exercisable at an average exercise price of €36.50.

At December 31, 2005, 6,307,390 options were available for grant under the authorization given by the General Meeting of June 9, 2005. This figure amounts to an overall ceiling for options and shares granted without consideration.

The following table summarizes information about stock options outstanding at December 31, 2005:

Grant date	Options exercisable			Options not exercisable		Total options outstanding	Type of options
	Exercise price (in euros)	Number of options	Weighted average remaining contractual life (in months)	Exercise price (in euros)	Number of options	Number of options	
1998	29.54	350,880	11			350,880	Purchase
1999	40.63	1,341,810	47			1,341,810	Purchase
2000	37.69	2,146,895	59			2,146,895	Purchase
2001	40.22	3,172,651	71			3,172,651	Purchase
2002	23.53	1,346,233	83	23.53	2,001,400	3,347,633	Purchase
2003	35.67	0	95	35.67	3,655,000	3,655,000	Subscription
2004	43.56	0	107	43.56	3,801,000	3,801,000	Subscription
2005	45.71	0	119	45.71	3,922,250	3,922,250	Subscription
TOTAL	**–**	**8,358,469**	**–**	**–**	**13,379,650**	**21,738,119**	**–**

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 trading days preceding the date of the Board of Directors' Meeting 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: 4,267,470; 4,099,192; and 6,499,407 shares with a par value of €4 to employees in 2005, 2004 and 2003, respectively, at an average price per share of €36.48 in 2005, €31.41 in 2004 and €21.14 in 2003.

Note 10 Other equity

Other equity (€170 million) corresponds to non-voting participating securities in French francs and ecus issued between 1983 and 1988, which were converted into euros in 1999.

On June 30, 2004, Compagnie de Saint-Gobain purchased 798,583 participating securities held by its subsidiaries Spafi and Saint-Gobain Nederland in the amount of €234 million. These securities were cancelled for a face value of €221 million, resulting in a €13 million loss recorded under exceptional expenses on capital transactions.

NOTE 11 Provisions

Provisions

(in € 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	17			(2)		15
	6,444	**0**	**0**	**(2)**	**0**	**6,442**
Provisions for contingencies						
Potential tax liabilities [1]	337,000		(169)	(13,831)		323,000
Stock options	20,342		(4,294)			16,048
Other	670	19,868			6,857	27,395
	358,012	**19,868**	**(4,463)**	**(13,831)**	**6,857**	**366,443**
Provisions for charges						
Other charges	10,976	281				11,257
	10,976	**281**	**0**	**0**	**0**	**11,257**
Provisions for impairment in value						
On investments	1,217	7			537	1,761
On other securities	25,582	61,713	(20,025)	(9)		67,261
	26,799	**61,720**	**(20,025)**	**(9)**	**537**	**69,022**
IMPACT ON NET FINANCIAL INCOME		**81,528**	**(24,319)**	**(9)**		
IMPACT ON NET EXCEPTIONAL INCOME/(LOSS)		**341**	**(169)**	**(13,833)**		

(1) In connection with the integrated tax system and consolidated tax regime, €169 thousand of the provision for potential tax liabilities was used and an amount of €13,831 thousand was written back to reflect an adjustment in the level of risk of subsidiaries returning to profit.

Note 12 Debt and payables

Total debt and payables increased by €5,164 million to €13,477 million in 2005, mainly due to an increase in debt (€5,138 million), an increase in taxes and social charges payable (€27 million) and a reduction in other payables (€0.5 million).

Maturities of debt and payables

(in € thousands)	Gross	Maturity within one year	Maturity over one year
Bonds [1]	976,815	24,295	952,520
Bank borrowings [2]	5,928,156	325,448	5,602,708
Other short- and long-term debt [1] [3]	6,495,002	2,996,170	3,498,832
Sub-total	**13,399,973**	**3,345,913**	**10,054,060**
Taxes and social charges payable	63,018	63,018	–
Other payables [3]	14,250	14,250	–
Deferred income	–	–	–
TOTAL DEBT AND PAYABLES [4]	**13,477,241**	**3,423,181**	**10,054,060**

(1) Issued during the year;	6,405,857
Repaid during the year.	1,267,964
(2) Of which:	
– two years or less at inception;	325,448
– over two years at inception.	5,602,708
(3) Of which due to partners.	None
(4) Of which debt due in over 5 years.	511,532

Long-term and short-term debt

(in € thousands)	**2005**	**2004**	**2003**
LONG-TERM AND SHORT-TERM DEBT			
Long-term portion of debt			
Due between January 1 and December 31:			
2005	–	–	1,259,521
2006	–	447,551	488,360
2007	1,606,332	1,544,251	1,575,755
2008	2,672,119	587,896	828,648
2009	986,250	974,190	977,259
2010	4,277,219	1,467,756	990,410
2011 and beyond	477,346		
Unspecified	34,185	34,255	34,382
Total long-term portion of debt	**10,053,451**	**5,055,899**	**6,154,335**
Current portion of long-term debt	**719,500**	**1,267,905**	**481,328**
TOTAL LONG-TERM DEBT (INCLUDING CURRENT PORTION)	**10,772,951**	**6,323,804**	**6,635,663**
OTHER SHORT-TERM DEBT			
Billets de trésorerie (in euros)	242,000	–	152,500
Billets de trésorerie (in US dollars)	–	–	142,518
Euro Commercial Paper (in euros)	540,000	415,000	190,000
Euro Commercial Paper (in pounds sterling)	–	–	–
Euro Commercial Paper (in US dollars)	–	–	–
US Commercial Paper (in US dollars)	–	–	–
Borrowings from Group entities	1,521,458	1,131,904	1,374,045
Bank overdrafts and other short-term debt	314,389	382,540	280,397
Other	9,175	8,832	16,467
TOTAL OTHER SHORT-TERM DEBT	**2,627,022**	**1,938,276**	**2,155,927**
TOTAL LONG-TERM AND SHORT-TERM DEBT	**13,399,973**	**8,262,080**	**8,791,590**

Long-term and short-term debt can be analyzed as follows by currency:

(in € thousands)	2005	2004	2003
Euro	6,825,848	4,544,367	4,473,899
US dollars	1,010,007	827,805	946,960
Swiss francs	–	–	255,063
Pounds sterling	2,902,365	880,238	879,321
Czech koruna	34,731	65,893	75,035
Norwegian krone	–	5,501	5,385
TOTAL	**10,772,951**	**6,323,804**	**6,635,663**

On February 18, 2002, Compagnie de Saint-Gobain issued 4,380,953 Océane bonds that are convertible into new or existing shares. These bonds have a face value of €210 each, and the total issue came to €920 million. The annual interest rate on 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 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 2005.

If all of the bonds were converted at the rate initially provided for, the holders would receive a total of 17,523,812 shares, representing 5.08% of the capital stock of Compagnie de Saint-Gobain at December 31, 2005.

Note 13 Information concerning related companies and investments

(in € thousands)	Related companies	Net amount concerning companies in which Compagnie de Saint-Gobain has a direct holding	Other	Net amount in the balance sheet
Investments in subsidiaries and affiliates	7,716,864	1,970	–	7,718,834
Investment-related receivables	10,330,853	–	286	10,331,139
Other investment securities	305,649	422	–	306,071
Loans	913,629	–	564,006	1,477,635
Other receivables	39,936		54,803	94,739
Marketable securities	–	–	–	–
Cash and cash equivalents	2,281,703	–	186,712	2,468,415
Bonds	–	–	976,815	976,815
Bank borrowings	–	–	5,928,156	5,928,156
Other borrowings	5,617,982	877,020	–	6,495,002
Other payables	4,949		9,301	14,250
Income from investments in subsidiaries and affiliates	**579,170**	**469**	**–**	**579,639**
Income from loans and other investments	300,547		489	301,036
Other interest income	12,290		127,994	140,284
Interest expense	(284,739)		(204,853)	(489,592)

Note 14 **Investment portfolio**

(in € 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 stock)	France	305,649	2.43	8,383,161
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 AG	Germany	153,760	99.90	3,196,806
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	3,000,000
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
SCI Ile de France	France	3,428		
Various French companies		894		
Various non-French companies		3,117		
		8,024,905		
Analysis:				
Investments in subsidiaries and affiliates		7,718,834		
Other investment securities		306,071		
		8,024,905		

Note 15 Information on direct holdings of the parent company where book value exceeds 1% of the capital

COMPANIES (in thousands of euros or other currency)	Capital stock	Reserves	% interest	Book value of capital held Gross	Book value of capital held Net	Loans and advances granted by the Company	Guarantees given by the Company	2005 sales	2005 net income/(loss)	Dividends received by the Company in 2005 (euros)
1 - 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	1,470,201	100.00	2,726,540	2,726,540			1,819	29,524	34,887
Partidis										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	1,193,509	445,612	100.00	2,065,919	2,065,919	1,547,811		8,217	101,234	1,174
S.G. Matériaux de Construction										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	325,221	22,328	100.00	738,712	738,712	2,966,345		8,692	86,566	34,975
Vertec										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	128,144	346,272	100.00	491,039	491,039			–	215,763	200,225
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			1,285,282	(4,813)	(4,813)
S. G. Glass Benelux SA										
Rue des Glaces Nationales, 169	EUR	EUR						EUR	EUR	
B-5060 Sambreville	70,900	104,008	88.69	160,880	160,880			135,161	(7,401)	6,804
S. G. Isover G+H AG										
1 Burgermeister-Grünzweig Strasse	EUR	EUR						EUR	EUR	
D-67059 Ludwigshafen	82,000	11,291	99.90	153,760	153,760			318,447	37,515	37,515
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			45,303	18,230	18,230
International Saint-Gobain										
10, rue Saint-Pierre	CHF	CHF						CHF	CHF	
CH-1700 Fribourg	230,000	113,204	96.50	153,409	153,409			–	144,935	93,329
S.G. Vidros SA										
482, avenida Santa Marina										
Agua Branca	BRL	BRL						BRL	BRL	
05036-903 São Paulo-SP (Brazil)	420,000	456,178	54.46	118,068	118,068			1,069,184	126,471	14,873

COMPANIES *(in thousands of euros or other currency)*	Capital stock	Reserves	% interest	Book value of capital held Gross	 Net	Loans and advances granted by the Company	Guarantees given by the Company	**2005** sales	**2005** net income/ (loss)	Dividends received by the Company in **2005** *(euros)*
São Lourenço Administradora										
482, avenida Santa Marina										
Agua Branca	BRL	BRL						BRL	BRL	
05036-903 São Paulo-SP (Brazil)	175,654	197,727	99,91	109,559	109,559			–	56,467	13,147
S. G. Glass Deutschland GmbH										
Viktoria - Allee 3-5	EUR	EUR						EUR	EUR	
D-52066 Aix-la-Chapelle	102,258	82,899	60,00	87,197	86,660			337,307	30,841	28,980
Saint-Gobain Autoglas GmbH										
Viktoria - Allee 3-5	EUR	EUR						EUR	EUR	
D-52066 Aix-la-Chapelle	102,258	19,130	60,00	72,833	72,833			–	29,569	27,728
Saint-Gobain Schleifmittel-Beteiligungen GmbH										
Viktoria - Allee 3-5	EUR	EUR						EUR	EUR	
D-52066 Aix-la-Chapelle	10,226	50,925	100,00	61,151	61,151			–	1,180	1,180
Saint-Gobain SFM										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	45,750	1,780	100,00	45,735	45,735			–	565	300
2 - INVESTMENTS										**(1)**
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	395,884	23,91	211,220	211,220	79,494		504,969	103,745	24,510
Saint-Gobain Emballage										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	42,069	389,159	20,52	61,553	61,553	46,250		652,656	181,113	36,227
SEPR										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	63,361	10,356	25,73	53,310	53,310	106,214		234,595	13,578	5,890
OTHERS										
Subsidiaries over 50% owned										
• Total French companies				3,899	3,899	247,643	–			520
• Total foreign companies				26,033	24,817	359,100	4,016,759			2,542
Holdings of between 10% and 50%										
• Total French companies				–	–	–	–			–
• Total foreign companies				648	648	–	–			145
Other shares				31,327	31,266	388,365				1,133
Own shares				372,857	305,649					
TOTAL				**8,093,927**	**8,024,905**	**5,741,222**	**4,016,759**	**-**	**-**	**579,501**

(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.

Note 16 Financial commitments excluding leases

Commitments given

(in € thousands)	Amount
Gurantees [1]	4,490,470
Pensions and other post-retirement benefits [2]	63,996
Other commitments given concerning joint-ventures	8,414
TOTAL	**4,562,880**

Including :

(1) Consolidated companies. 4,482,979

(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 € thousands)	Amount
Other commitments received	
Debt waivers with a clawback clause	3,720
TOTAL	**3,720**

Including : consolidated companies 3,720

Commitments relating to financial instruments concerning foreign currency risks are as follows:

(in € thousands)		Amount
Equivalent in euros of forward purchases and sales of foreign currency	EUR	2,976,187
Options purchased	EUR	8,147
Options sold	EUR	8,147
Currency swaps	EUR	2,299,595

Commitments relating to financial instruments concerning interest-rate risks are as follows:

Interest-rate risks *(Equivalent amount in € thousands)*	Amount
Swaps - borrowers at fixed rates/variable rate	3,049
Swaps - lenders at fixed rates/variable rate	1,644,707
Swaps - variable rate/variable rate	7,669
Swaps - fixed rate/fixed rate	–
Cross-currency swaps - borrowers at fixed rates/variable rate	–
Cross-currency swaps - lenders at fixed rates/variable rate	–
Cross-currency swaps - variable rate/variable rate	–
Cross-currency swaps - fixed rate/fixed rate	165,296
Caps purchased/(sold), net	–
Swaps on raw materials - borrowers	28,077
Swaps on raw materials - lenders	27,946

The face value amount of commitments given and received in the form of swaptions and early repayment options amounted to €8 million and €42 million, respectively.

Note 17 Lease commitments

A real estate lease agreement was entered into on December 18, 1996 in respect of the head office site at la Défense (Les Miroirs), for a 12-year term, starting February 1, 1997.

(in € thousands)	Head office
COST	**80,798**
Depreciation:	
Accumulated at beginning of year	11,591
Charge for the year	1,464
TOTAL	**13,055**
Installments paid:	
Accumulated at beginning of year	71,938
Charge for the year	9,355
TOTAL	**81,293**
Installments to be paid:	
within one year	8,975
between one and five years	18,724
beyond five years	–
TOTAL	**27,699**
Residual value:	
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	2005	2004	2003
Managers	169	164	162
Supervisors	62	66	65
Other employees	7	7	8
TOTAL	**238**	**237**	**235**
Of which fixed-term contracts	4	7	4

Individual right to training:

As regards the individual right provided for by Act no. 2004.391 of March 4, 2004 relating to lifelong learning, the aggregate number of training hours corresponding to unused vested training entitlement amounted to 5,593 hours at December 31, 2005, representing an estimated amount of €273 thousand.

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 €20.4 million in 2005, €13.8 million in 2004 and €12.7 million in 2003. The gross variable portion included in these remuneration amounts came to €5.4 million in 2005, €5.1 million in 2004 and €4.5 million in 2003.

This total amount includes €5.4 million paid in respect of retirement indemnities to four employees who left the Group during the year.

Attendance fees paid to Directors for 2005 amounted to €0.5 million (2004 and 2003: €0.5 million).

Note 19 Litigation

In France, further individual lawsuits were filed in 2005 by former employees (or persons claiming through them) of Everite and Saint-Gobain PAM ("the employers") – which in the past had carried out 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 558 such lawsuits have been issued against the two companies since 1997.

At the end of 2005, 376 of these 558 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 363 of these 376 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 €2 million in compensation in the 13 other lawsuits.

Out of the 182 lawsuits outstanding against Everite and Saint-Gobain PAM at December 31, 2005, the merits of 47 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).

Out of the 135 remaining lawsuits, 4 have been dismissed following a claim made to the French Asbestos Victims Compensation Fund (FIVA). At December 31, 2005, the procedures relating to the merits of the other 131 cases were at different stages: 33 are involved in administrative proceedings with the French Social Security authorities, 69 are pending with the Social Security courts, appeals have been issued to the Court of Appeal in 10 cases in which the employers were held liable for inexcusable fault (including 7 cases in which statute of limitations and/or liability issues have been raised as mentioned above), 2 cases are pending hearing by the Court of Cassation and 17 have been heard by the Court of Cassation and referred to the Versailles Court of Appeal.

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In addition, 82 suits based on inexcusable fault had been filed by current or former employees of eleven other French companies in the Group, in particular involving circumstances where equipment containing asbestos had been used to protect against heat from furnaces.

At December 31, 2005, 13 suits had been dismissed at the request of employees or former employees further to claims made to the Asbestos Victims Compensation Fund. At that date, 22 lawsuits were completed, of which only one ruling in 2004 held the employer liable for 'inexcusable fault'.

For the 47 suits outstanding at the end of 2005, 3 are in the investigation stage by the French Social Security authorities, 9 are pending before the Social Security courts and 27 before the Courts of Appeal, and 8 cases have been appealed to the Court of Cassation.

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 2005

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 with 19,000 in 2000), new suits filed in 2004 fell, and subsequently decreased for the second consecutive year in 2005, representing approximately 17,000 versus 18,000 in 2004. This decline was felt in all of the states concerned but was particularly pronounced in the states which had the sharpest rises in previous years. In Mississippi, for example, new claims filed fell from 29,000 in 2003 to 2,000 in 2004 and 300 in 2005, following changes in local legislation and recent case law. As in previous years, the vast majority of the 17,000 or so new claims are class 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. For example, two class-action suits filed in Kentucky and Texas in 2005 represented approximately 6,000 claims in total.

Almost all of the claims against CertainTeed are settled out of court. Some 20,000 claims were settled out of court in 2005, compared with 44,000 in 2002, 54,000 in 2003 and 20,000 in 2004. In addition, 3,000 claims were placed on the inactive docket, which means that they will not be heard until the plaintiff provides evidence of actual loss or injury. Taking into account the 106,000 outstanding cases at the end of 2004 and the new cases filed in 2005, as well as claims settled, some 100,000 claims were outstanding at December 31, 2005 – a notable decrease compared with end-2004.

The average individual cost of settlement came to around USD 2,800 in 2005, compared with USD 2,900 in 2004 and USD 2,100 in 2003. This trend mainly reflects the lower proportion of settlements relating to class actions which have decreased significantly since 2004 as described above.

Impact on the Group's results

The Group recorded a €100 million charge in 2005 to cover future developments in relation to these claims. This amount is slightly lower than the €108 million recorded in 2004, and the same as those recorded in 2002 and 2003. At December 31, 2005, the Group's total cover for asbestos-related claims against CertainTeed in the United States amounted to €358 million (USD 422 million), compared with €295 million at December 31, 2004 (USD 402 million). The coverage is achieved almost entirely through the balance sheet provision, as most available insurance had been used by 2004.

Cash flow impact

Total compensation paid for these cases – including claims settled prior to 2005 but only paid out in 2005, and those fully resolved and paid in 2005 – amounted to €71 million during the year (USD 88 million), versus €113 million (USD 140 million) in 2004.

Outlook for 2006

If the fall in the number of new suits that has occurred in the past two years continues in 2006, the average individual cost of settlement may rise. This is because class actions would represent a lower proportion of the total number of claims settled or pending settlement, whereas this type of claim has a lower 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 currently proposed Asbestos bill becomes federal law in the United States, claimants will no longer be able to file the type of claims described above in the country. 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 was not put to the vote of the full Senate. A new bill was adopted on May 26, 2005 by the US Senate Judiciary Committee and was referred to the full Senate in February 2006. However, the new law has not yet been adopted, as after their debate Senators voted to send the bill back to the Judiciary Committee. Certain local legislative reforms and rulings have also been implemented in a number of states, including Mississippi, Texas, and Ohio, aimed at introducing stricter admissibility conditions for asbestos-related claims.

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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, 2005 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

Year ended December 31, 2005

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, 2005 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, 2005, and of the results of its operations for the year then ended in accordance with French accounting principles and regulations.

II - Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:

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, 2005 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 regarding acquisitions of investments and controlling interests and the identity of shareholders.

Neuilly-sur-Seine and Paris La Défense, March 23, 2006

The Statutory Auditors

PricewaterhouseCoopers Audit

Pierre Coll

Rémi Didier

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. 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.

Five-year financial summary

(in € thousands)	2005	2004	2003	2002	2001
1 - Capital stock at year-end					
Capital stock	1,381,025	1,363,952	1,391,300	1,364,043	1,364,138
Number of common shares outstanding	345,256,270	340,988,000	347,824,967	341,010,680	85,258,628
2 - Operations and results for the year					
Sales excluding taxes	172,680	158,410	163,379	156,150	149,431
Earnings before tax, depreciation, amortization and provisions	520,002	719,758	430,896	507,093	1,115,028
Income tax	55,945	45,403	69,888	30,396	15,020
Net income after tax, depreciation, amortization and provisions	525,130	766,017	513,574	595,916	1,092,872
Dividend distribution	459,629 (1)	429,812 (2)	387,384 (3)	379,141 (4)	378,364 (5)
3 - Earnings per share (in euros)					
Earnings per share before tax, depreciation, amortization and provisions	1,51	2,11	1,24	1,49	13,08
Earnings per share after tax, depreciation, amortization and provisions	1,52	2,25	1,48	1,75	12,82
Net dividend per share	1,36	1,28	1,15	1,13	4,50
4 - Personnel (6)					
Average number of employees during the year	238	237	235	240	249
Total payroll cost for the year (7)	27,782	25,140	24,991	25,094	24,389
Total benefits for the year	15,306	14,274	13,863	13,850	12,956

(1) On the basis of 345,256,270 shares (capital stock at December 31, 2005) less 7,293 541 treasury shares held at February 28, 2006, i.e. 337,962,729 shares.

(2) Reflects a €366 thousand adjustment, due to the 285,934 treasury shares sold between March 1, 2005 and June 23, 2005, when payment of the dividend began.

(3) 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.

(4) Reflects a €370 thousand adjustment, due to the 336,000 treasury shares acquired and 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.

(5) 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.

(6) Personnel figures exclude the German branch.

(7) From 2005, the payroll includes employee profit-sharing which amounted to €1,493 thousand.

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: €249.4 million. Employees: 1,009. 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, Verrerie Aurys, Pierre Pradel, Wehr Miroiterie, Emaillerie Alsacienne, Technifen,Techniverre. Distribution and processing of flat glass products for the building industry. Employees: 3,244.
- Eurokera (50%). Employees: 112. Keraglass (50%). Employees: 101. Production and sale of glass ceramic cooktops.
- Saint-Gobain Sovis: tempered glass for home appliances, industrial and scientific optics, radiation-proof glass. Employees: 201.
- Verrerie de Saint-Just: decorative glass. Employees: 73.
- Saint-Gobain Sully: flat glass for trains and the aeronautics industry. Employees: 431.
- Saint-Gobain Glass Logistics: transport.
- Saint-Gobain Recherche: glass and building materials research center. Employees: 320.

Saint-Gobain Sekurit France: processing for the automobile industry. Sales: €294.3 million. Employees: 1,066. 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: €280.4 million. Employees: 857. Holds:

- Saint-Gobain Eurocoustic: production of rock wool insulation products. Sales: €48 million. Employees: 171.
- Saint-Gobain Ecophon SA: acoustic ceilings. Employees: 27.
- Plafométal: metal ceilings. Sales: €38.8 million. Employees: 133.

Saint-Gobain Emballage: manufactures glass containers (industrial bottles and jars). Sales: €644.8 million. Employees: 2,001. Holds:

- VOA Verrerie d'Albi: glass containers (bottles). Sales: €71.6 million. Employees: 315.
- Samin: operates quarries. Employees: 154.
- Saga Decor (51%): decoration of bottles and jars. Employees: 195.

Saint-Gobain Desjonquères: manufactures small glass bottles used primarily in the perfume and pharmaceutical industries. Sales: €411.6 million. Employees: 1,831. Holds:

- Saint-Gobain VG Emballage: distribution of glass and plastic containers and fittings. Employees: 74.
- Verreries de l'Orne: decoration of glass containers. Employees: 341. Holds Verreries de la Somme. Employees: 358.

Saint-Gobain Vetrotex France: manufactures and sells fiberglass for reinforcements. Sales: €89.5 million. Employees: 406. Holds: Saint-Gobain Vetrotex International: Research and Development center, export sales. Headquarters in Chambéry (Savoie, south-east France) Holds: Saint-Gobain Vetrotex Renforcement, Saint-Gobain Vetrotex Glass Mat: distribution companies.

Partidis: distribution of building materials. Sales: €7.68 billion. Employees: 34,510. 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 (31 retail outlets in France and 13 in Spain). 1,700 retail outlets: 1,650 in France, 46 in Spain (SG Point.P España, La Plateforme España.), and 7 in Poland (PUM Plastiques).
- Lapeyre: distribution of home improvement products under the following banners: Lapeyre-La Maison, Distrilap, K par K, Gimm, Oxxo, Les Zelles, Cougnaud, Cordier, Lagrange, Poreaux, Pastural, Okfens (Poland), Eldorado Exportacao and Contrumega-Megacenter (Brazil).

Saint-Gobain Matériaux de Construction: holding company. Holds: Saint-Gobain Weber: produces industrial mortars in 22 countries. Sales (including subsidiaries except in Brazil): €782.9 million. Employees (including subsidiaries except in Brazil): 3,467.

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: €773.5 million. Employees: 2,794. Holds: Saint-Gobain Seva: industrial equipment, glass molds, fiberglass plates for insulation, door fittings. Sales: €58 million. Employees: 352.

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: €213.1 million. Employees: 1,027. Holds:
- Savoie Réfractaires: manufactures special refractories. Sales: €37.8 million. Employees: 199.
- Saint-Gobain Céramiques Avancées Desmarquest: manufactures fine ceramics for industrial uses. Sales: €29.3 million. Employees: 284.
- Saint-Gobain Cristaux & Détecteurs: manufactures optical crystals and synthetic monocrystals for chemical analysis. Sales: €26.1 million. Employees: 162.
- Saint-Gobain Quartz S.A.S.: 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: €17.2 million. Employees: 157.
- Saint-Gobain Matériaux Céramiques: produces seeded gel.
- Saint-Gobain Centre de Recherche et d'Etudes Européennes: ceramics research center. Employees: 173.
- 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: manufactures and sells high-performance plastics.

Saint-Gobain Abrasifs (France): manufactures bonded abrasives, grinding wheels and superabrasives. Sales: €151.3 million. Employees: 937.

Spafi: holding company. Holds: SGPPI: holding company.

Vertec: holding company.

Germany and Central Europe

Germany

Saint-Gobain ZN Deutschland: holding company.

Saint-Gobain Glass Deutschland GmbH: manufacturing and processing of flat glass. Sales: €347.9 million. Employees: 1,092.

Saint-Gobain Deutsche Glas GmbH: a holding company controlling various subsidiaries which distribute and process flat glass for the building industry. Sales (including subsidiaries): €224.9 million. Employees (including subsidiaries) 1,695.

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: €286.7 million. Employees: 1,706. 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 vehicules. Sales: €27.5 million. Employees: 98.

Saint-Gobain Isover G + H AG: manufactures and sells mineral fibers and foams for thermal, refrigeration and acoustic insulation as well as for fireproofing. Sales: €320.3 million. Employees: 1,248, including: Superglass Dammstoffe GmbH: distribution of insulating materials.

Saint-Gobain Vetrotex Deutschland GmbH: manufactures and sells fiberglass for reinforcements. Sales: €45.8 million. Employees: 295.

Saint-Gobain Vetrotex Reinforcement GmbH: distribution company.

Halbergerhütte GmbH: holding company. Holds: Saint-Gobain Gussrohr KG: ductile cast-iron pipes. Sales: €139.8 million. Employees: 460.

SG HES GmbH: sale of piping systems for the building industry. Sales: €35.6 million. Employees: 46.

Saint-Gobain Oberland AG (96.7%): company listed on the Frankfurt, Munich and Stuttgart Stock Exchanges. Manufactures glass containers (bottles, industrial jars). Sales: €311 million. Employees: 1,518. These figures include those of Westerwald Silikatindustrie, Ruhrglas and Sueddeutsche Altglas GmbH. Holds: GPS Glas Produktions Service: production of machines for the glass containers industry. Sales: €17.4 million. Employees: 71.

Saint-Gobain Kipfenberg GmbH: small glass bottles. Sales: €59.4 million. Employees: 211. Holds: Saint-Gobain Calmar GmbH: manufactures plastic pumps. Sales: €70.9 million. Employees: 509.

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: €58 million. Employees: 340. Holds: Norton HTK Vervaltungs and Saint-Gobain Advanced Ceramics Lauf GmbH: manufactures and sells advanced ceramics. Sales: €16.9 million. Employees: 177. Holds:
- Saint-Gobain IndustrieKeramik Düsseldorf: produces refractory products. Sales: €21 million. Employees: 104.
- Saint-Gobain Advanced Ceramics Mönchengladbach: manufactures and sells advanced ceramics. Sales: €12.7 million. Employees: 78.
- Saint-Gobain IndustrieKeramik Roedental: produces high-performance refractory products. Sales: €52.1 million. Employees: 622.
- Saint-Gobain Performance Plastics Cologne. Employees: 34.

Saint-Gobain Schleifmittel - Beteiligungen GmbH: Holds:
- Saint-Gobain Diamond Products GmbH: produces superabrasive tools for the mechanical and stone-cutting industries. Total sales: €13.9 million. Employees: 26.
- Saint-Gobain Abrasives GmbH: manufactures and sells grinding wheels and superabrasives. Sales: €88.9 million. Employees: 417.

Raab Karcher GmbH: distributes building materials in Germany and in Eastern Europe. Sales: €1.92 billion (including subsidiaries). Employees: 7,163 (including subsidiaries).

Austria

Eckelt Glas GmbH: flat glass processing. Sales: €52.3 million. Employees: 337.

Autover Österreich GmbH: Distribution of replacement automobile flat glass.

Saint-Gobain Isover Austria AG: manufactures and sells insulating materials. Sales: €48.1 million. Employees: 232. Holds: Deutsche Basaltsteinwollen srl (DBW) - Romania: production of rock wool.

Saint-Gobain Hornstein Glastextil GmbH: production of woven glass fabric. Sales: €12.8 million. Employees: 113

Czech Republic

€1 = CZK 29.787

Saint-Gobain Slevarna: foundry. Sales: CZK 309.1 million. Employees: 165.

Saint-Gobain Sekurit CR Spol SRO: produces laminated glass for the auto industry. Sales: CZK 1.45 billion. Employees: 541.

Saint-Gobain Trubni Systemy. Sales: CZK 331.3 million. Employees: 22.

Saint-Gobain Orsil: manufactures rock wool insulating materials. Sales: CZK 1.52 billion. Employees: 325.

SG Vertex AS. Sales: CZK 4.72 billion. Employees: 1,472.

W.A.W. Spol. SRO: distribution of tiles and bathroom fittings. Sales: CZK €470.8 million. Employees: 165.

Saint-Gobain Advanced Ceramics SRO. Sales: CZK 402.2 million. Employees: 195

Izolas SRO: distribution and processing of flat glass for the building industry. Sales: CZK €320.1 million. Employees: 112.

Vetrotex Reinforcement Bohemia: distribution company.

Slovakia

€1 = SKK 38.60

Nitrasklo AS and **Venisklo Spol SRO:** processing and distribution of flat glass for the building industry. Sales: SKK 537.6 million. Employees: 154.

W.A.W. - Spol. SRO: distribution of tiles and bathroom fittings. Sales: SKK €379.2 million. Employees: 192.

Benelux

Belgium

Saint-Gobain Glass Benelux SA: manufacturing and processing of flat glass. Sales: €136.4 million. Employes: 516. 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, Climaglass NV, Conforglass, Veiligheidsglas CGG NV, Mirover NV and Romato. Employees of subsidiaries: 560.

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: €107.5 million. Employees: 432. Holds: Saint-Gobain Autover Distribution SA. Employees: 105.

Saint-Gobain Pipe Systems Belgium. Sales: €34.3 million. Employees: 28.

Saint-Gobain Abrasives NV. Employees: 23.

Saint-Gobain Matériaux Céramiques Benelux SA: processing of silicon carbide and corundum for the refractory and abrasives industries. Sales: €23.6 million. Employees: 32.

Luxembourg

Saint-Gobain Abrasives 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: €43.5 million. Employees: 143.

Netherlands

Glasfabriek Sas Van Gent BV: manufactures reflecting glass, enameled glass and tempered glass. Sales: €17.1 million. Employees: 123.

Koninklijke Saint-Gobain Glass NV: sale and processing of glass products for the building industry. Sales: €102.2 million. Employees: 473.

Saint-Gobain Autover International BV: distribution of replacement automobile flat glass. Sales: €32.9 million. Employees: 30.

Saint-Gobain Isover Benelux: production and sale of insulating products. Sales: €98.2 million. Employees: 327. These figures include those of SG Isover Benelux - Belgium.

Saint-Gobain Ecophon BV: production and sale of acoustic ceilings. Employees: 24.

Saint-Gobain Cultilène BV: processes and sells glass wool and rock wool products for hydroponic (soil-less) cultivation. Sales: €23.7 million. Employees: 52.

Raab Karcher Holland: distribution of building materials in the Netherlands. Sales: €492.1 million. Employees: 1,361.

Saint-Gobain Abrasives Nederland: holding company. Holds Saint-Gobain Abrasives BV: manufactures thin grinding wheels and bonded abrasives. Sales: €94.7 million. Employees: 364.

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: €487.3 million. Employees: 1,784. Holds:
- Saint-Gobain Autover: distribution of replacement automobile flat glass.
- Saint-Gobain Wanner: thermal and acoustic insulation. Sales: €55 million. Employees: 300.
- Industrias del Cuarzo (Incusa): sand quarry. Employees: 52.
- Procustic SA: processing and distribution of acoustic insulation products.
- Portaglas SL. Sales: €18.5 million. Employees: 77. Holds: Saint-Gobain Glass Solarcontrol SL. Sales: €18.5 million. Employees: 122.

La Veneciana: sale, processing and installation of flat glass products and mirrors. Sales (including subsidiaries): €100.7 million. Employees (including subsidiaries): 619. Holds: La Veneciana Norte, La Veneciana Levante, La Veneciana Bética, La Veneciana Canarias, Cristaleria Industrial (CRISA), Vidrios de Seguridad Laminados (Vislam).

Saint-Gobain Vetrotex España: manufactures and sells fiberglass for reinforcements. Sales: €66.2 million. Employees: 352.

Saint-Gobain Canalizacion: ductile cast-iron pipes. Sales: €177.2 million. Employees: 276. Holds: Saniplast: distribution of pipes and accessories. Sales: €51.4 million. Employees: 113.

Saint-Gobain Vicasa SA: manufactures glass containers (bottles, industrial jars and flasks). Sales: €261.6 million. Employees: 1,163. 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: €62.8 million. Employees: 352. Holds Saint-Gobain Calmar SA: produces plastic pumps. Sales: €49 million. Employees: 326.
- Vidrieras Canarias (41%). Glass containers. Sales: €18.4 million. Employees: 114.

Saint-Gobain Abrasivos: produces abrasive grinding wheels. Sales: €45.5 million. Employees: 241.

Saint-Gobain Ceramicas Industriales: manufactures technical ceramics and distributes high-performance plastics. Employees: 75.

Portugal

Saint-Gobain Glass Portugal: manufactures and processes flat glass for buildings and home appliances. Sales: €61.3 million. Employees: 142. Holds: Covipor - CIA Vidreira do Norte, Covilis and EVI-Pruducao de Energia: processing of glass products for the building industry. Sales: €36 million. Employees: 149.

SGSP Vidro Automovel: flat glass processing for the auto industry. Sales: €65 million. Employees: 291. Holds: Autoverlusa (60%): distribution of replacement flat glass parts for the auto industry.

Saint-Gobain Mondego: manufactures glass containers (industrial bottles and jars). Sales: €62.4 million. Employees: 245.

Saint-Gobain Abrasivos Lda: distributes abrasive products. Employees: 35.

United Kingdom and Republic of Ireland

United Kingdom

€1 = £0.684

British Plaster Board (Bpb Plc): world leader in the production of plasterboard, building plaster and other special types of plaster. Its business lines are mainly located in Europe and North America. Sales: £2.3 billion (Group share fiscal 2005: £179.7 million). Employees: 12,801.

Saint-Gobain PLC: holding company. Holds:
- Orchardflint: holding company.
- Saint-Gobain Glass UK Ltd: production and processing of flat glass. Sales: £50.4 million. Employees: 165.
- Saint-Gobain Technical Fabrics UK Ltd.
- Saint-Gobain Insulation UK. Holds British Gypsum Isover: production and sale of insulation products. Sales: £20.2 million. Employees: 150.

Solaglas Ltd: processing and distribution of flat glass products for the building industry (tempered glass, laminated glass, mirrors, insulating glass). Network of 28 sites including 12 processing facilities throughout the UK. Sales: £130 million. Employees: 1,564. 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; Vetrotech Saint-Gobain UK.

Saint-Gobain Building Distribution Ltd: Distribution of building materials. Sales: £2.11 billion. Employees: 12,850.

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: £117.1 million. Employees: 969. 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:
- Chemfab Holding UK Ltd. GB.
- Saint-Gobain Crystals & Detectors UK Ltd.
- Saint-Gobain Industrial Ceramics Ltd: production and sale of high-temperature insulation fiber and refractory products. Employees: 66
- 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: £13.3 million. Employees: 184:

Abrasives Plc: holds: Unicorn Abrasives Ltd. and Saint-Gobain Abrasives Ltd. Sales: £64.2 million Employees: 485. Through various subsidiaries, manufactures bonded and coated abrasives as well as superabrasives.

Republic of Ireland

Chemfab Holding: processing of coated fabrics (PTFE, silicone) and adhesive tapes. Holds: Chemfab Ireland and SGPPL Ireland. Sales: €24.8 million. Employees: 101.

Glasuld Ireland: production and distribution of insulating products.

Moy-Isover Ltd.: production and sale of insulation products. Sales: €10.9 million. Employees: 79.

South Africa

€1 = ZAR 7.917

Saint-Gobain Pipelines South Africa: manufactures cast-iron parts. Sales: ZAR 149.2 million. Employees: 412.

Saint-Gobain Abrasives Pty: manufactures coated abrasives, superabrasives and grinding wheels. Sales: ZAR 103.5 million. Employees: 185.

Italy and Greece

Italy

Saint-Gobain Glass Italia: manufacturing and processing of flat glass. Sales: €140.7 million. Employees: 322. Holds:
- Flovetro (50%): manufactures and processes flat glass (float). Sales: €16 million. Employees: 59.
- SGGI Logistica Servizi: road transport.
- Gruppo Fontana: processing and sale of glass. Sales: €55.8 million. Employees: 60.
- Vetreira Industriale Saint-Gobain (V.I.S.) SRL. Employees: 36.

Saint-Gobain Sekurit Italia: flat glass processing for the auto industry. Sales: €62.8 million. Employees: 252. Holds: SG Autover Italia SRL, SG Sicurglass SRL and Vetro Sud SRL (50%). Overall sales: €49.7 million. Employees: 308.

Saint-Gobain Euroveder Italia: tempered glass for home appliances. Sales: €39.5 million. Employees: 293.

Saint-Gobain Isover Italia: manufactures insulating materials and sealing products (roofing materials, bonded fiberglass sidings). Sales: €59.6 million. Employees: 215.

Saint-Gobain Vetrotex Italia: manufactures and sells fiberglass for reinforcements. Sales: €127.2 million. Employees: 492.

Saint-Gobain Condotte SpA: ductile cast-iron pipes. Sales: €89.3 million. Employees: 145.

Saint-Gobain Vetri: manufactures glass containers (industrial bottles and jars). Sales: €423.2 million. Employees: 1,208. These figures include those of Ecoglass: collection and processing of cullet.

Microspray Delta: manufacture of plastic pumps for the perfume and beauty industries. Employees: 60.

Saint-Gobain Abrasivi SpA: manufactures abrasive grinding wheels. Sales: €96.5 million. Employees: 466.

SEPR Italia: manufactures fused-cast refractory products. Sales: €29.9 million. Employees: 206.

Poland, Russia and Ukraine

Poland

€1 = PLZ 4.023

Saint-Gobain Glass Polska Sp ZOO: manufactures and processes flat glass. Sales: PLZ 343 million. Employees: 258. Holds: Glaspol Sp ZOO: processing and distribution of flat glass for the building industry. Sales: PLZ 163 million. Employees: 497. Hsj Jaroszowiec. Sales: PLZ 84.9 million. Employees: 291. Aurys Lustra Sp ZOO. Sales: PLZ 28.2 million. Employees: 152. SG Euroveder Polska Sp ZOO. Sales: PLZ 26.3 million. Employees: 166.

Saint-Gobain Sekurit Hanglas Polska: produces automobile glass. Sales: PLZ 272 million. Employees: 1,130.

Saint-Gobain Isover Polska: production and distribution of insulating products. Sales: PLZ 269 million. Employees: 273.

Saint-Gobain Velimat Polska Sp ZOO: production and distribution of bonded fiberglass. Sales: PLZ 34 million. Employees: 70.

Saint-Gobain Abrasives Sp ZOO: production and distribution of abrasive grinding wheels. Sales: PLZ 176 million. Employees: 714.

SG Dystrybucja Budowlana Sp ZOO: building materials distribution. Sales: PLZ 292 million. Employees: 512.

Russia

€1 = RUR 35.197

Sitall (56.7%) and **Kavminsteklo** (60%): production of glass packaging.

Zao SG Isover: distribution of insulating materials. Sales: RUR 1.67 billion. Employees: 93.

SG Isover Yegorievsk (85.2%): production and distribution of insulating products. Sales: RUR 955.3 million. Employees: 210.

Saint-Gobain Vetrotex Steklovolokno (85%) Sales: RUR 572.3 million. Employees: 796.

Ukraine

€1 = HRN 6.358

Consumers Sklo Zorya (79.7%): production of glass packaging. Sales: HRN 75.7 million. Employees: 636.

SG Isover Zat: distribution of insulating materials. Sales: HRN 59.6 million. Employees: 20.

Nordic Countries and Baltic States

Denmark

€1 = DKK 7.452

Saint-Gobain Glass Nordic A/S: Sales: DKK 220.8 million. Holds: Scanglas A/S: produces insulating and tempered glass. Sales: DKK 378.2 million. Employees: 352.

Saint-Gobain Isover A/S: production and sale of insulating products. Sales: DKK 421.8 million. Employees: 211.

Saint-Gobain Ecophon Production A/S: manufactures acoustic products.

Finland

SG Sekurit Finland Oy: processing of automobile glass. Sales: €13.5 million. Employees: 113.

SG Autover Finland Oy: Replacement flat glass.

Finnglass Oy and Verinvest Oy: processing and distribution of flat glass for the building industry. Employees: 66.

Saint-Gobain Isover Oy: production and distribution of insulating products. Sales: €98.5 million. Employees: 314.

Norway

€1 = NOK 8.013

Brodrene Böckmann A/S: produces insulating glass. Sales: NOK 354.7 million. Employees: 240.

Scandi-Glass A/S: produces insulating glass. Sales: NOK 63 million. Employees: 35.

SI-Glass A/S: produces laminated and tempered glass. Sales: NOK 71.3 million. Employees: 65.

SG Autover Bilglas A/S: distribution of replacement flat glass. Sales: NOK 80.1 million. Employees: 43.

Saint-Gobain Ceramic Materials A/S: manufactures and sells silicon carbide products. Sales: NOK 473.5 million. Employees: 270.

Optimera Gruppen AS: distribution of building materials in Norway and Sweden. Sales: NOK 1.81 billion. Employees: 1,050.

Sweden

€1 = SEK 9.28

Emmaboda Glas AB: produces insulating and tempered glass. Sales: SEK 269.2 million. Employees: 176. Holds: Glashuset I Sverige AB: glass distribution. Sales: SEK 107.6 million. Employees: 45.

Saint-Gobain Sekurit Scandinavia AB: manufactures tempered and laminated glass for the automobile industry. Sales: SEK 460.7 million. Employees: 226.

Saint-Gobain Isover AB: production and sale of insulating products. Sales: SEK 851.6 million. Employees: 438.

Saint-Gobain Ecophon AB: production and sale of acoustic ceilings. Sales: SEK 881.7 million. Employees: 408. These figures include those of SG Ecophon Product. A/S - Denmark.

Saint-Gobain Abrasives AB: abrasives. Sales: SEK 180 million. Employees: 39.

Dahl International AB: distributes bathroom and heating products in Sweden, Norway, Denmark, Finland, Poland, Romania and Estonia. Sales: SEK 15.13 billion. Employees: 3,553.

Estonia

Saint-Gobain Sekurit Eesti A/S: manufactures replacement windscreens. Sales: €19 million. Employees: 199.

Saint-Gobain Isover Eesti A/S: distribution of insulating materials. Employees: 23.

AS Baltiklaas: processing and distribution of flat glass for the building industry. Sales: €11.1 million. Employees: 97.

Latvia

SIA Saint-Gobain Isover: distribution of insulating materials. Employees: 13.

Lithuania

UAB Saint-Gobain Isover: distribution of insulating materials. Employees: 13.

Other European countries

Switzerland

€1 = CHF 1.548

Vetrotech International AG: production and sale of glass ceramic cooktops. Sales: CHF 38.8 million. Employees: 78.

Temperit AG: distribution and processing of flat glass products for the building industry. Sales: CHF 38.4 million. Employees: 151.

Saint-Gobain Isover SA: production and sale of insulating products. Distribution of fiber reinforcements. Sales: CHF 62.4 million. Employees: 173.

Sanitas Troesch: bathroom and kitchen distribution. Sales: CHF 461.6 million. Employees: 849.

International Saint-Gobain: holding company.

United States and Canada

United States

€1 = USD 1.245

Saint-Gobain Corporation: holding company.

CertainTeed Corporation: insulation 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. and 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.

Sales: USD 3.23 billion. Employees: 7,899. The sales and the employees of CertainTeed Corporation include those of Saint-Gobain Vetrotex America Inc., Saint-Gobain Technical Fabrics America Inc., Saint-Gobain BayForm America Inc., Saint-Gobain BTI Inc., Ecophon C.T.T. Bird Inc. and GS Roofing.

Saint-Gobain Abrasives, Inc.: manufactures bonded abrasives, coated abrasives and superabrasives. Sales: USD 739 million. Employees: 3,596. These figures include those of SG Universal Superabrasives Inc. Main subsidiaries in the US, 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: USD 1.49 billion. Employees: 5,800. These figures include those of the consolidated subsidiaries.

Saint-Gobain Glass: holding company. Holds: SG Sekurit USA Inc., HCS Corporation, Sovis North America Inc., Vetrotech Saint-Gobain North America Inc. Total sales: USD 44.8 million. Employees: 128.

Eurokera North America (50%): produces and distributes glass ceramic cooktops. Sales: USD 46.1 million. Employees: 65.

Saint-Gobain Containers, Inc.: manufactures glass containers (bottles and jars). Sales: USD 1.44 billion. Employees: 4,743.

SGD Manufacturing, Inc.: perfume flasks. Sales: USD 50 million. Employees: 317.

Saint-Gobain Calmar, Inc.: manufactures plastic pumps. Sales: USD 240.3 million. Employees: 942.

Meyer International Inc. Sales: USD 82.6 million. Employees: 244. These figures include: Meyer Laminates Inc.

Canada

€1 = CAD 1.509

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 75.3 million. Employees: 274.

Decoustics: acoustic products. Sales: CAD 21.4 million. Employees: 124.

Saint-Gobain Calmar Canada Ltd: distribution company. Sales: CAD 13.6 million.

Mexico, Colombia and Venezuela

Colombia

€1 = COP 2,890.84

Saint-Gobain de Colombia: manufactures flat glass for the automobile and building industries. Sales: COP 65.5 billion. Employees: 221.

PAM Colombia SA: manufactures water supply pipes. Sales: COP 32.2 billion. Employees: 32.

Pabsa: manufactures coated abrasives and grinding wheels. Sales: COP 34.1 billion. Employees: 95.

Mexico

€1 = MXN 13.752

Saint-Gobain Glass Mexico: manufacture and processing of flat glass. Sales: MXN 1.09 billion. Employees: 268.

Saint-Gobain Sekurit Mexico: manufactures flat glass products for the auto industry. Sales: MXN 857.1 million. Employees: 862.

Saint-Gobain Vetrotex America (Mexico): manufactures and sells fiberglass reinforcements. Sales: MXN 648.3 million. Employees: 395.

Saint-Gobain Abrasivos de Mexico: manufactures non-woven abrasives and grinding wheels.

Saint-Gobain Technical Fabrics SA de Mexico: produces insect screens. Sales: MXN 182.4 million. Employees: 144.

Saint-Gobain Calmar SA de CV: Distribution company. Sales: MXN 235.9 million. Employees: 335.

Venezuela

€1 =VEB 2,619.228

Saint-Gobain Abrasivos: manufactures coated abrasives and grinding wheels. Sales: VEB 17.1 billion. Employees: 86.

Saint-Gobain Materiales Ceramicos: produces silicon carbide. Sales: VEB 54.1 billion. Employees: 28.

Brazil and Argentina

Argentina

€1 = ARS 3.64

Vidrieria Argentina (VASA) (49%): manufactures flat glass for the building industry. Sales: ARS 121.7 million. Employees: 142.

Rayen Cura Saic (60%): manufactures glass containers (bottles). Sales: ARS 147.8 million. Employees: 288.

Saint-Gobain Calmar Argentina: distribution company.

Saint-Gobain Isover Argentina: produces fiberglass for insulation and reinforcements. Sales: ARS 43.5 million. Employees: 136.

Saint-Gobain Abrasivos Argentina: production and distribution of bonded abrasives. Sales: ARS 23.3 million. Employees: 31.

Brazil

€1 = BRL 3.039

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 1.07 billion. Employees: 3,277.

Cebrace (50%): manufacturing and processing of flat glass. Sales: BRL 677.1 million. Employees: 694.

Brasilit: manufactures sheets and moldings. Sales: BRL 191.3 million. Employees: 857. Holds:
- Santa Veronica. Holds: Mineraçao Jundu (50%): operates quarries. Employees: 141. Carborundum Holding which holds Saint-Gobain Cerâmicas & Plásticos: manufactures and sells high-temperature insulation fibers and refractory products. Sales: BRL 169.6 million. Employees: 428.
- Saint-Gobain Materiais Cerâmicos: produces silicon carbide. Sales: BRL 154.8 million. Employees: 377.
- Saint-Gobain Weber (Quartzolit): produces tile glues. Sales: BRL 271.3 million. Employees: 612.

Saint-Gobain Canalização: manufactures ductile cast-iron pipes and connectors. Sales: BRL 266.8 million. Employees: 1,348.

Saint-Gobain Abrasivos Ltda: manufactures bonded and coated abrasives. Sales: BRL 395.3 million. Employees: 1,256.

Chile

€1= CLP 697.553

Inversiones Float Chile Ltda (49%): manufacturing and processing of flat glass.

Vidrios Lirquen (51%): manufacturing and processing of flat glass. Sales: CLP 14.4 billion. Employees: 121.

Asia-Pacific

South Korea

€1 = KRW 1,274.23

Hankuk Glass Industries Inc. (80.47%). Company listed on the Seoul Stock Exchange. Production of flat glass. Sales: KRW 247.6 billion. Employees: 796. Holds:
- Hankuk Sekurit Limited: flat glass processing for the auto industry. Sales: KRW 197 billion. Employees: 711.
- Hankuk Processed Glass Inc., Hankuk Lighting Glass, Hankuk Haniso, Hankuk Specialty Glass Product and 60% of Hankuk Specialty Glass. Total sales: KRW 73.8 billion. Employees: 389.

Saint-Gobain Vetrotex Korea Ltd: manufactures and sells fiberglass for reinforcements. Sales KRW 92.9 billion. Employees: 376.

Indonesia

SG Norton Hamplas. Employees: 215.

SG Winter Diamas (75%). Employees: 232.

Japan

€1 = JPY 136.856

Saint-Gobain K.K.: produces superabrasives, technical ceramics, high-performance plastics. Sales: JPY 8.4 billion. Employees: 199.

NSG Vetrotex K.K. (60%): manufactures and sells fiberglass for reinforcements. Sales: JPY 7.9 billion. Employees: 182. Holds: GRP Co., Ltd.: distributes products for the reinforced plastics industry. Sales: JPY 4.4 billion. Employees: 16.

Saint-Gobain TM KK (60%): Sales: JPY 10.9 billion. Employees: 209.

Saint-Gobain Ceramics Materials KK: produces ceramic powders and grains. Sales: JPY 4.8 billion. Employees: 62.

Saint-Gobain Toshiba Monofrax KK (60%): manufactures high-performance refractory products. Sales: JPY 10.9 billion. Employees: 209.

Singapore

€1 = SGD 2.071

Saint-Gobain Quartz Pte: manufactures tubes for the semi-conductor industry.

Saint-Gobain Abrasives Singapour: Sales: SGD 36.8 million. Employees: 51.

Thailand

€1 = THB 50.063

Saint-Gobain Sekurit Thailand (95%): processing for the automobile industry. Sales: THB 2.35 billion. Employees: 732.

Saint-Gobain Vetrotex Thailand. Sales: THB 544.8 million. Employees: 219.

Saint-Gobain Abrasives Thailand LTD (83.3%). Employees: 99.

Australia

€1 = AUD 1.633

Saint-Gobain Abrasives Australia Pty: Sales: AUD 86.2 million. Employees: 269.

China

€1 = CNY 10.201

Beijing SEPR Refractories (87.8%): manufactures fused-cast refractory products. Sales: CNY 223.6 million. Employees: 258.

SG Ceramic Materials China (Lianyungang). Sales: CNY 108.6 million. Employees: 30.

SG Ceramic Materials Mudanjiang Co. Ltd. Sales: CNY 104.4 million. Employees: 353.

Shanghai SEPR Zirconium Products Co. (86%) Sales: CNY 109.9 million. Employees: 52.

SG Abrasives Shangai: produces abrasive grinding wheels. Sales: CNY 348.5 million. Employees: 639.

Hangzhou SG Vetrotex. Sales: CNY 302.4 million. Employees: 365.

Beijing SG Vetrotex Glass Fiber (80%): fiberglass for reinforcements. Sales: CNY 114.1 million. Employees: 202.

SGTF Hongfa Co. Ltd. (80%). Sales: CNY 100.8 million. Employees: 245.

SG Hanglas Safety Shanghai: processing for the automobile industry. Sales: CNY 446.8 million. Employees: 895.

SG Sekurit Shanghai Co. Ltd.: processing for the automobile industry. Sales: CNY 122.3 million. Employees: 175.

Nanjing SG Hanglas (73.5%). Sales: CNY 288.4 million. Employees: 633.

Qingdao SG Hanglas Clfg Co. Ltd. (91.2%). Sales: CNY 134.8 million. Employees: 346.

Kunshan Yongxin Glassware Co. Ltd. Sales: CNY 159.5 million. Employees: 359.

Eurokera Guangzhou (50%): glass ceramic cooktops.

SG Pipelines Co. Ltd: ductile cast iron pipes. Sales: CNY 313.2 million. Employees: 577.

SG Xuzhou Pipelines Co. Ltd (75%). Sales: CNY 470.4 million. Employees: 428.

SG Foundry Co. Ltd. Employees: 319.

SG Xugang Pipe Cie. Ltd: (Xuzhou General Iron And Steel Works): liquid cast iron production. Holds: Ductile Iron Pipe Co. (D.I.P.).

Zhanjiang Saint-Hua-Glass (70%): manufactures glass containers (bottles). Sales: CNY 124.3 million. Employees: 264.

SG Calmar Wuxi Dispensing Systems Ltd: assembly of plastic pumps. Employees: 141.

La Maîson (Sgdb China): distribution of a full range of household equipment products. Sales: CNY 28.5 million. Employees: 230.

India

€1 = INR 54.805

Grindwell Norton Ltd (India) (51.3%). Company listed on the Mumbai Stock Exchange. Manufactures and sells abrasives and ceramics. Sales: INR 3.18 billion. Employees: 1,334.

Saint-Gobain Glass India Ltd. Sales: INR 4.31 billion. Employees: 655.

Saint-Gobain Sekurit India (85.8%). Company listed on the Mumbai Stock Exchange. Processing for the automobile industry. Sales: INR 828.6 million. Employees: 326.

Saint-Gobain Vetrotex India Pty Ltd. Sales: INR 1.03 billion. Employees: 321.

SEPR Refractories India Ltd: manufactures fused-cast refractory products. Sales: INR 443.9 million. Employees: 177.

Other countries

SADIP - Saudi Arabia (20%): produces ductile cast-iron pipes.

Statement

Pursuant to Article 2 of Instruction No. 2005-11 dated December 13, 2005

I hereby declare that to the best of my knowledge, and having taken all reasonable precautions, the information contained in the "*Document de Référence*" is correct, and that no information has been omitted that would be likely to alter an investor's opinion.

I obtained a statement from the Statutory Auditors at the end of their engagement, in which they confirm having verified the information regarding the financial position and the accounts contained here within, and having examined the entire "*Document de Référence*".

Courbevoie
March 29, 2006

Jean-Louis BEFFA

Cross-reference table

The following information is incorporated by reference in this *Document de Référence*

- The consolidated financial statements and parent company financial statements for the year ended December 31, 2004, together with the related Statutory Auditors' reports and Group management report, which are included in the *Document de Référence* filed with the AMF on April 8, 2005 (D.05-0378).
- The consolidated financial statements and parent company financial statements for the year ended December 31, 2003, together with the related Statutory Auditors' reports and Group management report, which are included in the *Document de Référence* filed with the AMF on April 19, 2004 (D.04-0526).

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