2006

ANNUAL REPORT

SAINT-GOBAIN

Key figures

(In € millions)	**2004**	**2005[1]**	**2006**
Net sales	32,172	35,110	41,596
Net income	1,275	1,294	1,682
Net income before minority interests	1,239	1,264	1,637
Earnings per share (in €)	3.63	3.66	4.44
Net income excluding profit/(loss) on sales of non-current assets	1,289	1,284	1,702
Earnings per share excluding profit/(loss) on sales of non-current assets (in €)	3.78	3.72	4.62
Cash flow from operations	2,639	2,735	3,347
Capital expenditure	1,540	1,777	2,191
Shares in circulation	340,988,000	345,256,270	368,419,723
Net dividend (in €)	1.28	1.36	
Share price high (in €)	45.11	51.55	64.30
Share price low (in €)	38.00	43.20	49.06
Closing price for the year	44.32	50.25	63.65
Emloyees (as at December 31)	181,228	199,630	206,940

(1)Including the BPB group, fully consolidated as of December 1, 2005.

2006 was an extremely buoyant year, with income exceeding targets and reaching its highest ever level in the history of the Saint-Gobain Group. Net sales increased 18.2% year-on-year at constant exchange rates, with operating income up 29.8%. Net income excluding profit/(loss) on sales of non-current assets rose 32.6%, while contributions from acquisitions net of disposals accounted for an increase of 11.4%.

Chairman's statement

2006: A bumper year for the Saint-Gobain Group

JEAN-LOUIS BEFFA • CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In 2006, Saint-Gobain once again outperformed its objectives. With organic growth of 6.7%, its strongest in ten years, the Group demonstrated that it is now concentrated on fast-growing markets across the globe. All business sectors contributed to the year's performance, but growth was especially impressive for the Interior Building Solutions business, formed out of the 2005 merger of Saint-Gobain's Insulation activity and the Gypsum operations of British Plaster Board (BPB). BPB's integration has unlocked the expected synergies, as regards both cost savings and growth potential.

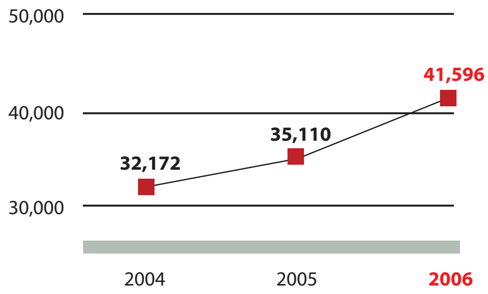
In terms of profitability, Saint-Gobain confirmed the strength of its portfolio of activities, which has enabled it to maintain a high level of earnings. The slowdown in US demand for construction products in the second half of the year was more than offset by the economic recovery in Germany and the robust results in all construction-related markets in Eastern Europe and Russia.

The Group pressed ahead with its strategic development efforts, aimed at further strengthening its core business lineup. It completed its divestment of the plastic pump subsidiary Calmar, launched the sale process for its Desjonquères flask business and transferred its Reinforcements and Composites activities to a joint venture with Owens-Corning. Through these actions, the Saint-Gobain Group moved ahead with the business reconfiguration it had announced after the acquisition of BPB in 2005.

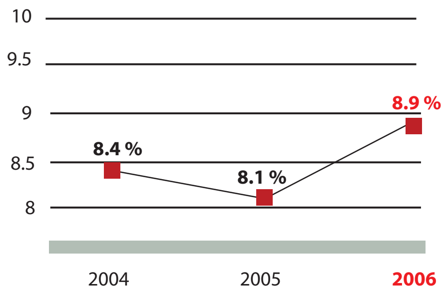
The Group's share price climbed 26.7% over the year. This reflects not so much the favorable economic environment as the pursuit of a clear strategy and the commitment of Saint-Gobain's employees. These strengths enable us to look ahead to 2007 with confidence. The Group expects the economic climate to remain favorable despite the slowdown in construction markets in the US, and for 2007 is targeting a robust rise in operating income and double-digit growth in net income excluding capital gains and losses on sales of non-current assets.

SALES AND OPERATING INCOME

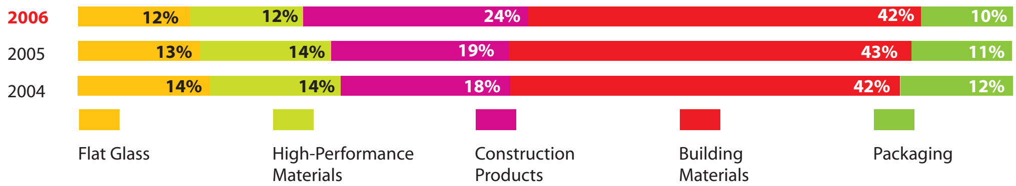
NET SALES (in € millions)



% OF OPERATING INCOME

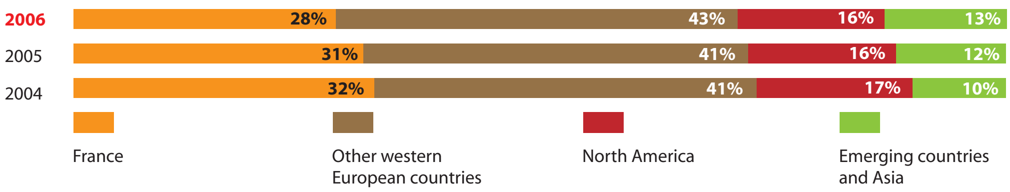


SALES BY BUSINESS SECTOR



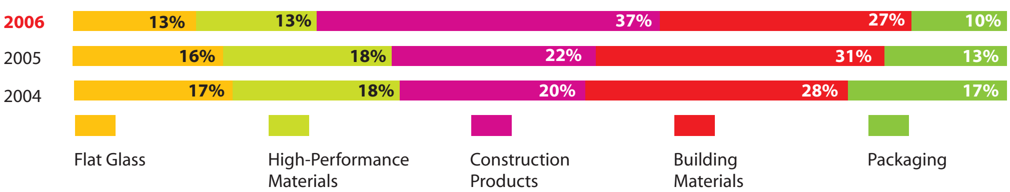
The economic climate was extremely robust in 2006. Construction markets expanded briskly, thanks to vigorous trends in Europe and the beginnings of a turnaround in Germany. These factors helped to offset the decline in housing starts in the US in the second half of the year. Organic growth was at its highest for ten years, at 6.7% (3.5% in respect of prices and 3.2% in respect of volumes), with the six months to December 2006 bringing about a particular surge.

SALES BY GEOGRAPHIC AREA



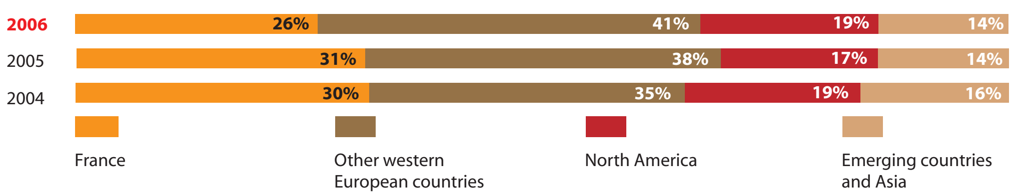
The breakdown of like-for-like sales by geographic area reveals healthy business levels in France (up 5.7%) and other western European countries (up 7.2 %), with the turnaround in Germany picking up significant pace in the second half of the year (up 11.8%). Emerging countries and Asia continued on an upward trend, with organic growth of 12.7% and overall sales up by almost 33%.

OPERATING INCOME BY BUSINESS SECTOR



The Group witnessed a substantial increase in its global operating margin, to 8.9% (10.9% excluding Building Materials). This can be attributed to the excellent growth momentum over the entire year and the contribution of the Gypsum business, which resulted from the acquisition of BPB.

OPERATING INCOME BY GEOGRAPHIC AREA



Operating income rose 29.9% (29.8% at constant exchange rates). Developed countries accounted for 29 points of this figure, with emerging countries and Asia representing 36 points.

2006 Annual Report

This registration document was filed with the *Autorité des Marchés Financiers* on March 29, 2007 (D.07-0247), in accordance with Article 212-13 of the AMF's General Regulations. It may be used as a supporting document for a financial operation, but only alongside an information memorandum approved by the *Autorité des Marchés Financiers.*

CONTENTS

Saint-Gobain today

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 industrial and technological revolutions. Its core business lineup was put together in the 1970s following Saint-Gobain's merger with Pont-à-Mousson and has since undergone a number of significant changes.

A GROUP TRANSFORMED BY TWO DECADES OF CHANGE

The Group's present configuration is the fruit of the sweeping changes made to its business portfolio since its privatization in 1986. These changes can be grouped into two main phases, each spanning a decade. The first series of changes for the Group were aimed at achieving a return to sustainable and profitable growth and securing worldwide leadership in a number of different businesses, as well as refocusing on activities specializing in high-technology materials. Over this period, Saint-Gobain disposed of businesses that had represented 53% of sales in its former configuration, in particular *Entreprise and Papier-Bois* (Enterprise and Paper-Wood) activities that had originated out of the Group's diversifications in the past. New businesses also entered the fold with Saint-Gobain's acquisition of Norton in 1990 and Carborundum in 1996 (Ceramics and Abrasives), and the acquisition of Bicron (Crystals) in 1990. These would go on to form the core businesses of the High-Performance Materials sector (HPM). In the following ten years, a number of major strategic developments increased the pace of change. The acquisition of Poliet in 1996 marked the Group's entry into the Building Distribution business, while at the other end of the decade, the acquisition of British Plaster Board (BPB) at the end of 2005 further expanded the building materials businesses that emerged out of Saint-Gobain (Insulation, Home exterior fittings), Poliet (Mortars), and Pont-à-Mousson (Pipe). The past decade has radically changed the Group, which has gone from being essentially a glass-making business (60% of sales in 1995) to focusing on construction markets, which now represent more than 75% of its sales by end market.

These profound changes can be seen firstly from the Group's sales, which over the space of 20 years have risen 3.5-fold from €12 billion in 1986 to €42 billion two decades later. The Group's new businesses (Building Distribution, High-Performance Materials) account for 54% of sales, which is virtually the same percentage of sales represented by the historical businesses sold in 1986, while the Construction Products (CP) sector accounted for 24% of sales in 2006. The Group's transformation is also apparent in terms of profitability, with a six-fold increase in operating income (€3.7 billion versus €0.6 billion) which in 2006 represented 8.8% of sales, versus 5% two decades earlier. Net income has increased eight-fold from €0.2 billion in 1986 to €1.7 billion in 2006, boosted by a litany of strong performances particularly in the last decade, with net sales up 11.6%, operating income up 10%, and net income excluding capital gains up 10.3%. Earnings per share excluding capital gains have risen 9.7% on average over the period. With operations in 15 countries two decades ago, Saint-Gobain is now active in 54 countries (up from 36 in 1996). Over the 20-year period, the Group has made 900 disposals and 1,200 acquisitions.

These ambitious changes have been based on a series of clearly affirmed priorities: to achieve a leading position in each historic or new business; minimize risks in terms of both the cyclical nature of certain activities as well as their particular characteristics (global businesses exposed to fierce competition, multi-regional businesses less sensitive to competition from low-cost countries), and secure a healthy balance between organic growth – best suited to expanding markets – and acquisition-led growth, targeting mainly markets undergoing consolidation.

Saint-Gobain has identified three major avenues for development: geographic expansion, acquisitions for certain businesses in fast-consolidating markets, and increased innovation and R&D efforts. Geographical expansion will be achieved mainly through growth investments in emerging countries, which the Group ultimately expects will represent between 25% and 30% of sales excluding Distribution. The Group's businesses in emerging countries and Asia delivered 34% sales growth during 2006, accompanied by large-scale investments (10% of sales for the entire region): new float lines are under construction in Romania and India (Flat Glass), insulation facilities are being built in Eastern Europe and a plasterboard plant in Malaysia. The Group has also acquired a controlling interest in Xuzhou, a China-based Pipe manufacturer (CP). Thanks to this fast-paced geographical expansion, the Group's businesses can partner regional development with a broad-ranging product and service offering (pipe for emerging countries, plaster, mortars or flat glass for countries in a transitional phase, and plasterboard, insulation or distribution solutions for developed markets).

Acquisition-led growth has enabled the Group to consolidate or ramp up those activities serving the construction markets, which cover almost 80% of Saint-Gobain's business. Building Distribution has proved ripe for expansion. With operations in 24 countries compared to four countries a decade ago, the business has delivered fast-paced growth over the ten-year period, with a six-fold increase in sales and operating income. Since its first acquisition in 2004 in Scandinavia, sales for the Building Distribution business have advanced by 34% each year. Similarly, the Building Distribution businesses in Poland and Spain have seen their sales expand 32% and 59%, respectively, since 2001. In 2006, the strong consolidation momentum continued, with two acquisitions and expansion into three new countries (Ireland, Argentina and Italy). The Construction Products sector has also proceeded with acquisitions in all of its businesses: in Turkey (Izocam – Insulation); South Africa, Italy, Argentina and Slovakia (Mortars); and Algeria and Argentina (Gypsum). These acquisitions, which are set to contribute €250 million over a 12-month period, should help to further drive the Sector's business momentum.

The past few years have also seen increased innovation, aimed at supporting the Group's ongoing organic growth imperatives. Innovation efforts are led by the Flat Glass and High-Performance Materials businesses, and brought about a 9% increase in research and development expenditure in 2006, with the construction of a research center in Shanghai and an extension to the existing center in Aubervilliers. Promising advances have already been noted. The Group has signed a joint venture agreement with Shell to produce low-cost solar captors (photovoltaic glass). Production has also started up at a new diesel particulate filter facility, while other innovations have expanded the product offering for the building industry, such as Lapeyre's treated hydrophobe wood, "Ultimate" fire-resistant glass wool, and glass-fiber Glasroc plasterboard. While the HPM sector opens the door to cutting-edge businesses offering high untapped potential, cross-fertilization means that synergies have been developed, for example regarding the automotive sector. "Non-technological" innovation is also priority, for example in Gypsum (machinery and assembling equipment) or Building Distribution (new store layouts and marketing concepts).

Two decades of sweeping changes have made Saint-Gobain a leaner outfit, with a clear range of activities, geographic areas and end markets. Its businesses are constantly evolving and offer strong synergies in construction markets, fast-paced geographic expansion – particularly in emerging countries – and a powerful technological base to support future innovation. These key strengths will allow the Group to freely pursue its ongoing objectives of growth and profitability in the years ahead.

TEN-YEAR CONSOLIDATED FINANCIAL SUMMARY

(in € millions)	2006	2005(1)	2004 (IFRS)	2004	2003	2002	2001	2000	1999	1998	1997
Net sales (2)	**41,596**	35,110	32,172	32,025	29,590	30,274	30,390	28,815	22,952	17,821	16,324
Operating income	**3,714**	2,860	2,743	2,632	2,442	2,582	2,681	2,693	2,314	1,776	1,593
Net income	**1,682**	1,294	1,275	1,120	1,065	1,074	1,174	1,642	1,389	1,182	970
Net income attributable to equity holders of the parent	**1,637**	1,264	1,239	1,083	1,039	1,040	1,134	1,517	1,226	1,097	858
Earnings per share (€)	**4.44**	3.66	3.63	3.18	2.99	12.20 3.05*	13.30	17.80	14.05	12.15	9.62
Net income excluding capital gains	**1,702**	1,284	1,289	1,122	1,020	1,051	1,057	1,026	883	790	656
Earnings per share excluding capital gains (€)	**4,62**	3.72	3.78	3.29	2.93	12.32 3.08*	12.40	12.04	10.12	8.75	7.35
Cash flow from operations	**3,347**	2,735	2,639	2,612	2,471	2,673	2,733	2,643	2,360	1,912	1,693
Capital expenditure (3)	**2,191**	1,756	1,540	1,537	1,351	1,431	1,430	1,722	1,712	1,288	1,353
Total investment outlay (4)	**2,775**	8,747	2,197	2,194	1,911	2,061	2,246	4,694	3,479	3,019	2,447
Shareholders' equity	**14,487**	12,318	10,863	11,806	11,310	11,542	12,348	11,724	11,151	9,924	9,959
Net debt	**11,599**	12,850	6,218	5,566	5,657	7,012	7,792	8,217	6,306	3,885	2,668
Non-current assets	**26,274**	26,763	17,183	17,515	17,237	18,840	19,678	19,530	16,909	14,033	13,139
Working capital	**2,451**	2,324	3,181	4,943	5,247	3,951	3,075	3,222	2,612	1,838	2,262
Workforce (December 31)	**206,940**	199,630	181,228	181,228	172,811	172,357	173,329	171,125	164,698	117,287	107,968

(1) With BPB consolidated from December 1, 2005.
(2) Including ancillary revenue for €273 million in 2006, €250 million in 2005 and €190 million in 2004.
(3) Including finance leases until 2003.
(4) Capital expenditure on plant and equipment plus investments in securities, excluding own share buybacks.

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

Saint-Gobain today

SAINT-GOBAIN BUSINESSES

The breakdown of sales by business and end market has changed significantly over the past decade, and particularly as a result of recent large-scale acquisitions made by the Group and accounted for over twelve months in 2006. Building Distribution represents 42% of sales, Construction Products 24%, Flat Glass and High-Performance Materials 12% each, and Packaging 10%. Housing starts and renovation markets alone account for 67% of sales. Including sales of products for the home, more than 75% of sales are derived from businesses serving the construction industry.

The Group's businesses are organized into five sectors, emerging out of a natural diversification process as well as a string of developments that have taken place since the 1990s.

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 fireproof glass, products for home appliances, nuclear safety glass, and glass for electronic products. Operations currently extend to 40 countries, including many emerging countries, and vigorous international development continues apace, with new float lines launched in China, India and Romania in 2005 and 2006. Two other float lines are currently under construction in Mexico and Poland.

The Saint-Gobain High-Performance Materials Sector is made up of the Ceramics and Plastics, Abrasives, and (since 2004) Reinforcements & Composites and Textile Solutions businesses. The organization of the HPM sector is the result of an ambitious internal and external growth policy pursued by the Group since the 1980s. Building on its historical core businesses of glass refractories, the sector has extended to encompass a number of new activities specializing in high-technology materials: abrasives, plastics and ceramics (Norton and Carborundum), crystals (Bicron), and plastics (Furon). The sector has worldwide leadership on diversified industrial markets, with a healthy growth potential in terms of new technologies related to energy and the environment. Regarding the Reinforcements & Composites business (glass threads and fabrics), in 2006 Saint-Gobain and Owens Corning announced their plan to combine their respective global activities within a joint venture in which Saint-Gobain would retain a 40% interest. An implementation agreement was signed to this effect in February 2007.

Saint-Gobain's Construction Products Sector comprises the Insulation, Gypsum, Exterior Products, Pipe and Industrial Mortars divisions, which serve both the new construction and renovation markets. Products include external fittings such as wall facings, roofing, roadwork and utility connection components, as well as interior building solutions including glass wool, plasterboard, rock wool and soundproof ceilings. The Construction Products Sector incorporates both multi-regional (Insulation and Building Materials) and global business lines (Pipe). The integration of British Plaster Board (BPB) added the Gypsum business to the comprehensive array of products offered by the sector, which has become the world's leading supplier of interior building solutions thanks to the excellent strategic fit between the gypsum and insulation businesses.

The Building Distribution Sector emerged from the acquisition of Poliet group subsidiaries Point.P and Lapeyre to become the world's leading distributor of building materials in Europe and foremost distributor of tiling[1]. The Building Distribution business has developed considerably since 1996, through both organic growth and acquisition-led expansion in France (Point.P and Lapeyre), the United Kingdom (Jewson and Graham), the Netherlands and Eastern Europe (Raab Karcher), and recently the Nordic countries with the acquisitions of Dahl and Optimera in 2004 and 2005. Thanks to these acquisitions, the sector has a built up a firm foothold on mature markets undergoing consolidation such as the UK, as well as developing markets like Brazil with the Telhanorte chain. The sector pressed ahead with its strategy of bolt-on acquisitions and geographical expansion in 2006, with the acquisition of JP Corry in Ireland, Vera Meseguer in Spain, and Jans, Belgium's leading specialist in interior building solutions.

Saint-Gobain's Packaging sector is a major international player in its two key markets: glass bottles and jars for foodstuffs and beverages, and glass flasks for perfume and pharmaceutical products. To address a broad range of markets and demands, the Packaging Sector operates production facilities in Europe, the United States (since 1995), Latin America and China. It expanded its footprint in Chile during the year, taking a controlling interest in SG Envases (BO Glass Containers) and becoming the country's no. 2 manufacturer of bottles for wine. The business therefore also strengthened its foothold in Latin America, where it already has five plants in Brazil and one in Argentina. During the year, the Sector sold Calmar (plastic pump dispensers) which it acquired in 1998, to a US group. In the last quarter of 2006, it also announced that it was considering its options

(1) Source Saint-Gobain

with regard to the Flasks business, in which the Group expects to divest most of its interests in the near future.

RESEARCH AND INNOVATION

Innovation has been at the heart of Saint-Gobain's business strategy for several years now, and has been deeply embedded in its different activities. The business model also promotes development partnerships with customers.

Increased resources

Research expenditure advanced once again in 2006, coming in at €366 million compared with €331 million in 2005. More than 200 employees were recruited for the Group's major research centers, which have around 1,000 managerial-grade employees. This recruitment drive is in line with the growth in R&D budgets, which have increased by more than 10% per year since 2004, and is aimed at sustaining the Group's organic growth momentum.

New products and projects

The Group's approach to future markets, new markets and existing markets with high development potential is rooted in innovation. Its "major Group project" program focuses efforts on a limited number of projects to ensure a maximum concentration of resources. Four major projects were identified in 2006:

- flat glass for LCD displays;
- particulate filters for diesel engines;
- fuel cells;
- photovoltaic modules.

These major projects are developed under the direct responsibility of the business concerned, but their organization and funding involve a number of sectors as well as Compagnie de Saint-Gobain (through G.I.E. Recherche). To identify upcoming major projects, the Group has set up a specific "emerging projects" procedure. Three such projects were singled out in 2006:

- hydrophobe wood;
- air filtration;
- low-cost optics for mobile telephony.

A number of cross-functional programs are also in place, designed to capitalize on the interest of different businesses for a single program, rather than to develop new markets in the immediate term. In 2006, these programs involved projects relating to:

- formaldehyde;
- surfaces resistant to bio-organisms;
- innovative furnaces and glass;
- catalysts.

The Group's portfolio of projects is monitored by Sirius, a dedicated software application that has been fully operational since 2006 and which covers all R&D projects managed by the business sectors or coordinated by G.I.E. Recherche. Using this application, the Group can track and monitor projects, programs, topics and studies, and where appropriate, provide specific estimates of market opportunities.

A participative policy

Innovative projects are also identified thanks to the Group's active relationship with start-up companies and its participation in venture capital funds. The NOVA project, for example, emerged initially from an HPM sector initiative and the resulting new structure serves all of the Group's businesses with the assistance of a techno-marketing team (TMT).

In 2006, the TMT team dealt with a variety of issues brought forward by other sectors, and in particular Flat Glass, Construction Products and Building Distribution businesses:

- the market for photovoltaic modules;
- active glass;
- structure of the housing market and positioning of Saint-Gobain's products;
- the market for hydrophobe wood.

A number of joint development projects have resulted from the Group's relations with young, innovative companies.

In 2005, Saint-Gobain decided to set up an international network of laboratories with the aim of developing a long-standing relationship with key institutions or universities involved in technological areas of interest to the Group. This initiative allowed the Group to access top-level research and expertise and recruit highly qualified executives in countries where it does business. Eight universities or institutions meeting the Group's specifications have been identified. Three agreements are being finalized, with Harvard in the US, the Lomonosov University in Russia, and the University of São Paulo in Brazil.

The Group's fast-growing relationships with leading international universities does not mean that the Group is turning its attention away from the domestic arena, where a new contract was signed with the CNRS (France's research council) at the end of 2006. Activities were expanded at the two mixed research centers operated in conjunction with the CNRS (Aubervilliers and Cavaillon), and a number of new agreements were signed, with the CEA (catalysts) and the Institut Pasteur (biofilms).

Saint-Gobain also endeavors to maintain relations with major industrial groups with the aim of identifying potential areas for collaboration.

Thanks to increased R&D efforts in 2006, a wide number of initiatives were launched during the year, resulting in both technological innovation and substantial new markets for particularly advanced major projects such as diesel particulate filters and electronic glass.

SUSTAINABLE DEVELOPMENT

A policy of responsible development based on strong values

Over the past two decades, Saint-Gobain has proven its ability to anticipate new market imperatives, assess the technological challenges, and implement the appropriate measures either locally or at Group level.

The Group has continually refined its ability to adapt to change and has always endeavored to meet the social and environmental challenges that it faces head on.

Mindful of its responsibilities, Saint-Gobain has for several years sought to embed sustainable development considerations within its strategy, its internal practices and its product development and offering (see the Sustainable Development section on page 70).

This approach was formalized in 2003 with the adoption of the Principles of Conduct and Action by its Board of Directors. These confirm in writing the Group's adhesion to the values that have guided its choices throughout its long history. Also in 2003 the Group reaffirmed its commitment to sustainable development issues by joining the United

Nations Global Compact, under which it committed to integrating the Ten Principles into its business processes and strategy.

Rising to meet sustainable development challenges

Principle no. 9 of the Global Compact stipulates that businesses should *"encourage the development and diffusion of environmentally friendly technologies"*. A number of Saint-Gobain's products and services meet this criteria, especially those in the building materials segment, which accounts for more than 80% of the Group's sales. The products and services seek to combine energy efficiency (and therefore environmental preservation) with comfort.

In its day-to-day processes, the Group also ensures that it acts responsibly with regard to environmental concerns, for example by recycling, since glass and iron are materials that can be recycled indefinitely. As an illustration, nine out of ten champagne bottles manufactured by the Group are made from recycled glass.

The Group's main environment-friendly initiatives include:

• In the **construction industry,** the 2nd largest source of CO_2 emissions in Europe: the Group uses double glazing and plasterboard/glass wool combinations;

• **Renewable energy sources:** thermal and photovoltaic solar energy (partnership with Shell), wind power, fuel cells, etc.;

• **Transport**, the biggest CO_2 emitter in Europe: thermally insulating windshields, particulate filters, composite materials for lighter vehicles, etc.

Saint-Gobain's leading-edge expertise and robust results have made it the leading manufacturer of sustainable and energy-efficient building materials. Sustainable development concerns are at the heart of the Group's innovation efforts.

THE SAINT-GOBAIN SHARE

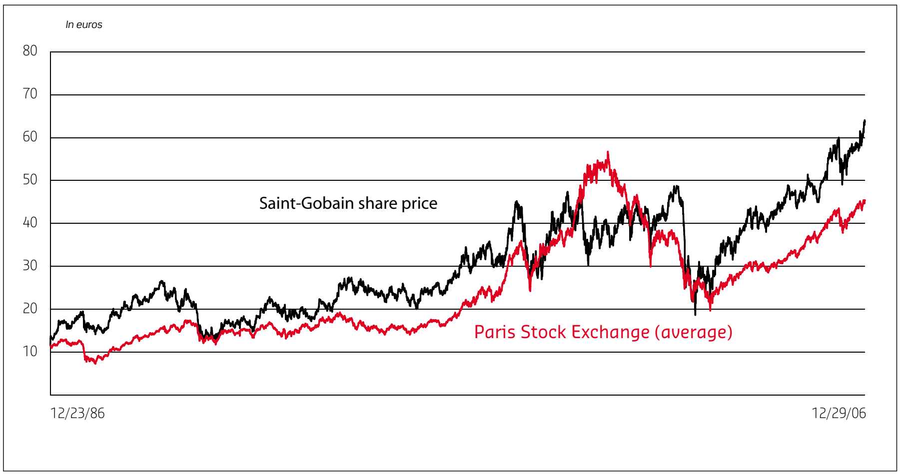
STOCK EXCHANGE INFORMATION

At December 29, 2006, Saint-Gobain ranked 23rd in France as regards market capitalization (€22,335 million) and 21st as regards the volume of shares traded on the Eurolist of Euronext Paris (ISIN code: FR 0000 125007), with an average of 1,751,300 shares traded daily in 2006. 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 DJ Euro Stoxx 50 index of 50 leading European stocks, and on the "Sustainable Development" indexes Aspi Eurozone, FTSE-4Good and ECPI.

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 782,396 lots in 2006, compared with 1,896,016 lots in 2005.

■ SHARE PRICE



■ TOTAL SHAREHOLDER RETURN

→ Since the Company's privatization in December 1986: 12.7% per year

of which:

+8.8% in share price gains

+3.9% in gross dividends (including the 50% *avoir fiscal* tax credit until 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 inclusive
- payment of dividends in cash between 1998 and 2006 inclusive
- share price at December 29, 2006: €63.65

→ Over 10 years - from December 31, 1996 to December 29, 2006: 12.3% per year

of which:

+8.6% in share price gains

+3.7% in gross dividends (including the 50% avoir fiscal tax credit until 2004)

The calculation breaks down as follows:

- share price at December 31, 1996: FRF 734, or €27.97 per share (after the four-for-one stock split of June 27, 2002)
- reinvestment of dividends in shares in 1997
- payment of dividends in cash between 1998 and 2006 inclusive
- share price at December 29, 2006: €63.65

■ HIGHEST AND LOWEST SHARE PRICES

Year	High	Low	Year-end price
2004	45.11	38.00	44.32
2005	51.55	43.20	50.25
2006	**64.30**	**49.06**	**63.65**

(source : Euronext Paris SA)

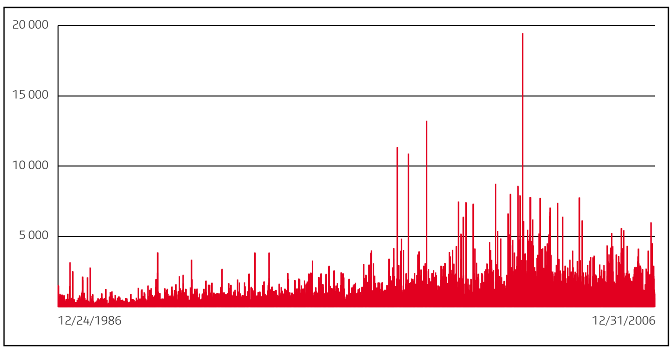
■ DIVIDENDS

Year	Number of shares on which dividends are paid	Dividend per share (in euros)	Yield based on closing price for the year
2004	340,988,000 actions	1.28	2.89 %
2005	345,256,270 actions	1.36	2.71 %
2006	**368,419,723 actions**	**1.70**	**2.67 %**

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

■ NUMBER OF SHARES TRADED (in thousands)

after the four-for-one stock split in June 2002



Saint-Gobain today

TRANSACTIONS SINCE OCTOBER 2005

Paris Stock Exchange	Volume of shares	Value (in €)	High (in €)	Low (in €)
2005				
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	130,169,672	6,229,528,317		
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
March	32,456,401	1,818,422,395	58.30	53.75
April	28,649,263	1,646,864,759	60.15	54.35
May	41,156,738	2,290,012,294	60.80	51.60
June	63,226,147	3,326,907,643	55.95	49.06
July	35,117,785	1,915,108,341	57.10	51.10
August	25,348,411	1,437,346,668	58.30	54.75
September	30,601,198	1,745,707,971	58.85	56.00
October	35,112,254	2,040,827,215	59.40	56.90
November	44,931,800	2,672,314,101	62.00	56.65
December	36,888,300	2,251,979,963	64.30	58.55
Total	446,581,479	25,047,891,735		
2007				
January	57,080,322	3,950,997,244	74.40	63.70
February	45,988,492	3,347,088,793	75.35	70.26
Until March 23	49,087,170	3,428,933,589	73.82	67.20

(source : Euronext Paris SA)

London Stock Exchange	Volume of shares	In €
2005		
October	13,500,628	429,269,487
November	17,369,995	555,943,729
December	10,331,608	345,128,636
Total	41,202,231	1,330,341,852
2006		
January	13,968,261	498,686,656
February	10,187,721	385,892,056
March	10,746,290	409,437,241
April	8,668,143	344,490,307
May	15,550,270	593,111,484
June	30,314,857	1,095,019,450
July	12,781,412	478,012,800
August	7,271,091	280,283,995
September	8,997,407	343,634,319
October	11,701,230	459,073,668
November	15,553,234	624,666,294
December	10,220,631	416,670,131
Total	155,960,547	5,928,978,399
2007		
January	18,545,207	848,439,434
February	10,624,376	1,363,353,205
Until March 23	42,961,509	2,014,456,081

(source : London Stock Exchange)

A total of 586,900 shares were traded on the Frankfurt Stock Exchange in 2006 (source: DataStream).

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, Grindwell Norton and Saint-Gobain Sekurit India listed in Mumbai, and Izocam listed in Istanbul.

OCÉANE BONDS

(Convertible into new shares or exchangeable for existing shares)

In February 2002, Compagnie de Saint-Gobain issued 4,380,953 five-year Océane bonds convertible into new shares or exchangeable for existing shares, for a total amount of €920 million. These bonds, which were quoted on Eurolist of Euronext Paris as from February 18, 2002, were removed from the Eurolist index on January 2, 2007. Bondholders elected to convert 4,355,403 bonds into new shares on December 20, 2006. Accordingly, 17,421,612 new shares were issued at December 31, 2006, resulting in a 4.96% rise in the number of shares issued and outstanding.

Following the conversion of a further 21,100 Océane bonds in 2007 (presented to the Group for conversion at a later date but still within the eligible conversion period), the 4,450 Océane bonds that were not presented for conversion were redeemed in cash at their par value (€210 per bond) on January 2, 2007, with an interest payment made at the same date in the amount of €5.5125 per bond.

OCÉANE TRANSACTIONS SINCE OCTOBER 2005

Paris Stock Exchange	Volume of shares	Value (in €)	High (in €)	Low (in €)
2005				
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	29,070	6,399,311		
2006				
January	517	118,829	240.00	220.20
February	20,340	4,652,085	235.00	222.10
March	686	160,224	238.80	226.00
April	192	45,234	249.00	227.00
May	468	105,619	231.01	214.05
June	5,052	1,128,005	227.00	209.62
July	584	127,310	232.00	200.00
August	25	5,625	225.00	225.00
September	60	13,082	226.00	210.06
October	216	49,154	233.00	227.00
November	2,584	600,342	247.00	217.30
December	327	79,147	247.00	240.00
Total	31,051	7,084,654		

(source : Euronext Paris SA)

BONDS

In 2006 Compagnie de Saint-Gobain carried out the following bond issues:

- On May 31, 2006, €1.8 billion worth of bonds in two tranches: one representing €1.1 billion (annual coupon of 4.25%) maturing on May 31, 2011 and one for €700 million (annual coupon of 4.875%) maturing on May 31, 2016.
- On November 15, 2006, £600 million worth of bonds in two £300 million tranches (each with an annual coupon of 5.625%), maturing on December 15, 2016, and November 15, 2024.
- On November 15, 2006, CZK 1 billion worth of Medium Term Notes earning interest at 3.735% and maturing on November 15, 2010.

All of the foregoing bonds are listed on the London Stock Exchange.

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). In view of 2006 earnings, the securities will continue to be remunerated at this maximum rate in 2007. Remuneration of the securities is between 75% and 125% of the TMO, based on the Group's consolidated earnings. The amount paid by security in 2006 in respect of the 2005 fiscal year was €6.97.

TRANSACTIONS ON NON-VOTING PARTICIPATING SECURITIES SINCE OCTOBER 2005

Paris Stock Exchange	Volume of shares	Value (in €)	High (in €)	Low (in €)
2005				
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	10,205	1,774,130		
2006				
January	1,862	320,307	176.90	169.00
February	4,955	846,434	177.80	169.10
March	2,803	484,412	176.00	172.00
April	1,429	247,184	176.90	172.00
May	3,636	632,885	175.80	166.00
June	3,180	554,938	181.50	171.90
July	588	101,778	181.50	166.73
August	1,513	245,563	167.80	150.50
September	3,019	492,758	172.00	154.20
October	5,025	841,285	170.80	163.00
November	2,885	485,743	170.40	167.00
December	2,220	376,852	171.90	167.80
Total	33,115	5,630,138		
2007				
January	924	158,738	174.00	169.00
February	1,618	281,102	176.80	168.00
Until March 23	1,064	184,796	177.00	170.00

(source : Euronext Paris SA)

TRANSACTIONS ON NON-VOTING PARTICIPATING SECURITIES SINCE OCTOBER 2005

Paris Stock Exchange	Volume of shares	Value (in €)	High (in €)	Low (in €)
2005				
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	1,401	237,730		
2006				
January	39	6,591	169.00	169.00
February	181	30,590	169.01	169.00
March	142	23,999	169.05	169.00
April	115	19,701	175.40	169.11
May	280	47,464	170.00	169.20
June	230	39,692	176.00	172.55
July	44	7,672	176.00	172.40
August	30	5,120	170.68	170.68
September	626	104,895	169.10	161.40
October	235	38,477	164.01	161.75
November	276	44,902	167.00	162.00
December	151	24,484	164.01	161.90
Total	2,349	393,586		
2007				
January	74	12,022	162.80	162.10
February	281	45,733	163.90	162.10
Until March 23	57	9,285	162.90	162.90

(source : Euronext Paris SA)

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 TMOE plus 1.75%. The amount accruing to each security in 2006 was €67.50, paid in two installments.

TRANSACTIONS ON NON-VOTING PARTICIPATING SECURITIES SINCE OCTOBER 2005

Luxembourg Stock Exchange	Volume of shares	Value (in €)	High (in €)	Low (in €)
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		
2006				
May	38	46,900	1,250.00	1,200.00
December	2	2,400	1,200.00	1,200.00

(source : Luxembourg Stock Exchange)

In 2006 there were no other Compagnie de Saint-Gobain securities traded on a market other than shares, Océane bonds (delisted on January 2, 2007), bonds and non-voting participating securities.

SHAREHOLDERS

CAPITAL STOCK

At December 31, 2006, the capital stock of Compagnie de Saint-Gobain amounted to €1,473,678,892 breaking down into 368,419,723 ordinary shares with a par value of €4 each, compared to 345,256,270 shares at December 31, 2005. The number of shares increased by 23,163,453 during the year: 17,421,612 shares were issued in connection with the conversion of 4,355,403 Océane bonds; 5,399,291 shares were reserved for employees within the scope of the Group Savings Plan; and 342,550 shares were issued following the exercise of the same number of stock options.

OWNERSHIP STRUCTURE

	December 31, 2006*		December 31, 2005		December 31, 2004	
	Capital stock	Voting rights	Capital stock	Voting rights	Capital stock	Voting rights
Group Savings Plan	5.9%	10.1%	6%	10.3%	6.7%	11.6%
Caisse des Dépôts et Consignations	3.4%	3.3%	3%	2.9%	3.1%	2.9%
COGEMA	1.7%	1.7%	1.8%	1.8%	1.9%	1.8%
AXA group	1.4%	1.4%	1.2%	1.3%	1.2%	1.2%
Treasury stock	1.8%	0	2.4%	0	1.7%	0
Other	85.8%	83.5%	85.6%	83.7%	85.4%	82.5%
TOTAL	100%	100%	100%	100%	100%	100%

*after the conversion of Océane bonds

Saint-Gobain did not receive notification of any disclosure thresholds being crossed in 2006 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, 2006 official identification of holders of bearer shares, the number of shareholders is estimated to be around 220,000.

Since 1987, the Company's bylaws have provided that fully paid up shares registered for at least 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 conferring 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, 2006, the number of voting rights was 379,856,627 for 368,419,723 shares.

These figures take into account the conversion of 4,355,403 Océane bonds into 17,421,612 new shares on December 31, 2006.

Given the 14,889,700 outstanding stock subscription options at that date, the capital at the same date would be made up of 383,309,423 shares assuming all rights were to be exercised.

CHANGES IN CAPITAL OVER THE LAST FIVE YEARS

	Capital	Number of shares	
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
06-06	€1,402,622,244	350,655,561	Group Savings Plan: issue of 5,399,291 shares (at €40.84)
12-06	€1,403,992,444	350,998,111	Subscription to 342,550 shares by the exercise of as many stock options
12-06	€1,473,678,892	368,419,723	Issue of 17,421,612 new shares upon the conversion of 4,355,403 Océane bonds

FINANCIAL AUTHORIZATIONS

The Ordinary and Extraordinary General Meetings of June 9, 2005 and June 8, 2006 granted the following financial authorizations to the Board of Directors:

■ **An authorization until December 2007,** to buy back and resell a maximum of 10% of Saint-Gobain's capital stock at the date of the General Meeting, at a maximum purchase price of €75 and a minimum sale price of €23.

■ **An authorization until December 2007** to issue equity warrants in the event of a public offer for the Company's shares, up to a maximum nominal amount of €680 million.

■ **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 (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 (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 maximum 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 €64 million. The shares issued under this authorization may not be offered at a discount of over 20% of the average of the 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 prices quoted for the Company's shares over the twenty trading days preceding the date of the Board's decision. 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 without consideration, representing a maximum of 3% of capital stock.

• The 3% limit for the two previous authorizations constitutes an aggregate ceiling.

In 2006, transactions were carried out under the following three authorizations:

■ Purchase and resale of Saint-Gobain shares: 1,976,708 shares purchased, 3,620,201 shares sold in connection with the exercise of stock options granted in prior periods [1];

■ Group Savings Plan: 5,399,291 shares issued;

■ Stock subscription options: 4,025,800 options granted.

IMPORTANT INFORMATION IN THE EVENT OF A PUBLIC OFFER

In application of the European Directive on takeover bids, French law [2] requires companies to disclose in their annual report certain information that would be regarded as important in the event of a public offer. Pursuant to this provision, at December 31,2006 information relating to the Company that could have a bearing on a public offer is as follows:

■ As indicated above, the Board of Directors has been granted an authorization, up to December 2007, to:

a) issue equity warrants in the event of a public offer for the Company's shares, up to a maximum nominal amount of €680 million;

b) purchase and resell Saint-Gobain shares, including during the period of a public offer, up to 10% of the number of shares making up the capital stock at the date of the General Meeting granting the authorization (June 8, 2006, i.e. a maximum of 34,527,192 shares), at a maximum price of €75 per share and minimum sale price of €23 per share.

■ In the event of a change in control of Compagnie de Saint-Gobain:

a) deferred compensation plans and defined-benefit pension plans existing within the Group's US subsidiaries would terminate immediately, and the rights of beneficiaries would become exercisable within a period of 12 months. This represents a total amount of USD 135 million at December 31, 2006;

b) holders of bonds issued by the Company in 2006 would, under certain conditions, be entitled to request the early repayment of the principal and of the interest accrued

(1) Including 186,000 shares purchased and 53,824 shares sold under the authorizations given by the Ordinary and Extraordinary General Meeting of June 9, 2005.
(2) Article L.225-100-3 of the French Commercial Code.

on their securities. This affects bond issues for (i) €1.8 billion, issued in two tranches in May 2006; (ii) £600 million, issued in two tranches in November 2006; and (iii) CZK 1 billion issued in November 2006. Two bilateral credit lines taken out in December 2006 also include a "change in control" clause.

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 2006, the Group Savings Plan offered employees the standard options of five- and ten-year terms. The PEG subscribed to 5,399,291 shares, for a total of €220.5 million (2005: 4,267,470 shares for €155.7 million).

In France, 73% of employees have subscribed to the PEG through Company mutual funds. The PEG has been extended to employees in 19 other European countries and 11 countries on other continents. In all, more than 53,000 Group employees participated in the PEG during 2006.

At December 31, 2006, the Group Savings Plan held 5.9% of the Company's capital stock and 10.1% of its voting rights. The decrease recorded in relation to the two previous years (see p. 13) arises primarily from funds made available following the 2000 leverage plan, and from the increase in the number of shares outstanding (up 6.7% at end-2006 compared to December 31, 2005).

A new plan was launched in 2007 offering employees the standard options of five- and ten-year terms as well as a leverage plan, with a ceiling of eight 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 1998 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 2006, this committee was chaired by Gérard Mestrallet and the other members were Daniel Bernard and then Jean-Cyril Spinetta (from June 2006), and Sylvia Jay.

In addition to Group Management (10 persons), the options granted in November 2006 concerned three categories of recipients:

- Category A includes the other members of the Group Coordination Committee (18 persons);
- Category B includes the main operational and functional managers of the Divisions and General Delegations (1,171 persons);
- Category C includes high-potential executives as well as managers or employees who have achieved superior performance (490 persons).

The total number of beneficiaries for the November 2006 plan is therefore 1,689 (2005: 1,561). In each of the above categories, the number of options granted is individually tailored according to responsibilities handled and performance achieved. The total number of options granted under this plan in 2006 was 3,995,800 (compared with 3,922,250 in 2005), which represented 1.1% of capital stock at December 31, 2006.

Since 2003, these plans have 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/subscription price was therefore set at 100% of this average price, i.e. €58.10 for the November 2006 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 previous years, the Board of Directors has made the vesting of half of the options granted to Group Management and Category A recipients in November 2006 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 2006, if they have been in their current function from that date, to own at least 4,400 registered Saint-Gobain shares and to increase their holdings by at least 400 shares per annum; 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, 2006, with the latter two dealing with the stock options of corporate officers and of the ten largest recipients.

Date of Shareholders' Meeting authorizing the plan	6/25/1998	6/24/1999	6/24/1999	6/28/2001	6/28/2001	6/5/2003	6/5/2003	6/9/2005	
Date of Board of Directors' meeting	11/19/1998	11/18/1999	11/16/2000 (3)	11/22/2001	11/21/2002	11/20/2003	11/18/2004	11/17/2005	11/16/2006 (4)
Type of options	Purchase	Purchase	Purchase	Purchase	Purchase	Subscription	Subscription	Subscription	Subscription
Number of beneficiaries	218	393	780	1,351	1,368	1,393	1,480	1,561	1,689
Total number of shares which may be obtained (1)	1,287,980	1,750,900	2,696,500	3,774,800	3,785,500	3,717,700	3,881,800	3,922,250	3,995,800
Of which:									
• Number of shares that Group Management may obtain	548,000	538,000	810,400	924,800	936,200	914,800	1,002,800	1,115,000	1,011,900
• Number of corporate officers concerned (2)	19	19	20	18	18	17	17	16	16
Start of exercise period	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	11/16/2009 or 11/16/2010
Expiry date	11/18/2006	11/17/2009	11/15/2010	11/21/2011	11/21/2012	11/20/2013	11/18/2014	11/17/2015	11/16/2016
Exercise/Subscription price (1)	29.54 €	40.63 €	37.72 €	40.22 €	23.53 €	35.67 €	43.56 €	45.71 €	58.10 €
Discount on average share price	5 %	0	0	0	0	0	0	0	0
Options outstanding at 12/31/2006 (1)	0	641,854	1,382,047	2,213,477	2,420,890	3,307,450	3,795,400	3,761,050	3,995,800

(1) 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 31,2006, for which the exercise/subscription prices have been divided by four.
(2) The list of the 16 members of Group Management is provided on page 30.
(3) In addition, a specific grant of 20,000 purchase options at an exercise price of €33.11 was carried out on March 30, 2000.
(4) In addition, a specific grant of 30,000 subscription options at a subscription price of €55.40 was carried out on February 27, 2006.

■ Stock options granted to each corporate officer and options exercised

Stock options granted to each corporate officer and options exercised in 2006	Number of options granted	Exercise price	Start of exercise period
Jean-Louis Beffa	280,000*	58.10 €	November 2010
Pierre-André de Chalendar	160,000*	58.10 €	November 2010
Options exercised in 2006 by each corporate officer	**Number of shares subscribed or purchased**		**Expiry date**
Jean-Louis Beffa	180,000	40.63 €	November 2009
	60,000	37.72 €	November 2010
Gianpaolo Caccini	30,500	29.54€	November 2006
	15,000	40.63 €	November 2009
Pierre-André de Chalendar	22,000	40.63 €	November 2009
	25,846	37.72 €	November 2010

* 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. In accordance with recommendations issued by AFEP/MEDEF in January 2007, the value of the options granted in 2006 to Jean-Louis Beffa and Pierre-André de Chalendar, calculated using the option pricing method applied in the consolidated financial statements, is €3,656,800 and €2,089,600, respectively.

■ 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 2006 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)	526,000*	58.10 €
Exercise in 2006 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)	791,100	Weighted average price 35.96 €

(*) 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. In accordance with recommendations issued by AFEP/MEDEF in January 2007, the value of the options granted in 2006 to Jean-Louis Beffa and Pierre-André de Chalendar, calculated using the option pricing method applied in the consolidated financial statements, is €3,656,800 and €2,089,600, respectively.

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.

TRANSACTIONS INVOLVING COMPAGNIE DE SAINT-GOBAIN SHARES REPORTED TO THE AMF IN 2006 BY THE CORPORATE OFFICERS

Transactions involving Compagnie de Saint-Gobain shares reported to the *Autorité des Marchés Financiers* in 2006 by the corporate officers are summarized below:

Officer concerned	Nature of transaction	Date of transaction	Unit price (in €)	Total amount (in €)
Jean-Louis Beffa	Sale	May 2006	59.66	1,789,800.00
	Sale	May 2006	59.66	1,789,800.00
	Sale	May 2006	58.83	4,412,250.00
	Acquisition	May 2006	40.63	1,218,900.00
	Acquisition	May 2006	37.72	1,131,600.00
	Acquisition	May 2006	40.63	3,047,250.00
	Acquisition	May 2006	40.63	3,047,250.00
	Acquisition	August 2006	37.72	754,400.00
	Sale	August 2006	55.10	1,015,933.80
	Acquisition	November 2006	37.72	377,200.00
Pierre-André de Chalendar	Acquisition	May 2006	37.72	528,080.00
	Acquisition	May 2006	37.72	446,831.12
	Acquisition	May 2006	40.63	893,860.00
	Sale	May 2006	58.93	1,296,460.00
	Sale	May 2006	57.64	433,691.45
Gianpaolo Caccini	Subscription	March 2006	29.54	147,700.00
	Subscription	April 2006	29.54	221,550.00
	Subscription	March 2006	57.75	288,750.00
	Sale	September 2006	58.50	204,750.00
	Subscription	September 2006	29.54	103,390.00
	Sale	October 2006	59.00	88,500.00
	Subscription	October 2006	29.54	44,310.00
	Subscription	October 2006	29.54	147,700.00
	Sale	October 2006	58.50	292,500.00
	Subscription	November 2006	40.63	203,150.00
	Sale	November 2006	60.50	302,500.00
	Sale	November 2006	59.50	297,500.00
	Subscription	November 2006	40.63	203,150.00
	Sale	November 2006	60.00	300,000.00
	Subscription	November 2006	40.63	203,150.00
Bernard Cusenier	Acquisition	October 2006	58.95	47,160.00

Saint-Gobain today

SAINT-GOBAIN SHARE BUYBACKS

In 2006, the Company bought back 1,976,708 of its own shares in accordance with the authorizations granted by the Ordinary and Extraordinary General Meeting of June 8, 2006. The shares were purchased for a total amount of €109.4 million and no derivative instruments were used for the buybacks. During the same period, 3,620,201 Saint-Gobain shares were sold to stock option holders in connection with the exercise of their options, for a total of €125.6 million. No shares were canceled during 2006.

In respect of the special report provided for by article L.225-209 of the French Commercial Code, at December 31, 2006 the Company held 6,739,668 of its own shares (representing 1.83% of its capital stock), allocated entirely to the following stock option plans:

Plans	*No. of shares*	*Purchase price (€)*
1998	81,400	3,494,095
1999	641,854	27,422,992
2000	1,380,847	58,967,034
2001	2,213,477	98,970,306
2002	2,422,090	128,999,352
Total	**6,739,668**	**317,673,778**

The average purchase price is €55.37 and the average sale price (to the holders of stock options following the exercise of these options) is €34.69. Negotiation fees totaled €0.1 million.

There was no reallocation of repurchased shares for other purposes.

2007 FINANCIAL CALENDAR

2006 estimated results:
January 25, 2007, after close of trading on the Paris Bourse

Final results for 2006:
March 22, 2007, after close of trading on the Paris Bourse

First-quarter 2007 sales:
April 26, 2007, after close of trading on the Paris Bourse

Annual General Meeting:
3:00 p.m. on June 7, 2007 at the Palais des Congrès (Porte Maillot), Paris

Dividend payment date: **June 22, 2007**

First-half 2007 results:
July 26, 2007, after close of trading on the Paris Bourse

Sales for the first nine months of 2007:
October 23, 2007, after close of trading on the Paris Bourse

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
Toll-free number (France): 0800 32 33 33

In 2006, Compagnie de Saint-Gobain organized several meetings with its shareholders in France – Marseille in May, Rouen in June, Montpellier and Toulouse in November, Nancy in December, and for the second time, Brussels in October. The Company's Annual General Meeting was awarded the *"Trophée d'Or des Assemblées générales 2006"* ahead of all other CAC 40 companies by the weekly magazine *Le Revenu*. 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 respective publication of estimated annual and half-yearly 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

In June 2006, the shareholders' website was awarded the Grand Prix SFAF/AFG and named the "Best financial website for investors" (2006 Boursoscan awards, devised by Boursorama and TLB, a firm specializing in the behavior of individual shareholders).

A Minitel service (a video-text system operated by France Telecom) 3615 code GOBAIN (€0.16/min) 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 - ÉMETTEURS
75450 PARIS CEDEX 09
Toll-free number (in France): 0800 03 33 33
Toll-free fax (in France): 0800 77 25 85

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, 2007.

Jean-Louis Beffa

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

Jean-Louis Beffa, 65, 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 250,527 Saint-Gobain shares.

Les Miroirs - 92096 La Défense Cedex (France)

Isabelle Bouillot

President of China Equity Links.

Isabelle Bouillot, 57, 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

Chairman of Assovetro, the Italian Association of Glass Manufacturers.

Gianpaolo Caccini, 68, an Italian citizen, former Chief Operating Officer of Compagnie de Saint-Gobain, is also a Director of Nexans, JM Huber Corp., Nybron and Saint-Gobain Corporation. He owns 6,320 Saint-Gobain shares.

Assovetro - Via Bissolati 76, 1 Rome (Italy)

Pierre-André de Chalendar

Chief Operating Officer of Compagnie de Saint-Gobain.

On May 3, 2005 the Board of Directors appointed Pierre-André de Chalendar, 48, as Chief Operating Office of Compagnie de Saint-Gobain and on June 8, 2006, the General Meeting appointed him as Director of the Company. Within the Saint-Gobain Group, he is a Director of Saint-Gobain Corporation, SG Aldwych, BPB and SG Distribution Nordic AB. He owns 80,246 Saint-Gobain shares.

Les Miroirs - 92096 La Défense Cedex (France)

Gerhard Cromme

Chairman of the Supervisory Board of ThyssenKrupp AG.

Gerhard Cromme, 64, 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)

Bernard Cusenier(3)

President of the Saint-Gobain Employees' and Former Employees' Shareholders' Association and Chairman of the Supervisory Board of FCPE Saint-Gobain Avenir.

Bernard Cusenier, 60, is Chief Executive of Saint-Gobain Ecophon SA and Chief Operating Officer of Saint-Gobain Eurocoustic. He owns 832 Saint-Gobain shares.

Saint-Gobain Eurocoustic, 7 Place de Saverne 92415 Courbevoie Cedex (France)

Paul A. David

Professor of economics at Stanford University.

Paul A. David, 71, 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

Company Director.

Jean-Martin Folz, 60, former Chairman of the Management Board of Peugeot SA, is also a Director of Solvay. He owns 1,200 Saint-Gobain shares.

Sylvia Jay

Vice Chairman of L'Oréal UK.

Lady Jay, 60, a British citizen, is also a Director of Alcatel Lucent and Lazard Limited, Chairman of the Pilgrim Trust, the Council of Food from Britain, Trustee of the Entente Cordiale Scholarships Scheme and of the Prison Reform Trust. She owns 800 Saint-Gobain shares.

255 Hammersmith Road, London W6 8 AZ (United Kingdom)

José Luis Leal Maldonado

Former Spanish Finance Minister.

José Luis Leal Maldonado, 67, a Spanish citizen, 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, 57, a South Korean citizen, 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)

(3) On September 21, 2006, the Board of Directors co-opted Bernard Cusenier to replace Pierre Kerhuel, who resigned for retirement reasons. On the Board Bernard Cusenier represents the employee and former employee shareholders of Saint-Gobain (article 9 of the Company bylaws).

Gérard Mestrallet

Chairman and Chief Executive Officer of Suez.

Gérard Mestrallet, 57, is also a member of the Supervisory Board of AXA and a Director of Pargesa Holding. Within the Suez Group, Gérard Mestallet is the Chairman of the Board of Directors of Suez-Tractebel, Suez Environnement, Electrabel, and Suez Energie Services, and Vice-Chairman of Hisusa and Sociedad General de Aguas de Barcelona. He owns 840 Saint-Gobain shares.

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

Michel Pébereau

Chairman of the Board of Directors of BNP Paribas

Michel Pébereau, 65, is also a Director of Lafarge, Total and Pargesa Holding, member of the Supervisory Board of AXA and Banque Marocaine pour le Commerce et l'Industrie, and non-voting Director of Galeries Lafayette. In addition, he is Chairman of the European Banking Federation, of *Institut de l'Entreprise*, of *Institut International d'Etudes Bancaires,* of the Board of Directors of *Institut d'Etudes Politiques de Paris* and of the Supervisory Board of *Institut Aspen France,* as well as a member of the *Haut Conseil de l'Education,* the Executive Council of MEDEF, 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, 55, 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, 63, is also Chairman and Chief Executive Officer of the Air France Group, a Director of Unilever and Alcatel Lucent, and Permanent Representative of Air France on 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)

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, the Board of Directors once again reviewed the independence of each director in compliance with the criteria established in the AFEP-MEDEF reports 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: Isabelle Bouillot, Gerhard Cromme, Paul A. David, Jean-Martin Folz, Sylvia Jay, Gérard Mestrallet, Denis Ranque and Jean-Cyril Spinetta. This corresponds to eight Directors out of fifteen as of March 1, 2007.

The Board does not have a Director elected by the employees (but it does have a Director representing employee shareholders) or 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 appointed and on which their current terms of office began are as follows :

- J.-L. Beffa: February 1987; June 2004
- M. Pébereau: June 1993; June 2005
- G. Mestrallet: Nov. 1995; June 2003
- I. Bouillot: June 1998; June 2004
- J. Leal Maldonado: June 1998; June 2004
- J.-M. Folz: March 2001; June 2005
- P. David: June 2001; June 2001
- S. Jay: June 2001; June 2004
- S. Lee: Nov. 2002; June 2003
- D. Ranque: June 2003; June 2003
- G. Caccini: June 2004; June 2005
- G. Cromme: June 2005; June 2005
- J.-L. Spinetta: June 2005; June 2005
- P.-A. de Chalendar: June 2006; June 2006
- B. Cusenier: Sept. 2006; Sept. 2006

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:

- Bernard Cusenier, Paul David, 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;
- Pierre-André de Chalendar: 2010 Annual Meeting.

In view of the expiration of the terms of office of the five above-named Directors at the end of the General Meeting scheduled to take place on June 7, 2007, and acting upon a recommendation of the Appointments Committee, the Board of Directors will be submitting for approval, at said General Meeting, the appointment or the renewal of the terms of office of the following Directors for a period of four years:

- Bernard Cusenier, to replace Pierre Kerhuel
- Robert Chevrier, to replace Paul Allan David
- Yuko Harayama, to replace Sehoon Lee
- Gérard Mestrallet
- Denis Ranque

If the General Meeting of June 7, 2007 approves these renewals and appointments, two new independent directors meeting the criteria established in the AFEP-MEDEF reports, Robert Chevrier and Yuko Harayama, will join the Board, while Gérard Mestrallet who was first appointed as Director in November 1995, will lose his status as independent Director as he will have been a Director of Compagnie de Saint-Gobain for more than twelve years.

The Board of Directors of Compagnie de Saint-Gobain will then be composed of eight independent Directors out of fifteen as follows: Isabelle Bouillot, Robert Chevrier, Gerhard Cromme, Jean-Martin Folz, Yuko Harayama, Sylvia Jay, Denis Ranque and Jean-Cyril Spinetta.

Robert Chevrier, 63, a *Canadian citizen, is a graduate of the Canadian Institute of Chartered Accountants and the Institute of Chartered Financial Analysts.* During the early years of his professional career he was involved, as the member of a consulting firm specializing in corporate restructuring, in many assignments for the Royal Bank. In 1983, he became Chairman and Chief Executive Officer of Uni-Select Inc., a distributor of automotive replacement parts, which recorded sales of over one billion Canadian dollars in 1990, when he left the general management. After two years as Chairman of Schroders Canada, he was appointed as Chairman and Chief Executive Officer of United Westburne Inc. in 1993. This key player in the supply of industrial electrical, electronic and telecommunications equipment for the construction industry in Canada and the USA was a subsidiary of Lyonnaise des Eaux and Caisse des Dépôts et Consignations du Québec at that time. Its annual sales amounted to three billion Canadian dollars when it was taken over by Rexel in 2000. Robert Chevrier served as Chief Executive-North America of Rexel until March 2001. Since that date, he has managed an investment portfolio and has held several directorships: Director of Bank of Montreal since 2000, G.T.C. Transcontinental Group (one of the largest printers in Canada with annual sales of approximately two billion Canadian dollars) since 2001, C.G.I. Group Inc. (a North American information technology services firm with annual sales of approximately three billion Canadian dollars) and Cascades Inc. (a Canadian manufacturer of packaging products and textiles with annual sales of approximately two billion Canadian dollars) since 2003, as well as being Chairman of the Board of Directors of Richelieu Hardware Ltd, a distributor of construction materials in Canada and the USA since 2005.

Yuko HARAYAMA, 56, a *Japanese citizen, has been a Professor in the Management of Science and Technology department of Tohoku university, Japan, since 2001.* She has been an executive advisor to the Chairman of this university since 2005 and a member of the Japanese Government's Council for Science and Technology Policy since 2006. She was awarded a Doctor of Science in education and economics by Geneva University, where she was a lecturer from 1992 to 2001. Much of her work in the areas of science and technology policy, educational science and innovation has been published. She does not hold any other directorships.

CORPORATE OFFICER OR MANAGEMENT FUNCTIONS CARRIED OUT "AT ANY TIME IN THE LAST FIVE YEARS"

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

Name of the Director, Main current function (as of March 1, 2007)

Jean-Louis Beffa

Chairman and Chief Executive Officer of Compagnie de Saint-Gobain

2006

• 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.

2005

• 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.

2004

• 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.

2003

• 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.

2002

• 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.

Isabelle Bouillot

President of China Equity Links

2006

• President of China Equity Links • Managing Partner of IB Finance • Director of Accor and Umicore.

2005

• Managing Partner of IB Finance • Director of Accor and Umicore.

2004

• Managing Partner of IB Finance • Member of the Supervisory Board of Accor • Director of La Poste and Umicore.

2003

• 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 on the Board of Directors or the Supervisory Board of various subsidiaries and affiliates of CDC Finance - CDC Ixis.

2002

• 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 on the Board of Directors or the Supervisory Board of various subsidiaries of CDC-Finance-CDC Ixis.

Gianpaolo Caccini

Chairman of Assovetro, the Italian Association of Glass Manufacturers

2006

• Chairman of Assovetro, the Italian Association of Glass Manufacturers • Former Chief Operating Officer of Compagnie de Saint-Gobain • Director of Nexan, JM Huber Corp., Nybron and Saint-Gobain Corporation.

2005

• Director of Nexans, JM Huber Corp., Saint-Gobain Corporation • Chairman of Assovetro, the Italian Association of Glass Manufacturers.

2004

• Director of Nexans, JM Huber Corp., Saint-Gobain Corporation • Chairman of Assovetro, the Italian Association of Glass Manufacturers.

2003

• Chief Operating Officer of Compagnie de Saint-Gobain.

2002

• Chief Operating Officer of Compagnie de Saint-Gobain.

Pierre-André de Chalendar

Chief Operating Officer of Compagnie de Saint-Gobain

2006

• Chief Operating Officer of Compagnie de Saint-Gobain • Director of Saint-Gobain Corporation, SG Aldwych, BPB and SG Distribution Nordic AB.

Gerhard Cromme

Chairman of the Supervisory Board of ThyssenKrupp AG

2006

• 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.

2005

• 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.

Bernard Cusenier

Chief Executive of SG Ecophon SA and Chief Operating Officer of SG Eurocoustic

2006

• President of the Saint-Gobain Employees' and Former Employees' Shareholders' Association and Chairman of the Supervisory Board of FCPE SG Avenir • Chief Executive of SG Ecophon SA and Chief Operating Officer of SG Eurocoustic.

Paul A. David

Professor of Economics at Stanford University

2006

• Professor of Economics at Stanford University • Emeritus Professor of Economics and Economic History at Oxford University.

2005

• Professor of Economics at Stanford University • Emeritus Professor of Economics and Economic History at Oxford University.

2004

• Professor of Economics at Stanford University • Emeritus Professor of Economics and Economic History at Oxford University.

2003

• Professor of Economics at Stanford University • Emeritus Professor of Economics and Economic History at Oxford University.

2002

• Professor of Economics at Stanford University • Emeritus Professor of Economics and Economic History at Oxford University.

Jean-Martin Folz

Company director

2006

• 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.

2005

• 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.

2004

• 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.

2003

• 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.

2002

• 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.

Sylvia Jay

Vice-Chairman of L'Oréal UK Ltd

2006

• Vice-Chairman of L'Oréal UK Ltd • Director of Alcatel Lucent and Lazard Limited • Chairman of the Pilgrim Trust and Food from Britain • Trustee of the Entente Cordiale Scholarship Scheme and the Prison Reform Trust.

2005

• Vice-Chairman 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, Chairman of the Pilgrim Trust, member of the Franco-British Council and Trustee of the Entente Cordiale Scholarships Scheme.

2004

• 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.

2003

• 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.

2002

• 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 and the Food Foundation UK, Food and Drink Federation Pension Fund and the Entente Cordiale Scholarships Scheme.

José Luis Leal Maldonado

Former Spanish Finance Minister

2006

• Former Spanish Finance Minister.

2005

• Chairman of the Spanish Banking Association • Director of Carrefour, CEPSA, Renault and Saint-Gobain Cristaleria.

2004

• Chairman of the Spanish Banking Association • Director of Carrefour, CEPSA, Renault España and Saint-Gobain Cristaleria.

2003

• Chairman of the Spanish Banking Association • Director of CEPSA, Alcatel España, Renault España and Saint-Gobain Cristaleria.

2002

• Chairman of the Spanish Banking Association • Director of CEPSA, Alcatel España, Renault España and Saint-Gobain Cristaleria.

Sehoon Lee

Joint Chairman of Hankuk Glass Industries and Hankuk Sekurit

2006

• Joint Chairman of Hankuk Glass Industries and Hankuk Sekurit • Chairman of the Board of Directors of Saint-Gobain Hanglas Asia, and SL Investment Ltd.

2005

• Joint Chairman of Hankuk Glass Industries and Hankuk Sekurit • Chairman of the Board of Directors of Saint-Gobain Hanglas Asia and SL Investment Ltd.

2004

• Joint Chairman of Hankuk Glass Industries and Hankuk Sekurit • Chairman of the Board of Directors of Saint-Gobain Hanglas Asia and SL Investment Ltd.

2003

• Joint Chairman of Hankuk Glass Industries and Hankuk Sekurit • Chairman of the Board of Directors of Saint-Gobain Hanglas Asia and SL Investment Ltd.

2002

• 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.

Gérard Mestrallet

Chairman and Chief Executive Officer of Suez

2006

• 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 and Suez Energie Services • Vice-Chairman of Hisusa and Sociedad General de Aguas de Barcelona.

2005

• 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).

2004

• 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.

2003

• 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).

2002

• 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.

Michel Pébereau

Chairman of Board of Directors of BNP Paribas

2006

• Chairman of the Board of Directors of BNP Paribas Director of Lafarge, Total and Pargesa Holding • Member of the Supervisory Board of AXA and Banque Marocaine pour le Commerce et l'Industrie • Non-voting Director of Galeries Lafayette • Chairman of the European Banking Federation, the *Institut de l'Entreprise*, the *Institut International d'Etudes Bancaires*, the Board of Directors of *Institut d'Etudes Politiques de Paris* and the Supervisory Board of *Institut Aspen France* • Member of the Haut Conseil de l'Education, the Executive Council of MEDEF, 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.

2005

• 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*, 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.

2004

• 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 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.

2003

• 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 International Advisory Panel of the Monetary Authority of Singapore, the International Capital Markets Advisory Committee, the Federal Reserve Bank of New York.

2002

• 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 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.

Denis Ranque

Chairman and Chief Executive Officer of Thales

2006

• 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.*

2005

• 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.*

2004

• 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.*

2003

• 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

2006

• Chairman and Chief Executive Officer of Air France-KLM • Chairman and Chief Executive Officer of the Air France group • Director of Alitalia, Unilever and Alcatel Lucent Permanent representative of Air France on the Board of Directors of Le Monde Entreprises.

2005

• Chairman and Chief Executive Officer of Air France-KLM • 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 registration 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.

Due to the termination of Jean-Louis Beffa's term of office as Chief Executive Officer at the General Meeting of June 7, 2007 when he will have reached the age limit provided for in the bylaws for the performance of that function, the Appointments Committee recommended to the Board of Directors to appoint Pierre-André de Chalendar as Chief Executive Officer with effect from June 7, 2007 at the Board of Directors' meeting which will take place after the General Meeting. Jean-Louis Beffa will continue to act as Chairman of the Board of Directors.

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 at the end of 2006 establish an organizational and operational framework for the Board, as summarized below:

■ *Board meetings.* At least seven ordinary meetings should be held annually, including one at a different Group site each year. The Directors may attend meetings by means of video-conferencing technology or other means of telecommunications 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.* Pursuant to the legal and regulatory provisions regarding financial markets, the Directors are deemed to be "permanent insiders", and must comply with the provisions relating to the prevention of insider trading. Furthermore, 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 [4].

■ *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 (p. 28).

■ *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 until they have been made public.

To the best of the Company's knowledge,

(4) Group management as well as employees having access to confidential information also have to abstain from carrying out transactions during these periods.

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

Every year, the Board performs an evaluation of its operation. In 2000 and 2003[(5)], this evaluation was performed with the assistance of a specialized consulting firm. In the intermediate years, the evaluation was performed by the Appointments Committee based on a questionnaire sent to each Director by the Chairman of the Committee. Another formal evaluation was performed in 2006 by the firm Egon Zehnder. It consisted in individual meetings between the consultant and each Director. The consulting firm summarized the results of these meetings in a report which it presented to the Appointments Committee.

The Board of Directors approved the recommendations made by the Committee, which included in-depth discussions with the Board on the strategic options available, the initiation of a reflection on the changes in the Company's corporate governance structure and the composition of the Board of Directors in view of the expiration of the Directors' terms of office in 2007 and 2008, the presentation to the Board of an annual overview of the Group's human resources and social responsibility policies and the expansion of the executive circle, excluding General Management.

The Board of Directors held seven meetings during fiscal year 2006. 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 20).

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

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

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

The Committee met four times in 2006. The attendance rate at these meetings was 100%. Its work was particularly concerned with the following points:

- Il examine le périmètre des sociétés consolidées et, le cas échéant, les raisons pour lesquelles des sociétés n'y seraient pas incluses.

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

(5) Report for fiscal year 2000 on page 55 and for fiscal year 2003 on page 26.

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.

In addition, the Committee was informed by the auditors of the amount of fees received from Group companies during 2005 in relation to statutory audits and their other services. These fees did not exceed 1% of the total fees paid in the case of the statutory audits and no fees were paid for other services (the data for 2006 is shown on page 31). 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.

The other work performed by the Committee included a review of the budget for 2006 and of the Statutory Auditor's report on the computer application used by SG Compensation for the management of foreign exchange hedging and receipts and payments from third parties, as well as the Internal Audit Department's 2005 activity report, its audit schedule for 2006 and its first-half 2006 activity report, in addition to Doctrine briefs issued by the Finance Department in the first half of 2006.

Lastly, the Committee also met individually and privately with the finance director, 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 26, March 23, July 27 and September 21, 2006.

■ Appointments Committee

Gérard Mestrallet, Chairman
Sylvia Jay
Jean-Cyril Spinetta[6]

All three members of the Committee are independent directors (see page 20).

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 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 2006 with an attendance rate of 78%. Its work was particularly concerned with the following points:

The Committee's first task was to address the issue of the appointment to be recommended at the General Meeting to fill the directorship of Daniel Bernard whose term of office was due to expire at the said meeting, and it submitted its proposal (Pierre-André de Chalendar) 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.

Like in 2000 and 2003, the Committee deemed it appropriate to entrust the formal evaluation of the operation of the Board of Directors to a specialized consulting firm.

(6) Daniel Bernard until June 2006.
(7) A description of the policy for granting shares and features of the stock option plans in effect appear on pages xx and xx.

This evaluation took the form of individual meetings between the consultants of this firm and each Director. The results of these meetings were submitted to the Committee in a report before being presented by the latter to the Board (see pages 25 and 26).

As is the case each year, the Committee reviewed Saint-Gobain's stock options(7) 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 free shares awards, and concluded that it would not make such a recommendation to the Board for 2006.

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 2006 (see pages 28 and 29).

The Committee also initiated a reflection on the changes in the Company's corporate governance structure in view of the termination of Jean-Louis Beffa's term of office as Chief Executive Officer at the General Meeting of June 7, 2007 when he will have reached the age limit provided for in the bylaws for the performance of that function, and on the composition of the Board of Directors in view of the expiration of the Directors' terms of office in 2007 and 2008, in accordance with the guidelines set by the Board (see page 21).

The Committee presented its conclusions to the Board of Directors at the meetings of March 23, April 20 and November 16, 2006.

REMUNERATION OF DIRECTORS

The General Meeting of June 8, 2006 set the annual amount of attendance fees payable to Directors at €800,000.

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

- The Chairman and the Chief Operating Officer of the Company do not receive attendance fees.
- Each of the other members of the Board of Directors is allocated an annual lump sum of €25,600, to which is added €3,520 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 €7,360 or €2,560, to which is added €2,560 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.

The gross amount of attendance fees paid for fiscal 2006 was €800,000 (compared to €500,000 for the previous year).

The net [8] individual amounts of attendance fees paid by the Company to its Directors (including both lump-sum and variable payments) for 2006 were as follows: Daniel Bernard [9] €22,048, Isabelle Bouillot €72,279, Gianpaolo Caccini €40,979.25, Bernard Cusenier [10] €16,834, Gerhard Cromme €37,350, Paul A. David €44,609.25, Jean-Martin Folz €62,600, Sylvia Jay €50,369.25, Pierre Kerhuel [11] €42,646, José Luis Leal Maldonado €37,350, Sehoon Lee €40,980, Gérard Mestrallet €69,680, Michel Pébereau €67,400, Denis Ranque €49,800, Jean-Cyril Spinetta €61,196.

REMUNERATION OF CORPORATE OFFICERS

Acting upon the recommendations made by the Appointments Committee, the Board of Directors approved on January 26, 2006 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 2006 by Group companies was the same as it has been since 2002, i.e. €980,000.

The variable portion of his compensation for 2006 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 2006 compared to 2005 (excluding BPB), determined in accordance with IFRS in both cases, taking into account the growth objective in the budget for 2006;
- the remaining half was based on three

(8) After deduction of the 25% withholding tax for Gianpaolo Caccini, Paul A. David, Sylvia Jay, José Luis Leal Maldonado and Sehoon Lee, whose tax residence is outside France.
(9) For the period from January 1, 2006 to June 8, 2006, date on which his term of office expired.
(10) For the period from September 21, 2006, when he was appointed as Director, to December 31, 2006.
(11) For the period from January 1, 2006 to September 20, 2006, effective date of his resignation.

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 gross amount of the variable portion of Jean-Louis Beffa's compensation should be €1,274,000 for 2006 (compared to €1,033,000 for 2005).

With regard to the "commitments of any nature made by the company for the benefit of its officers" referred to in the French Commercial Code[12] , the Board of Directors confirmed by its decision of January 26, 2006 that in accordance with the pension benefits regulations for engineers and senior officers *(règlement de retraite des ingénieurs et cadres)* 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. This average amount 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 thereto.

Acting upon a recommendation of the Appointments Committee, the compensation of Pierre-André de Chalendar, Chief Operating Officer, was also set by the Board of Directors on January 26, 2006. The gross amount of the fixed portion of the compensation paid to him by the Group companies for 2006 was €650,000. The variable portion consists of a quantitative and a qualitative part, which are based on the same criteria[13] 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 variable portion of Pierre-André Chalendar's remuneration should be €845,000 for 2006.

In addition, 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 thereto[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.

They do not receive any attendance fees for their functions as corporate officers carried out in Group companies.

REMUNERATION OF THE MEMBERS OF GROUP MANAGEMENT

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

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

Remuneration levels for members of Group Management are set with the dual aim, 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 to 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 gross remuneration received in 2006 from Group companies by the 15 members of Group Management, as defined below, amounted to €13.3 million (the amount for 2005 was €20.4 million), of which the variable portion represented €5.4 million (the same amount as in 2005).

(12) Paragraph 3 of article L225-102-1.
(13) Two qualitative criteria instead of three.

Saint-Gobain today

GROUP MANAGEMENT

Group Management as of March 1, 2007:

EXECUTIVE MANAGEMENT

Jean-Louis Beffa
Chairman and Chief Executive Officer

Pierre-André de Chalendar
Chief Operating Officer

Jacques Aschenbroich
Senior Vice-President

Jean-Claude Breffort
Senior Vice-President

Roberto Caliari
Senior Vice-President

Philippe Crouzet
Senior Vice-President

Jérôme Fessard
Senior Vice-President

Claude Imauven
Senior Vice-President

Jean-François Phelizon
Senior Vice-President

Bernard Field
Corporate Secretary

EXECUTIVE COMMITTEE

Jean-Louis Beffa

Pierre-André de Chalendar

Benoît Bazin

Bernard Field

FUNCTIONAL MANAGEMENT

Benoît Bazin
Chief Financial Officer

Didier Roux
Vice-President, Research

Nicole Grisoni-Bachelier
Vice-President, External Relations

Guillaume Texier
Vice-President, Corporate Planning

PRESIDENTS OF SECTORS(14)

Jacques Aschenbroich
President, Flat Glass and High-Performance Materials Sectors

Philippe Crouzet
President, Building Distribution Sector

Peter Dachowski
Vice-President, Construction Products Sector, North America

Jérôme Fessard
President, Packaging Sector

Jean-Pierre Floris(15)
Vice-President, Flat Glass and High Performance Materials Sectors

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

Laurent Guillot(16)
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

Olivier Lluansi (17)
General Delegate to Romania, Bulgaria and Turkey

Anand Mahajan
General Delegate to India

Paul Neeteson
General Delegate to Germany and Central Europe

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

Guy Rolli
General Delegate to Mexico, Venezuela and Colombia

Gianni Scotti
General Delegate to Italy and Greece

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

(14) Roberto Caliari, President, High-Performance Materials Sector until December 31, 2006. Américo Dènes, President, Abrasives Division until December 31, 2006.
(15) Since January 1, 2007.
(16) Jean-Pierre Floris until December 31, 2006.
(17) Since September 1, 2006.

STATUTORY AUDITORS OF THE COMPANY

As of December 31, 2006, the Statutory Auditors of the Company were:

- PricewaterhouseCoopers Audit, 63, rue de Villiers, 92208 Neuilly-sur-Seine (France), 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 SA, 1 Cours Valmy, 92923 Paris-La Défense (France), represented by Jean Gatinaud, reapppointed on June 8, 2006 for a six-year term expiring at the 2012 General Meeting.

The Substitute Statutory Auditors are:

■ Yves Nicolas, 63, rue de Villiers, 92208 Neuilly-sur-Seine (France), appointed on June 10, 2004, whose term of office will expire at the 2010 General Meeting.

■ Jean-Paul Vellutini, 1, Cours Valmy, 92923 Paris-La Défense (France), reappointed at the 2006 General Meeting for a six-year term. A proposal will be submitted to the General Meeting of June 7, 2007 to replace Jean-Paul Vellutini by Fabrice Odent for the remainder of Jean-Paul Vellutini's term of office, i.e. until the 2012 General Meeting.

Fees paid by the Group to the Statutory Auditors and the members of their networks for 2006

(In € millions)	**PricewaterhouseCoopers**				**KPMG**			
	Amount		%		Amount		%	
	2006	2005	2006	2005	2006	2005	2006	2005
Audit								
• Statutory audit and contractual audits								
The issuer	0.8	0.8	7 %	8 %	0.7	0.9	6 %	10 %
Fully consolidated subsidiaries	10.1	8.1	90 %	75 %	10.0	7.4	93 %	82 %
Total	10.9	8.9	97 %	83 %	10.7	8.3	99 %	92 %
• Other services directly related to the statutory audit engagement								
The issuer	0.2	0.1	1 %	1 %	0.1	0	1 %	0 %
Fully consolidated subsidiaries	0.2	1.6	2 %	15 %	0	0.7	0 %	8 %
Total	0.4	1.7	3 %	16 %	0.1	0.7	1 %	8 %
Sub-total	11.3	10.6	100 %	99 %	10.8	9.0	100 %	100 %
Other services provided by the members of the network to the fully consolidated subsidiaries								
• Legal and tax advisory services	0	0.1	0 %	1 %	0	0	0 %	0 %
• Other (give details if they represent > 10% of the audit fees)	0	0	0 %	0 %	0	0	0 %	0 %
Sub-total	0	0.1	0 %	1 %	0	0	0 %	0 %
TOTAL	11.3	10.7	100 %	100 %	10.8	9.0	100 %	100 %

BYLAWS

Saint-Gobain is a French public company regulated by Articles L. 120-1 *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 and no more than fifteen members, 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 are exercised by 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 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 legal and regulatory provisions.

■ Appropriation of net income

An amount of at least 5% of net income, less losses of prior years if applicable, will be appropriated so as to set up the legal reserve required by law. This appropriation ceases to be 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 in accordance with legal requirements or the provisions of the bylaws, plus any retained earnings.

Out of distributable income, the General Meeting appropriates successively:

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

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

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

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

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

No regulated agreements were entered into in 2006.

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 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 28), referred to herein.

II - INTERNAL CONTROL PROCEDURES IMPLEMENTED BY COMPAGNIE DE SAINT-GOBAIN

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

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 (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 and Internal Control Departments

The role of the Internal Audit Department is to verify the existence and effective operation of risk management mechanisms within 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 160 engagements in 2006, 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.

The Internal Audit Department's mandate includes general reviews and reviews of specific processes. Risk identification is conducted jointly by the Company's Internal Audit Department, the Sectors and 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 Sectors 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. Where there is a presumption of fraud or embezzlement, the Internal Audit Department implements the appropriate procedures.

Another aim of the internal control system is to allow the Group companies to assess their own level of internal control by completing a self-assessment questionnaire. The purpose of this procedure is to enable the operational managers to identify areas in which internal control needs to be improved and to take the appropriate action.

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 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 Sectors. 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", incorporating environmental, health and safety aspects. The audit standards used comply with OSHAS 18001 and ISO 14001.

During 2006, over 350 EHS audits were performed within the Group in around thirty 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.

A new version of the self-diagnostic procedure tested in 2005 at six industrial sites was implemented in 2006; it 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. This procedure must be implemented at least once a year at each site beginning in 2007 at the latest. This includes the Building Distribution sites where a specially adapted version is implemented.

Furthermore, the EHS Department devises Group EHS standards, with the assistance of its network, which are methods for resolving a given EHS issue. The implementation of these methods is obligatory. The documents and tools it has devised include an implementation guide, procedures, training and software tools. 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 or regulations.

NOS (NOise Standard) was devised to identify, assess and control potential exposure to noise at the workplace. This standard was introduced in 2005 for implementation throughout 2006 and 2007.

TAS (Toxic Agents Standard) was devised to identify, assess and control potential exposure to toxic agents at the workplace. A pilot version of this standard was introduced in 2005 with the launch of the crystalline silica implementation guide and it will be extended to other substances at the end of 2007. The TAS framework document dated November 29, 2006 specifies the context, the aims and implementation method of the TAS, through the use of implementation guides and dedicated tools. Since the pilot scheme concerning crystalline silica, three other TAS implementation guides have been issued concerning construction work, the renovation and maintenance of melting furnaces, the handling of nanomaterials in the research and development centers and the use of fibrous materials.

The standard for an overall assessment of industrial risks was devised to identify and quantify exposure to risks and to prioritize potential risks to health and safety on the sites of the Saint-Gobain group as a basis for devising actions plans aimed at reducing and controlling those risks.

Finally, the accident analysis standard defines the criteria on which any method used within the Group to analyze the cause of accidents must be based.

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 2006 self-assessment was implemented by 725 companies.

d) Risks and Insurance Department

The Risks and Insurance Department defines the Group's industrial risk management policy.

The Department issues guidelines on coverage, referred to below, and organizes visits to key sites (about 500 in 2006) 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 set up 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 Sectors, irrespective of the amounts involved. Financial Control staff also consult the departments and the General Delegation concerned on related legal, tax and employment 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. Together they 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 and Delegation levels, and the relevant functional managers of the Company.

Throughout 2006, the Doctrine Department updated all of the briefs describing the Group's different functions, with particular emphasis on internal control and Group rules and procedures.

Finally, the project launched in 2005 to redesign the Doctrine Department's intranet site was completed and the new site is up and running online since February 2007. This site, which is more user-friendly, offers pertinent and easy-to-implement solutions. It also includes a "toolbox" where users can consult useful information or practical examples which give them a better understanding of International Financial Reporting Standards.

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, the implementation of preventive measures, and effectiveness monitoring and evaluation.

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

The Accounting Department provides financial information to shareholders, partners and third parties in accordance with French legal requirements. This information is based on clearly defined accounting standards and principles in force. These include the generally accepted principles of 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.

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 a cost accounting structure for each center of responsibility called "cost centers".

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 effectively 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

Compagnie de Saint-Gobain's financial statements are prepared in accordance with IFRS as adopted for use by the European Union on December 31, 2006.

The Consolidation Department provides information and periodic training for the subsidiaries, in consultation with the Sectors and Delegations. For this purpose, the Department draws on a consolidation manual, an intranet site and training software in French and English.

In 2006, the Group continued to provide IFRS training to its employees and to incorporate newly-acquired entities in the new financial information system, particularly the subsidiaries in the Gypsum and Building Distribution sectors.

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

c) Processing of information and control of accounting data

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

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

d) Consolidation tools

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

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

The consolidation software also feeds into a communication tool that transmits information to General Management, the Management of the Sectors 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 closings 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 introduced a quarterly reforecasting process which enables it to adjust its estimates on a regular basis in accordance with actual changes in the results of previous months.

This cross-checking between the Company, Sectors 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 continued to be responsible for the general management of Compagnie de Saint-Gobain in 2006, there are no limitations on the powers associated with the role of Chief Executive Officer.

Statutory Auditors' report

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

Year ended December 31, 2006

To the shareholders,

In our capacity as Statutory Auditors of Compagnie de Saint-Gobain and in accordance with the provisions of Article L. 225-235 of the French Commercial Code *(Code de commerce)*, we 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, 2006.

It is for the Chairman to give an account, in his report, notably of the conditions in which the duties of the Board of Directors are prepared and organized and the internal control procedures in place within the Company. It is our responsibility to report to you our observations on 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.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform 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 notably consisted of:

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

- obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the Chairman of the Board's report, prepared in accordance with Article L. 225-37 of the French Commercial Code.

Neuilly-sur-Seine and Paris La Défense, March 22, 2007

The Statutory Auditors

PricewaterhouseCoopers Audit

KPMG Audit
Department of KPMG SA

Pierre Coll

Rémi Didier

Jean Gatinaud

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

Statutory Auditors' special report

On regulated agreements and commitments with third parties

Year ended December 31, 2006

To the shareholders,

In our capacity as Statutory Auditors of Compagnie de Saint-Gobain, we hereby report to you on regulated agreements and commitments with third parties.

Our responsibility does not include identifying any undisclosed agreements or commitments. 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.

AGREEMENTS AND COMMITMENTS RELATING TO THE YEAR ENDED DECEMBER 31, 2006

We hereby inform you that we were not informed of any agreement or commitment entered into during the year ended December 31, 2006, subject to the provisions of Article L. 225-38 of the French Commercial Code *(Code de Commerce)*.

AGREEMENTS AND COMMITMENTS ENTERED INTO IN PRIOR YEARS WHICH REMAINED IN FORCE DURING THE YEAR ENDED DECEMBER 31, 2006

In application of the March 23, 1967 decree, we were informed of the following agreements and commitments entered into in prior years, which remained in force during the year.

Statutory Auditors' special report

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

Pursuant to the settlement agreement entered into between Compagnie de Saint-Gobain and Christian Streiff and authorized by your Board of Directors in its meeting of May 3, 2005, in 2006 Compagnie de Saint-Gobain paid Christian Streiff €0.7 million in respect of the non-competition indemnity. He also continued to benefit, until such time as he found another position, from the rental of his current apartment, received an amount of €3,500 per month towards office and secretarial costs, and had 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
Corporate officer: Michel Pébereau

In 2006, BNP Paribas received a total amount of €4.7 million from Compagnie de Saint-Gobain in respect of the six agreements entered into between the two companies and authorized by your Board of Directors in its meeting of July 21, 2005. This sum includes the amounts paid by BNP Paribas to the banks which took part in the loan syndication.

• Acquisition by Saint-Gobain Group of an additional interest in Hankuk Glass Industries (HGI) in April 2005
Corporate officer: Sehoon Lee

In its meeting of March 24, 2005, your Board of Directors authorized a call option in favor of its subsidiary Sofiag and a put option in favor of the vendor, Cameleo Investments, which is owned by Mr. Sehoon and Mr. Seheon Lee, on the remaining share capital of NAI Holding which has a 34.5% interest in HGI. These options will be exercisable in April of each year of the period running from 2007 to 2012, and the exercise price will be calculated on the basis of HGI's earnings, within a range of between €78 million and €95 million. In accordance with the agreements, an additional earn-out of €2.8 million was paid to Cameleo Investments and the same amount will be paid to the vendor if the call option or put option is exercised between 2007 and 2012, in respect of the capital gain realized by HGI in 2006 on the sale of land.

We performed our procedures in accordance with professional guidelines applicable in France. These guidelines require us to perform procedures to verify that the information given to us agrees with the underlying documents.

Neuilly-sur-Seine and Paris La Défense, March 22, 2007

The Statutory Auditors

PricewaterhouseCoopers Audit

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Department of KPMG SA

Pierre Coll

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2006 Management report

ANOTHER YEAR OF STRONG GLOBAL GROWTH

The world economy grew by more than 4% in 2006 for the fourth year in a row – even reaching the 5% mark at a certain point – with inflation staying in check despite spiraling commodities prices.

So far the **US** economy has experienced a soft landing. The sharp turnaround in the real-estate market – with building permits down by more than 20% between mid-2005 and end-2006 and the number of construction starts over 25% lower – did not trigger a chain reaction in household spending. Instead, for private individuals, the negative impact of the moderate erosion of real-estate prices was more than offset by tamer energy prices in the autumn, combined with rising real income levels in a tight job market and robust performance from equities and fixed-income products.

On the corporate front, investment projects were boosted by further earnings growth, the sound financial health of companies, and high capacity utilization rates.

The trade deficit – financed by Asia – still hangs over the US economy but has been stabilized by an upswing in exports generated by the weak dollar.

China – currently the world's number two economic powerhouse – once again posted growth of close to 10%. Despite a spate of restrictive public measures aimed at preventing the economy from overheating, investment in fixed capital was on a par with 2005 and industrial output levels picked up again at the end of the year. At the same time, the under-evaluation of the yuan created an ideal climate for exports.

The other emerging countries also continued to move steadily ahead. In **India**, GDP leapt 8%, propelled by the service sector as well as by the country's expanding manufacturing industry and exports. For the time being, the widening of the public deficit and inflationary pressure have been kept under control.

The economies of **Eastern Europe** performed well overall, with average growth hovering around 6% for the 10 new members of the European Union. The year saw robust household consumption and commercial trading, as well as a strong contribution from construction spending.

Latin America coped effectively with the financial upheaval experienced in May and June, which did not significantly dent actual economic performance. As a result, this region is now better equipped to hold out against an external shock.

The **Eurozone** returned to a sustained pace of growth in 2006, spurred by three factors: (i) household spending, as purchasing power rose due to declining energy prices and the beginnings of an upturn in the job market; (ii) capital expenditure and non-residential construction; and (iii) exports, although these slowed slightly in the middle of the year.

The region's strong showing was particularly driven by **Germany's** stellar foreign trade performance, with 2006 reaping the benefits of measures put in place over the last few years to streamline the country's production systems and render them more competitive. German GDP climbed 2.9%, fueled by exports – which expanded 12.9% – and, to a lesser degree, capital expenditure (up 6.4%). The slight slowdown in purchases of machinery towards the end of the year was offset by buoyant construction spending. The only dark cloud for the German economy was household consumption which remained lackluster despite hopes of an increase due to the country hosting the FIFA World Cup and expectations of a surge in spending before the January 1, 2007 rise in VAT.

Germany's solid achievements helped drive a 2.9% increase in performance in **Belgium** and the **Netherlands**, with the Dutch economy growing twice as fast as in 2005.

Another star player during the year was **Spain**, whose GDP expanded by 3.9%. Despite high levels of debt, households continued to spend briskly on products and services, and kept up the pace of investment in real-estate. In tandem, recovery in the manufacturing sector was bolstered by a pick-up in capital expenditure.

Italy – which has undertaken a major industrial restructuring drive, especially in the automotive and banking sectors – also returned to the growth track in 2006, posting its best results in six years on the back of a rebound in household spending and a recovery in exports and capital expenditure.

Against this background, **France** put in one of the worst performances of the Eurozone, with the economy growing at a mere 2%. Structural constraints continued to curb supply, and production did not prove competitive enough for foreign trade, leaving consumer spending the main growth driver once again. Positive avenues opened up at the end of the year, however, as business expenditure and international trade picked up momentum.

Among the non-Eurozone countries, the **United Kingdom** experienced a surge in the finance, tourism and leisure sectors, which once again fueled the country's growth. The impact of productivity improvements – both in terms of labor and capital – fed through to spending, with households taking on debt to finance consumption despite higher interest rates. The strength of the pound against the world's other major currencies weighed on industrial competitiveness, but at the same

2006 Management report

time cushioned the inflationary impact of the hike in commodities prices.

2006 saw the end of zero interest rates, but **Japan** performed less well than initially expected, with growth coming in at around 2.2%. The stagnation of average wages, due to baby-boomers retiring and being replaced by younger less well paid workers, combined with a switch from corporate dis-saving to net saving, dragged down purchasing power and curbed household consumption. Although the job market is on the upturn and unemployment has begun to shrink, Japanese economic growth was once again driven by exports which were boosted by the weak actual effective exchange rate of the yen.

CONSTRUCTION INDUSTRY

The real estate bubble in the US burst in 2006, with construction starts dropping from a yearly average of 2 million in mid-2005 to 1.6 million at end-2006 and building permits falling to 1.6 million, from 2.2 million. Transactions in both the new construction and existing property markets held up, however. The average price of housing dipped by a modest 3,5%, as monetary tightening measures had only a moderate impact on mortgage rates which in turn sustained demand. The industry ended the year on a hopeful note, with morale for construction industry professionals pointing up.

In **Europe**, the German construction market began to turn around. Elsewhere the number of completed units once again hit record levels – 700,000 in Spain, 436,000 in France, and 204,000 in the UK, although the rise in lending rates slightly slowed increases in sale prices. The main challenge facing several European countries is satisfying the substantial needs of the mid-income bracket for housing at contained prices without overly burdening the already high debt levels of households. A promising avenue in this respect is the renovation of existing housing as part of a sustainable development approach including measures to achieve energy savings and increase the number of affordable homes.

ELECTRONICS INDUSTRY

This industry continued to make significant strides in 2006, with worldwide semiconductor sales climbing around 10% in absolute value terms as sluggish performance in the US was offset by strong rises in Asia and Europe. New production facilities – which increased capacity by 15% – swiftly reached saturation, paving the way for a positive outlook in 2007. The electronics mass market also performed well, with worldwide personal computer sales up 9.5%.

AUTOMOTIVE INDUSTRY

Worldwide automotive sales reached record highs in 2006 for the fifth consecutive year. This performance was led almost entirely by Brazil, Russia, India and China whose aggregate sales soared, while the more mature American and European markets lost pace. Global production of light vehicles grew 4.2% to 66 million units, with Brazil, Russia, India and China contributing 12.3 million units, up by more than 17%.

The positive trend observed in the **US** at the beginning of 2006 petered out over the course of the year and by the year-end sales had sagged 2.6%. This decrease stemmed from a number of factors, including higher petrol prices and lending rates, as well as a sharp decline in new purchase incentives and a shift by consumers away from high fuel-consumption models which hit the «big three» car manufacturers. Including relocations, US output slipped 5.7%.

Western Europe only just avoided recording a retreat in sales in 2006, with the market expanding merely 0.7% to 14.62 million units. The region owes its overall positive performance to Germany, where sales rose 3.8%, driven by a surge at the end of the year prior to a rise in the VAT rate, as well as Italy, where sales nudged up 3.7% thanks to tax exemptions, and several smaller countries such as Sweden, Belgium and Ireland. These robust showings more than offset declines in new vehicle registrations in France, Spain and the United Kingdom, representing 3.3%, 2.0% and 3.9% respectively. Output for the region continued to contract, however, decreasing 1.7%, with the sharpest falls in France (9.8%) and the UK (7.9%). The resulting slack was taken up by **Central and Eastern Europe** – regions that are increasingly being chosen for the construction of new models as a result of fiercer competition and ever-rising production factor costs, rather than countries such as Spain and Portugal, which were previously selected for their competitive cost advantages. Consequently, output in Central and Eastern Europe climbed 18.1% over the year.

Latin America also delivered a robust performance, with sales advancing 12% and 8% in Brazil and Argentina respectively, and output for the region – including Mexico – up 12.5%.

Production in **Japan** surged 7.8%, despite a 5.4% drop in the domestic market.

A RECORD PERFORMANCE FOR THE SAINT-GOBAIN GROUP

The Group's performance in 2006 outstripped targets, coming in at a record high and significantly up on 2005. At constant exchange rates, net sales climbed 18.2% to €41,596 million and operating income surged 29.8% to €3,714 million, fueling a

32.6% jump in net income excluding capital gains and losses. Acquisitions, net of divestments, accounted for 11.4 points of the sales growth figure.

These stellar showings were powered by extremely buoyant business volumes, coupled with further enhanced performance levels as well as a favorable economic environment. The Construction markets kept up their brisk pace of growth, spurred by strong momentum in Europe – with the start of a turnaround in Germany – which offset the decline in the US housing sector during the second half of the year. At the same time, the world's developed countries saw high industrial production and capital expenditure levels, while emerging countries notched up solid growth figures.

The Group delivered an extremely solid performance against this backdrop, with results up sharply on the previous year. Organic growth reached 6.7%, breaking down as 3.5 points for prices and 3.2 points for volumes, representing the Group's best figure for the past ten years. The pace of organic growth was particularly strong during the second half of the year. Operating margin was also up, increasing to 8.9% from 8.2% and to 10.9% excluding Building Distribution, compared with 9.8% in 2005 (without BPB). In parallel, cash flow from operations advanced 24%. These results reflect robust trends in the construction markets in both six-month periods of 2006. The Construction Products and Building Distribution sectors were strong contributors, reporting 8.7% and 7% in organic growth respectively, and the Flat Glass and Packaging sectors experienced a turnaround during the second half of the year. At the same time, the Group's businesses targeted at household consumers continued to reap the benefits of favorable spending trends. Lastly, Saint-Gobain made further forays into Asia and emerging countries during the year, reporting like-for-like growth of 12.7% in these regions.

All of the Group's five business sectors contributed to the rise in operating results, powered by a surge in like-for-like sales. The **Flat Glass Sector** posted growth of 8.6% – or 7.8% on a like-for-like basis –boosted by an 11.5% increase in volumes and sales prices in the second half of the year. The sales structure also progressed well, notably for layered glass which reached its highest levels in the past five years. Added to this, the sector registered further growth in emerging markets, which accounted for 60% of its capital expenditure. Profitability for the Flat Glass Sector improved over the last six months of 2006, with the operating margin coming in at 9.8% versus 9.4% in 2005, but was slightly down over the year as a whole due to the impact of high energy and commodities prices in the first six months.

Like-for-like net sales for the **High-Performance Materials** were up 3.3% over the full year, reflecting the steady momentum of industrial markets – especially in energy (ceramic balls for oil prospecting), the environment (diesel engine particulate filters), and housing. Operating margin for Ceramics, Plastics & Abrasives continued to rise, reaching 13%, whereas that for Reinforcements contracted significantly due to a further decline in sales prices. The combined impact of these figures played a role in trimming the sector's operating margin from 10.5% to 10.1%.

The **Construction Products Sector** reported the Group's highest rise in organic growth, at 8.7% like-for-like. All of the sector's Divisions contributed to this performance, despite the slowdown in US housing starts during the last six months of the year. Organic growth figures for interior building solutions (the Gypsum and Insulation Divisions) were 12.1% and 10.4% respectively, led by brisk demand in the majority of markets and by increasing energy savings, particularly in Europe. Operations were also buoyed by the swift and effective integration of the Gypsum Division into the sector, which has already led to a number of synergies concerning product ranges, capacity optimization and supply-chain management. Operating income leapt 32%, including synergies which had an estimated 15% positive impact on the sector's overall net income. The Pipe Sector also posted robust organic growth, which stood at 9.6%, reflecting a jump in distant export sales and solid performance in Europe. Building Materials sales were pushed up by high growth in Industrial Mortars in both Europe and emerging markets, but were hurt by the above-mentioned slowdown in the US residential construction industry. Overall, however, the sector's operating margin rose sharply to 12.7% from 9.2% in 2005 – a year in which the impact of the BPB acquisition was minimal.

Net sales for the **Building Distribution Sector** were up 7% on a like-for-like basis, particularly due to strong overall performance in the second half of the year and an excellent showing from the sector's main banners in France, Scandinavia and Eastern Europe, as well as in Germany which was a first for the country. The UK banners registered more moderate growth rates, however. The Sector continued to implement its strategy of bolt-on acquisitions in the major European countries, purchasing 54 companies in 2006 representing estimated full-year net sales of €630 million. Operating income also surged, advancing 12.7% to top the symbolic €1 billion mark – Saint-Gobain's operating income figure for the Group as a whole in 1987.

The **Packaging Sector's** net sales climbed 3.6% on a like-for-like basis, reflecting the successful measures taken by the Bottles and Jars business to pass on energy costs in both the United States and Europe. This fueled an advance in operating margin which stood at 8.8% in the second half of the year compared with 8.1% in the comparable period of 2005 – primarily due to price increases and enhanced industrial performance – although the full-year figure was slightly down on 2005. One of the reasons for the decrease was the sale of Calmar during 2006, which had a negative full-year impact on net sales and operating income, amounting to €364 million and €56.8 million respectively. In the Bottles business, the Sector pursued its strategy of strengthening its foothold in emerging markets, building a new furnace in Ukraine, extending capacity in Russia, and constructing a plant in Chile.

A geographical analysis shows that like-for-like net sales climbed 5.7% in France and 7.1% in other Western European countries, with Germany picking up sharply in the second half of the year, recording growth of

2006 Management report

11.8%. North America posted modest full-year growth of 3.1%, despite a very good first half, due to the impact of the slowdown in housing starts in the last six months of 2006. Momentum remained strong in emerging countries and Asia, with organic growth coming in at 12.7% and total net sales up by almost 33%.

By geographic area, France accounted for 28.3% of total net sales, other Western European countries contributed 42.5%, North America 16%, and emerging countries and the Asia-Pacific region 13.2%.

Overall operating income climbed 29.9%, or 29.8% at constant exchange rates, with developed countries reporting a 29% increase and emerging countries and Asia up 36%. The Group's total operating margin rose significantly to 8.9% and to 10.9% excluding Building Distribution, driven by an excellent performance over the whole year, and the contribution of the Gypsum Division.

The 30.1% jump in business income mainly stemmed from the rise in operating income. Non-operating expenses increased to €367 million from €288 million in 2005, due to further restructuring operations (accounting for €213 million compared with €184 million) related to various cost-saving and productivity optimization measures carried out by the Group in both Europe and the United States. The provision for asbestos claims decreased, however, to €95 million from €100 million due to developments in the cases concerned.

Disposal gains and losses and exceptional asset impairment amounted to a net negative €27 million, with the €202 million in impairment losses more than offsetting the €175 million in gains from assets sold during the year (including €146 million relating to the Calmar sale).

Net attributable income attributable advanced 29.5% to €1,637 million. Excluding capital gains and losses the figure comes in at over €1,702 million compared with €1,284 million in 2005, representing a surge of 32.6%. Based on the number of shares outstanding at December 31, 2006, earnings per share excluding capital gains and losses climbed 24.2% to €4.62 from €3.72 in 2005. Including capital gains and losses it rose 21.3% to €4.44.

The Group's overall performance was also boosted by a number of other factors. Working capital requirements expressed in number of days continued to fall, representing 44 days instead of 49 in 2005, meaning that this figure has been slashed by 16 full days since 2002.

Free cash flow remained at a high level (€1,183 million versus €1,062 million in 2005), despite a year-on-year increase in capital expenditure from €1,756 million to €2,191 million. This rise in spending was mainly concentrated in emerging countries and Asia, which accounted for 27.1% of the total, and was also due to the integration of BPB's capital expenditure which was focused on setting up new capacities in Europe and elsewhere.

Investments in securities amounted to €584 million, including €355 million for Building Distribution and €142 million for Construction Products. Disposals represented €891 million, of which €670 million related to Calmar (Packaging) and Synflex (High-Performance Materials), and €208 million to non-current assets.

Net debt was reduced to €11.6 billion from €12.9 billion at end-2005. Total equity rose to €14.5 billion from €12.3 billion and the gearing ratio fell to 80% from 104%.

CAPITAL EXPENDITURE AND INVESTMENTS IN SECURITIES

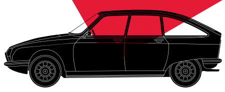
CAPITAL EXPENDITURE (EXCLUDING FINANCE LEASES)

(In € millions)	2004	2005	**2006**
BY SECTOR AND BY DIVISION			
Flat Glass	448	485	**448**
High-Performance Materials	240	271	**225**
Ceramics & Plastics and Abrasives	*132*	*187*	***161***
Reinforcements	*108*	*84*	***64***
Construction Products	296	355	**844**
Building Materials	*101*	*102*	***142***
Insulation	*144*	*145*	***145***
Gypsum	-	*52*	***487***
Pipe	*51*	*56*	***70***
Building Distribution	249	327	**315**
Packaging	302	305	**335**
Other	*5*	*13*	***24***
GROUP TOTAL	**1,540**	**1,756**	**2,191**
BY MAJOR GEOGRAPHIC AREA			
France	363	391	**485**
Western Europe (excluding France)	483	574	**749**
North America	273	256	**363**
Emerging countries and Asia	421	535	**594**
GROUP TOTAL	**1,540**	**1,756**	**2,191**

INVESTMENTS IN SECURITIES

Acquisitions 2006 *(In € millions)*	Value of securities	Estimated full-year net sales
Flat Glass	14	-
High-Performance Materials	6	4
Construction Products	142	222
Building Distribution	355	630
Packaging	67	15
TOTAL ACQUISITIONS	**584**	**871**
of which in emerging countries	*208*	*238*
Acquisitions 2005 *(In € millions)*		
Flat Glass	161	143
High-Performance Materials	48	62
Construction Products	6,051	3,773
of which BPB	*5,929*	*3,610*
Building Distribution	628	1,245
Packaging	98	120
Holding companies	5	-
TOTAL ACQUISITIONS	**6,991**	**5,343**
of which in emerging countries	*408*	*482*
Acquisitions 2004 *(In € millions)*		
Flat Glass	49	49
High-Performance Materials	27	28
Construction Products	51	70
Building Distribution	529	1,820
Packaging	2	-
TOTAL ACQUISITIONS	**658**	**1,967**
of which in emerging countries	*82*	*81*

Flat Glass



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 building industry; production of automotive glass; and production of specialty glass, which includes products for home appliances, fireproof glass, nuclear safety glass and glass for electronics.

Flat glass is manufactured in large industrial units known as float-glass lines, which produce everything from basic grades (in clear and colored varieties) through to more sophisticated types with metallic 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 40 countries and boasts 32 float-lines, of which seven are jointly owned. In addition, two new float-lines are currently under construction, in 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 companies 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 further significant end-use markets for the Sector's product expertise.

The Sector includes under the heading of Specialty Glass a number of companies with 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.

In 2006, the Flat Glass Sector established its first facility in Romania by building a new float-line in the country.

OPERATIONS IN 2006

Worldwide net sales for the Flat Glass Sector in 2006 advanced 8.6% year-on-year to €5.1 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. This performance was achieved despite the sale of Hankuk Haniso to the Insulation Division and the withdrawal from the sector's North American transport companies. Like-for-like net sales, based on a comparable Group structure and constant exchange rates, climbed 7.8%.

In Europe, float glass sales rose by 17.4%, owing to higher business volumes (chiefly in Germany and 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 late 2004. Outside Europe, like-for-like net sales for Saint-Gobain Glass rose steeply through increased volumes in Brazil, China and India, where a second float-line went into production in November 2005. Nevertheless, there was significant downward pressure on float

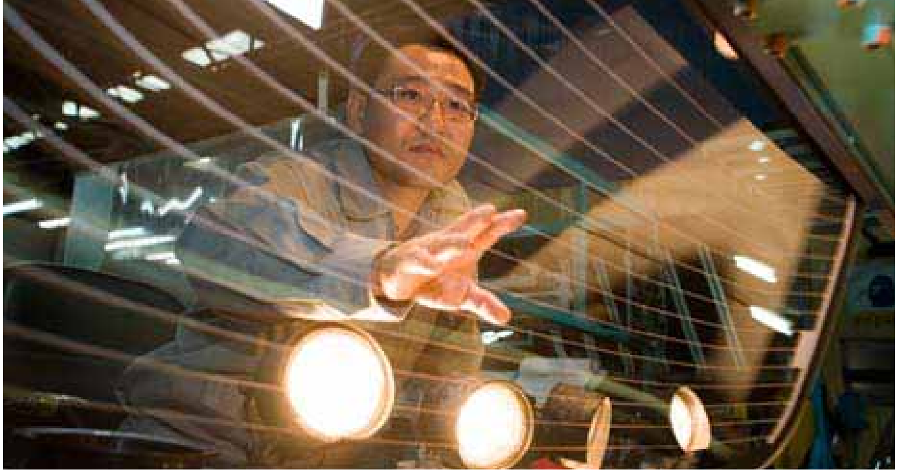
CONTRIBUTION TO THE GROUP

	2006	2005	2004
(% of net sales)	12 %	13 %	14 %
% of operating income	13 %	16 %	17 %
% of cash flow from operations	16 %	19 %	19 %

KEY CONSOLIDATED DATA

(In € millions)	2006	2005	2004
Net sales	5,083	4,680	4,429
Operating income	480	453	461
Cash flow from operations	529	528	511
Capital expenditure	448	485	448

Sales data by Sector include internal sales.



prices in Brazil and South Korea, against a backdrop of rising costs.

Sales reported by the network of subsidiaries specializing in processed products for the building industry climbed 6.3%, boosted by a rise in volumes and price levels.

European automotive glazing sales increased, after a contraction in the previous year, with the rise in volumes (mainly in Poland) offsetting the decline in prices already observed in 2005. Outside Europe, volumes continued to advance, driven by the new plants in China and India, and by soaring growth in Brazil and Mexico.

The transport business (glazing for planes, trains, buses, coaches, etc.) reported a decrease in overall sales following Saint-Gobain's withdrawal from this business in the United States at the end of 2005, but made solid gains in its traditional markets and regions.

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

Sales also climbed in the Specialty Glass business, with sustained demand for products such as fireproof glass.

Operating income for the Flat Glass Sector in 2006 came in higher than 2005 – a year that was marked 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 2007

The Group expects the following main factors to affect the performance of its Flat Glass Sector in 2007:

- A continued rise in costs – primarily energy – but probably less marked than in 2006.
- 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 line in Romania, the completion of the float line in Mexico whose startup is scheduled for end-2007, and the startup of a new float line in Poland.
- The continuation of the technical performance enhancement program.

FLAT GLASS

BUSINESSES AND PRODUCTS	MAIN APPLICATIONS	KEY COMPETITORS	COMPETITIVE RANKING*
■ Basic glass products Flat glass	Plain & tinted glass, glass with special coatings		
■ Processing and distribution of glass for the building industry	Glass for construction, interior building solutions & furniture industries	■ NSG (Japan) ■ Asahi (Japan) ■ Guardian (USA) ■ P.P.G (USA) ■ Cardinal (USA)	■ No. 1 in Europe ■ No. 3 worldwide
■ Automotive glass	Clear and safety products for the automotive industry and glass for replacement parts Aeronautical & mass transit industries		
■ Specialty glass	Fireproof glass, nuclear safety glass, industrial optical systems, household appliances, industrial refrigeration, glass for electronic devices, and photovoltaic glass	■ Schott (Germany) ■ Corning (USA)	

** Source Saint-Gobain*

High-Performance Materials

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 aiming 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. Developed European countries account for 34% of net sales, North America for 40%, and Asia and emerging countries for 26%. The Sector employs a workforce of around 35,800, just 31% of which is based in Western Europe. Its customer base breaks down (by net sales) as 57% for industry (mechanical engineering, iron & steel, energy, chemicals, bio-medical, and opto-electronics), 21% for transport (including automotive and aeronautics), 14% for construction, and 8% for home appliances. Two-thirds of the sector's products are used for manufacturing industrial equipment and one-third for making consumables.

The businesses that currently make up the High-Performance Materials Sector are the result of an ambitious organic and external expansion policy. 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) Bicron (crystals) in 1990, Carborundum (ceramics & abrasives) in 1996, and Furon (plastics) in 1999.

This strategy has been backed by internal synergies, innovation capacity and high-profile coverage of the world's main industrial regions.

The sector combines various businesses that share the following characteristics:

- worldwide leadership [1] in 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 2006 in order to stimulate effective synergies and better serve the needs of its markets. The sector comprises five distinct Divisions: *Ceramics* (including pellets and powders, crystals and pure ceramics), *Performance Plastics, Abrasives, Reinforcements & Composites,* and *Textile Solutions.*

OPERATIONS IN 2006

Overall, the High-Performance Materials Sector held firm in its traditional markets in 2006. Profitability remained high, despite spiraling energy and raw materials prices. *Reinforcements & Composites* were nevertheless impacted by increased energy costs, the weak dollar and competition from emerging countries, especially China.

High-Performance Materials Sector priorities in 2006 were to:

- push ahead with development in Asia and emerging countries, by opening up or significantly increasing the capacity of, five major sites including four in China;
- launch the production of silicon carbide-based filters for diesel engines at its site in Rödental, Germany, in anticipation of European standards which will require all light diesel vehicles to be equipped with such filters by 2010;
- step up R&D efforts by 9% year-on-year, developing synergies across Divisions and concentrating resources onto a sharply focused range of high-growth opportunities;
- continue optimizing the business portfolio.

Adjustments to the business portfolio led to a change in the scope of consolidation and an overall negative impact of around 2% on sector-wide net sales in 2006.

CONTRIBUTION TO THE GROUP

	2006	2005	2004
% of net sales	12%	14%	14%
% of operating income	13%	18%	18%
% of cash flow from operations	13%	16%	18%

KEY CONSOLIDATED DATA

(In € millions)	2006	2005	2004
Net sales	4,938	4,880	4,732
Operating income	500	511	503
Cash flow from operations	432	446	488
Capital expenditure	226	271	240

Sales data by Sector include internal sales.

(1) Source Saint-Gobain

■ Several operations were sold or discontinued as they were deemed to be non-strategic or not sufficiently profitable. These included Synflex – specialized in producing pipes for high-pressure fluids for heavy goods vehicle equipment suppliers – which was sold to the Eaton group.

■ At the same time, the sector made a number of modest-sized acquisitions in its core businesses, including Orient Abrasives (an Indian manufacturer that produces bonded abrasives), Consolidated Polymer Technologies (a specialty tubing manufacturer for the medical sector in the United States), and an abrasive pellets plant in China.

Ceramics Division

The Ceramics Division covers all the businesses making ceramic-based materials or components, i.e. anything that is not metallic or organic (excluding glass). Ceramic substances have a number of special properties such as hardness, abrasion resistance, refractory qualities, electro-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: (i) raw materials for making refractory, ceramic and abrasive products; (ii) proppants and petrochemical catalysis substrates in hydrocarbon production and processing industries; and (iii) abrasives (zirconium balls) in micro-grinding applications. Saint-Gobain High-Performance Materials holds leading positions in these worldwide markets[1], particularly for silicon carbide and zirconium products.

■ Refractories. With their properties of high thermo-mechanical strength and chemical stability under extreme conditions (required by client applications), refractory ceramics are used 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, electric 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 will result in the phasing in of self-regenerating particulate filters on diesel vehicles. These filters are selling particularly well in Germany, where the government passed a law in 2006 authorizing grants to motorists who equip their diesel vehicles with DPFs. The High-Performance Materials Sector recently entered this market, which was previously occupied by Japanese competitors. The Saint-Gobain filter has been taken up by several automakers in the European car market. Output of this new product line began in 2006, and 45,000 filters were sold in the first year of production.

■ 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, substrates (sapphire windows for aeronautical applications, lenses for semiconductor etching, LED substrates,etc). Crystals are also used in key manufacturing equipment, such as quartz crucibles for solar silicon growth. Because surface finishing precision can be as important as actual crystal quality in the manufacture of crystal-based products (or silica-based products for optical applications), opportunities are emerging for development partnerships with abrasives businesses. Saint-Gobain's High-Performance Materials Sector leads the world scintillating crystals market.

The Ceramic Division's net sales came to €1,489 million in 2006, up by 3% on 2005, 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, assisted by manufacturing streamlining measures carried out in 2005 and 2006. Strong contributions came from high-growth markets such as hydrocarbon prospecting and processing (proppants and catalyst substrates); flat LCD screens and plasma display panels (high-zirconium glass refractories); renewable energy and environmental technologies (silicon carbide powders for particulate filters, superabrasives for cutting silicon for photovoltaic applications); and defense and security (armor plating and sensors).

Key industrial achievements of the year were:

■ The startup of new silicon carbide powder lines in Norway.

■ Two diesel particulate filter production lines brought on stream at the Rödental plant in Germany.

■ The construction of a unit dedicated to manufacturing silicon carbide pellets and a proppants plant in Venezuela.

■ The construction of a proppants plant and a site dedicated to manufacturing zirconium-based ceramic pellets in Dengfeng (China).

■ The startup of a new plant in China making sintered refractories for glass furnaces.

■ The production of electric igniters in Mexico.

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 plastics that are temperature and corrosion-resistant and are chemically neutral, such as fluoropolymers, polyimides and silicones.

The 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

(1) Source Saint-Gobain

High-Performance Materials

aeronautical industries. Bearings and gaskets in plastic-metal composite materials are replacing classic gaskets and ball bearings.

■ **Fluid systems.** These products include 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, the High-Performance Materials Sector places a strong emphasis on recognized competencies 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, such as cooking surfaces, adhesive rolls and aircraft interior finishings.

In 2006, net sales by the Performance Plastics Division grew by 7.4% to €690 million (based on a comparable Group structure and constant exchange rates), powered by strong momentum in the medical, pharmaceutical, aeronautics and semiconductor markets. The Division sought to boost organic growth and enhance profitability through innovation, industrial excellence and geographical expansion. Following the sale of Synflex (which specializes in tubing for the heavy goods vehicle, agro-food and hydrocarbon production industries), the Division refocused on its best-performing core businesses and related acquisition opportunities. This led to the acquisition in early 2007 of Florida-based Consolidated Polymer Technologies, which specializes in the extrusion of high-quality polymer tubing and has joined the fluid systems business.

Reinforcements & Composites Division and Textile Solutions Division

These two Divisions 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, aeronautical, wind turbine and marine applications. The Textile Solutions Division primarily covers construction and industrial applications not involving composite materials.

The *Reinforcements & Composites* Division's main product lines are:

■ **Glass strands.** Glass textile (known as "E-glass") products, in the form of cut strands, rovings and matting, are used as reinforcement for thermoplastic and thermosetting composite materials for applications such as car body parts, storage tanks, boat shells and sports equipment. Some specific-purpose products use special types of glass, such as alkali-resistant glass for cement reinforcement. Through its Vetrotex brand, Saint-Gobain High-Performance Materials is the joint worldwide leader[1] 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, polyester, polyethylene and organic and mineral fibers as well as glass) are woven using a broad array of technologies specific to client applications, which include wind turbine blades, boat shells and car body parts. The High-Performance Materials Sector is the world number one [1] in glass-based reinforcing materials for wind turbine 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. Their main historical application is the reinforcement of electronic printed circuit boards, although this industry has largely relocated to Asia in the past few years and Vetrotex has gradually withdrawn from this business, focusing instead on shoring up sales in the construction markets and other industries. A leading player in this market in Europe and North America , the *Textile Solutions* Division has built on its strategy of upstream-downstream integration, notably by partnering the expansion of its internal client Saint-Gobain Technical Fabrics.

■ **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 netting, 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[1] in these markets.

In 2006, these two Divisions together achieved net sales of €1,365 million, despite continued difficult market conditions.

(1) Source Saint-Gobain

Faced with stiff competition from emerging countries (China in particular) in 2006, 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 in 2006, favoring transfers of capacity to low-cost sites such as in the Czech Republic and Mexico, while overhauling several well-established plants in France and Germany.

In July 2006, Saint-Gobain and Owens Corning announced that they planned to combine their respective reinforcements and composites businesses, thereby creating a global player with sales of $1.8 billion and achieving significant technological and operational synergies. The related agreement was signed on February 20, 2007 and provides for Saint-Gobain to own a 40% stake in the merged outfit, which will operate under the banner of "OCV Reinforcements". The transaction is expected to be completed by mid-2007 subject to the approval of the relevant competition authorities.

Abrasives Division

Saint-Gobain's policy of acquisitions in the abrasives segment has brought it global 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 the Europe-based companies Winter (superabrasives, 1996), Unicorn (superabrasives, 1997) and Flexovit (thin grinding wheels, 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 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, 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. These wheels are used in demanding, high-precision grinding jobs and they have a lifespan that is longer than that of traditional grinding wheels. In certain electronics applications, they can approach nanometer-level precision. Superabrasives are used in most industries (automotive, aeronautics, etc.), and in the construction sector.

The Abrasives Division's net sales came to €1,471 million in 2006, up by 2% on 2005, based on a comparable Group structure and constant exchange rates. During the year, the Division pushed ahead with its strategy of differentiation through service, innovation, and development in emerging countries. Sales volumes of abrasive products – which are highly dependent on industrial production levels in the various geographic regions – rose once again in emerging countries and North America but remained flat in Western Europe. New product launches picked up speed and the Division continued to implement industrial streamlining measures in Europe. Plant investments were balanced between emerging countries – where spending was focused on capacity increases and local product range extensions – and developed regions, where the priority was on industrial streamlining and automation measures.

OUTLOOK FOR 2007

The outlook for the High-Performance Materials Sector is somewhat mixed for 2007. Growth is expected for energy- and environment-related applications but housing-related business is showing signs of a slowdown, particularly in the United States. The automotive market is set to remain sluggish, as is Europe's industrial machinery sector, but the European construction market is likely to hold firm.

Ceramics

Crystals should experience another year of growth in 2007, buoyed by a revitalized portfolio of products and applications and strong momentum in the areas of oil exploration, security and safety, photovoltaic products and medical imaging.

The Ceramics Division plans to leverage its solid skills-base to further drive growth. Its main priorities will be the high-end silicon carbide market as well as creating innovative and diverse solutions in its abrasive pellets business, and continuing measures to expand capacity for the proppants market.

Performance Plastics

The Performance Plastics Division is expected to see further robust growth in 2007, fueled by innovation, expansion in emerging countries and the contributions of newly-acquired companies. The Division should reap the benefits of a trend towards using plastic instead of metal in medical and biopharmaceutical applications, as well as the emergence of new applications for mechanical components based on performance polymers and vanguard solutions in the films business.

(1) Source Saint-Gobain

High-Performance Materials

Abrasives

The Abrasives Division's main focal points for 2007 are to step up R&D efforts, make further inroads into emerging countries and continue its industrial streamlining measures in Europe.

The Division plans to strengthen its industrial facilities in emerging countries through capacity expenditure, with the opening of a new coated abrasives plant scheduled for 2007 in China.

Reinforcements & Composites and Textile Solutions

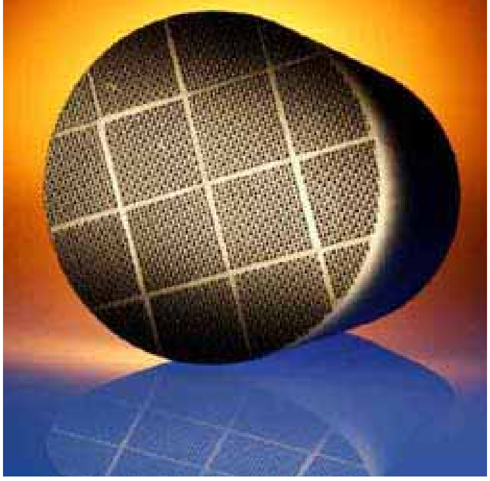
Against a backdrop of moderate market growth representing between 3 and 5%, this Division's focus will be on optimizing the use of its industrial capabilities without any major capacity extensions. This will be achieved by a continued drive to ensure that Saint-Gobain stands out from its competitors in terms of technical and sales offerings, as well as by measures to reorganize production capabilities through prioritizing low-cost sites.

In the construction markets, the *Textile Solutions* Division intends to pursue its policy of both upstream-downstream integration, and capacity filling at production platforms in low-cost countries, in order to sharpen its competitive edge and speed up technology transfers. The Division aims to increase the number of its joint development projects in industrial markets, which will propel growth in textile thread sales for specialized high-value added applications.

HIGH-PERFORMANCE MATERIALS

	BUSINESSES AND PRODUCTS	MAIN APPLICATIONS	KEY COMPETITORS	COMPETITIVE RANKING*
CERAMICS	■ Ceramic pellets & powders	Raw materials for abrasives & ceramics industries Ceramic balls for micro-grinding applications Mineral pigments Catalyst substrates for petrochemical industry Proppants for the petroleum industry	■ Carbo Ceramics (USA) ■ Imerys (France) ■ Astron (Australia) ■ Volzhsky (Russia) ■ Fujimi (Japan)	■ 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	Ceramic blocks for the manufacture of industrial furnaces for glass, ceramic, metallurgy & energy applications (including special glass for LCD & PDP screens) Armor plating for the defense industry	■ Asahi (Japan) ■ Cookson Vesuvius (UK)	■ No. 1 worldwide in refractories for glass & non-ferrous metal industries
	■ Advanced ceramics	Fine ceramics for the automotive, home appliance, aeronautics, aeronautical, electronics, nuclear, petroleum & petrochemical industries	■ General Electric (USA) ■ Ceradyne (USA) ■ Kyocera (Japan) ■ CeramTec (Germany) ■ Asahi (Japan)	■ No. 1 ou No. 2 worldwide, depending on the application
	■ Diesel particulate filters	Pollution-control filters to reduce soot & nitrogen oxide emissions from diesel vehicles	■ Ibiden (Japan) ■ NGK (Japan) ■ Corning (USA)	■ No. 2 ou No. 3 worldwide
	■ Crystals	Sensors for security and safety, oil prospecting & medical imaging applications Substrates, components & equipments for semi-conductor & optic industries	■ Kyocera (Japan) ■ II-VI (États-Unis) ■ Heraeus (Germany)	■ No. 1 worldwide in scintillation systems

** Source Saint-Gobain*



HIGH-PERFORMANCE MATERIALS

	BUSINESSES AND PRODUCTS	MAIN APPLICATIONS	KEY COMPETITORS	COMPETITIVE RANKING*
PERFOR-MANCE PLASTICS	■ 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 the automotive and construction industries	■ 3M (USA) ■ Rogers (USA) ■ DuPont (USA) ■ Nitto Denko (Japan)	■ No. 1 worldwide in fluoro-polymer textile coatings
REINFOR-CEMENTS & COMPOSITES	■ Glass strands	Cut strands, mats, continuous strands & rovings for reinforcement of composite materials	■ Owens Corning (USA) ■ P.P.G. (USA) ■ Nippon Electric Glass (Japan) ■ Jushi, Taishan, CPIC (China)	■ Worldwide in glass strands
	■ Composite material reinforcement textiles	Composite material reinforcement textiles in glass kevlar or carbon strands for automotive, mass transport, construction, leisure and capital goods, electrical & electronics industries	■ Owens Corning (USA) ■ Hexcel (USA)	■ No. 1 worldwide in reinforcement textiles for wind turbine blades
TEXTILE SOLUTIONS	■ Glass threads	Glass thread on reels for the textile industry	■ AGY (USA) ■ Nittobo (Japan) ■ P.P.G. (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	■ Grinding tools	Roughing, grinding and sharpening of materials and tools in aeronautics, automotive, metal processing, steelworks & bearings industries	■ Carbo plc (United Kingdom) ■ Noritake (Japan) ■ Tyrolit (Austria)	■ World leader in all abrasive businesses
	■ Thin grinding wheels	Cutting, deburring, metal processing, mainte-nance, energy, steelworks, construction and DIY applications	■ SAIT (Italy, 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*

Construction Products

The Construction Products Sector comprises the Gypsum, Insulation, Exterior Products, Pipe and Industrial Mortars Divisions. The richness and diversity of these 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 success of this sector is grounded in its exceptional strengths – highly professional people, widely-recognized brands, and solid strategic positions in its markets.

The year was marked by the integration into Saint-Gobain of BPB which has become the Group's Gypsum Division. Particular focus was placed on building synergies as part of the Symbiosis project which has already led to significant gains in line with forecasts. The Construction Products Sector expects to achieve €100 million in synergy gains in full-year 2007 in addition to the €50 million generated in 2006. The Division also aims to foster development synergies in 2007, particularly in terms of marketing, R&D and acquisition-based growth. All of the Sector's businesses pursued their expansion strategy during 2006.

GYPSUM

The Gypsum Division was set up following the acquisition of BPB and has become the Construction Product Sector's largest business. Saint-Gobain Gypsum is the world's leading 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 Division's aim is to become the preferred supplier for innovative and high-performance interior building solutions. Extensive

international coverage, with a workforce of over 12,500 across 130 production sites, ensures that its offering can be tailored to local customer expectations.

The Division's quality control processes ensure a top-range service and serve to bolster its position as world leader [(1)] in plasterboard and plaster-based applications. Saint-Gobain Gypsum's plasterboard systems continue to record one of the leading rates of market penetration and growth within the interior building solutions market.

Saint-Gobain Gypsum 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 plasterboard sales. Demand looks set to grow at an even faster pace due to a swift market penetration rate in emerging countries and the broader use of easy-installation systems in both developing and developed markets with strong brand names such as Placo®, Gyproc®, Rigips® and ProRoc®.

Saint-Gobain Gypsum's traditional-style and lightweight plaster products account for a large portion of its local sales in both highly developed markets and developing and emerging markets. With total annual sales in the region of 5 million tonnes, it is the world's leading supplier of superior-quality plaster products.

The Division has a clear-cut growth strategy, aimed at tapping into the high potential for gypsum-based products. This strategy is underpinned by the following objectives:

CONTRIBUTION TO THE GROUP

	2006	2005*	2004
% of net sales	24%	19%	18%
% of operating income	37%	22%	20%
% of cash flow from operations	31%	20%	20%

KEY CONSOLIDATED DATA

(In € millions)	2006	2005	2004
Net sales	10,876	6,694	6,019
Operating income	1,376	614	542
Cash flow from operations	1,048	559	540
Capital expenditure	846	358	295

* BPB was fully consolidated from December 1, 2005.

Sales data by sector include internal sales.

(1) Source Saint-Gobain

■ achieve profitable sales growth through investment in both equipment and resources to bolster its worldwide leadership position;

■ innovate and develop new systems for interior building solutions combining acoustic, thermal and fire-resistant properties;

■ integrate the business into the Construction Products Sector and generate synergies with the Insulation and Industrial Mortars Divisions;

■ continue to reduce costs;

■ build employee skill-sets by providing sales teams with substantial autonomy to successfully manage local activities.

■ OPERATIONS IN 2006

The Gypsum Division posted excellent earnings growth in 2006. Despite plasterboard sales volumes being curbed by capacity shortfalls in certain key markets, particularly the United States, overall plasterboard and building plaster volumes were over 5% up on 2005.

Higher sales prices of the Division's flagship products effectively offset the impact of the sharp rise in energy costs. At the same time, Europe and North America – two of the Division's principal regions – reported outstanding earnings figures.

Three new plasterboard plants started up operations during the year, in Spain, Malaysia and India, as did a plaster plant in Mexico, as part of the Group's program to increase output capacity with a view to boosting medium-term sales growth. Additional plasterboard plants are scheduled to open in 2007 in markets where the Group's production capacity is limited, including in China, the United Kingdom and the United States.

■ OUTLOOK FOR 2007

The outlook for the Gypsum Division in 2007 is promising. Further advances in sales volumes are expected, led by sustained demand across all of the Division's markets apart from the United States. One of the key priorities during the year will be to pass on the hike in energy and raw materials prices through its sales prices.

In order to satisfy demand in Eastern Europe, Asia, and North America, six new production sites are set to come on stream in 2007. The line-up will be completed by a seventh plant based in Argentina acquired by the Group. The Gypsum Division intends to continue to raise its production capacities and commercial resources and to leverage synergies with the Insulation and Industrial Mortars Divisions.

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-friendly 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 energy consumption and 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 growth, in which the technical expertise of the Insulation Division is highly appreciated by professional customers, thanks to banners

such as Ecophon, Celotex, Eurocoustic, API, Gabelex and Plafometal. The ceilings business was broadened in 2006 with the addition of plaster ceilings offerings provided under the Gyptone, Casoprano, Decogips, Gyprex and Rigitone banners. Backed by its complementary specialist brands, this business now has a comprehensive range of high-performing solutions in over 50 countries.

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 one worldwide in mineral-fiber insulation products(1) , and has operations across the globe, either as a direct producer or via its licensees.

The Insulation Division is structured around the world's major regions, with the aim of fostering manufacturing and marketing synergies between countries and enabling it to respond promptly to market needs. As part of the Group's overall Symbiosis project, over 400 local initiatives were launched between the Insulation and Gypsum Divisions in 2006 in order to meet market demand for full-ranging solutions, particularly in the interior building market.

In industrialized countries where it enjoys long-standing leadership, the Division is developing new high added-value systems. Isover has gained strong footholds across the board in emerging markets for all applications, successfully tapping the growth opportunities generated by the rising demand for comfort, especially in the face of

(1) Source Saint-Gobain

Construction Products

tough climatic conditions. The extension to the Yegorievsk and Gliwice plants in Russia and Poland respectively, as well as the new industrial facility in Ploiesti, Romania, are the tangible results of this policy. The overall strategy adopted by the Division hinges around its global brand, Isover, and is based on the following underlying goals:

- bolstering Isover's leadership in mineral-fiber insulation through technological innovation and the development of cutting-edge systems and products;
- stepping up development in emerging countries, with special emphasis on Central Europe, Russia and Turkey;
- consolidating its positions in the ceilings business by leveraging product synergies (glass-wool and rock-wool soft ceilings, metal ceilings, wet felt ceilings and profiles) in Europe and North America, and expanding geographic reach;
- making an active contribution to the Group's sustainable development efforts, by enhancing the environmental performance of its plants and products, and by promoting the environmental benefits of mineral-fiber insulation products.

OPERATIONS IN 2006

Coming on the heels of a very strong 2004 and 2005, 2006 was another excellent year for the Insulation Division, which saw stellar growth in both net sales and operating income.

All of the Division's European markets contributed to this robust performance, including Germany where momentum recovered after several years of sales contractions. 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, including Russia, Poland, Ukraine and the Baltic States. In the US, demand remained high during the first half of the year, allowing the Division to raise sales prices, but dropped back sharply after the summer.

The significant rise in operating income can be credited to the combined effect of an increase in sales prices in all markets, and higher business volumes in Europe, which offset the impact of spiraling raw materials, energy and transport costs.

Capital expenditure was slightly up on 2005, and was mainly directed at:

- building the second glass-wool production line at the Yegorievsk plant (Russia);
- building a glass-wool production line in Ploiesti (Romania);
- building a loose glass wool production line in Orange (France);
- modernizing and increasing capacity at the plant in Runcorn (United Kingdom);
- modifying equipment to enhance productivity and production capacity;
- honing environmental performance.

OUTLOOK FOR 2007

The year 2007 looks propitious for the European insulation market, although the sharp fall-off in housing starts in the US will likely hit CertainTeed's sales. Overall, sales for the Insulation Division are set to continue on an upward trend, as new capacities come on stream in Europe.

The Division plans to offset the impact of deteriorating margins in the United States by further enhancing production performance and raising sales prices and volumes in Europe.

2007 will also see the benefits of the cost and development synergies generated by the Symbiosis project aimed at linking up the operations of the Gypsum and Insulation Divisions.

EXTERIOR PRODUCTS

Through CertainTeed, the Exterior Products Division enjoys a leading position in 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 styles and colors, along with PVC and polypropylene cladding, and fiber cement 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, balustrading and PVC windows.

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 aimed at:

- shoring up CertainTeed's leadership position in the US market;
- achieving preferred-supplier status among professionals;
- broadening its product range and developing new distribution channels;
- actively contributing to sustainable development by enhancing the environmental profile of its plants and products.

OPERATIONS IN 2006

After two exceptional years in 2004 and 2005, the US construction market slumped in summer 2006. This situation led the Exterior Products Division to close its smallest asphalt roofing shingles plant, halt production of PVC cladding at one of its four sites and to sell one window manufacturing plant and close another. At the same time, the Division was not able to pass on the full impact of increases in production factor costs, particularly the rise in transport costs and escalating asphalt prices.

OUTLOOK FOR 2007

The housing market looks set to remain sluggish in 2007, and CertainTeed will focus on seeking out new customers and enhancing both manufacturing performance and supply chain management.

Two new production facilities are scheduled to come on stream during the year, however – an asphalt shingle line in Oxford and a third fiber cement plant in Terre-Haute, Indiana.

PIPE

The Pipe Division has operated in the water-supply industry for almost 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.

Saint-Gobain's Pipe Division ranks number one worldwide for the production and marketing of ductile cast iron pipe systems and also holds the top slot in Europe [(1)] in supplies for roadworks and utilities and cast iron wastewater drainage systems.

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, the Czech Republic and South Africa.

Sales and marketing are carried out by both the Division's manufacturing companies and dedicated sales subsidiaries and cover all leading international markets.

OPERATIONS IN 2006

The recovery of the Pipe Division's margins, which began in 2005, picked up pace considerably in 2006 in the wake of brisk organic growth. This impetus was primarily due to the continuation of major export contracts, especially in Algeria but also in the Middle East (Qatar and the United Arab Emirates) and Latin America.

In Europe, the Division reaped the benefits of strong markets in construction, and water supply and drainage infrastructures. Costs continued to rise for ferrous and non-ferrous metals (zinc), as well as for iron and energy (gas and electricity), but the Division was able to offset the related impact by corresponding increases in its sales prices.

The main contributions to acquisition-based growth came from the Division's majority stake in a centrifuge unit at Xuzhou in China and the sale of excess cast iron from the blast furnaces at the same site. Thanks to this acquisition, the Pipe Division now produces the liquid metal for its centrifuge activities in Xuzhou, which has enabled it to cut costs and shore up its number two position in the Chinese market. The year also saw the acquisition of various units in the Spanish Pipe distribution market that enjoy firm regional footholds and round out the Division's existing network.

Industrial streamlining measures once again weighed heavily on business income, as the Pipe Division announced the closure of its centrifuge units in Stanhope and discontinued operations at the Staveley foundry in the United Kingdom. However, the Division will be able to maintain a competitive commercial presence in the country by transferring the production concerned to other units, primarily in Europe, and developing specific new products for the UK market.

More generally, the Division pursued its innovation drive with the launch of new offers in all of its ranges during the year – particularly for gravity-based wastewater networks, valves and roadworks components – that enabled it to win positions within the European market.

OUTLOOK FOR 2007

The underlying inflationist trends experienced in 2006 are expected to amplify slightly in 2007 in annual average terms. In tandem, the sale price increases implemented in late 2006 and early 2007 to neutralize the effects of these trends will be passed on to the market. The economic outlook for the year ahead is somewhat less favorable than in 2006. Against this backdrop, sales growth for the Pipe Division in Western Europe is expected to primarily derive from new offerings created to counter competitors' materials, whereas in Eastern Europe growth is likely to be driven by a broader sales footprint. Lastly, the performance of the Division's Chinese units should be fueled by auspicious market conditions in China and the Asian continent as a whole.

Profitability should be boosted by capacity improvements in the European units, continued productivity enhancement measures in all of the Division's plants, and the start-up of the blast furnace at Maanshan in China towards the end of the year.

(1) Source Saint-Gobain

Construction Products

Capital expenditure is scheduled to be in line with the current trend in value terms and the overall strategy will follow the same schema as in 2006. Further progress in operating working capital requirements is also expected in 2007 following on from a 9-day improvement in 2006, corresponding to the equivalent of 60% of the capital expenditure figure for the year.

INDUSTRIAL MORTARS

The Industrial Mortars Division, operating under the Saint-Gobain Weber banner, is an international business. Saint-Gobain Weber boasts a leading position in tiling adhesives and grouting(1) , is Europe's number one wall facings business(1) and holds the top spot in Europe and Brazil for industrial mortars.

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

- cladding facades across the globe, that are 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:

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

With operations in 24 countries and a network of dealer-partners, the Industrial Mortars Division is able to provide support on project requirements and product use to clients, contractors, tradespeople, architects and homeowners.

OPERATIONS IN 2006

The Industrial Mortars Division's net sales rose 13% in 2006, spurred by high business levels in the European construction industry. Sales volumes shot up in Eastern Europe and business income advanced once again, particularly thanks to the earnings recovery in France, combined with tight control over procurement costs. The Division's capital expenditure was in line with estimates and was concentrated on Sardinia and Argentina. Lastly, the Division extended its operations into the African continent through two acquisitions in South Africa.

OUTLOOK FOR 2007

Despite a forecast possible slowdown in European markets, the Industrial Mortars Division's main objective for 2007 is to achieve sustained sales growth in the region of 10%. In order to accomplish this, the Division intends to roll out further development measures including launching new products and extending existing sales networks.

Capital expenditure levels are expected to be sustained, particularly in emerging countries, but are not likely to erode overall profitability, which is anticipated to be on a par with the 2006 figure.

CONSTRUCTION PRODUCTS

	BUSINESSES AND PRODUCTS	MAIN APPLICATIONS	KEY COMPETITORS	COMPETITIVE RANKING*
INSULATION	■ 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
GYPSUM	■ Plasterboard ■ Plaster: construction and other specialty plasters ■ Other building materials: EPS installation, fastening systems ■ Ceiling tiles	■ Partitions, ceilings & flooring for residential and non-residential buildings ■ Interior thermal insulation ■ Soundproofing solutions ■ Interior decoration ■ Fire protection solutions ■ Ceramic & metal molds	■ Lafarge ■ Knauf ■ USG ■ National Gypsum ■ Georgia Pacific ■ Yoshino ■ BNBM/Tahe	■ World leader
EXTERIOR PRODUCTS	■ Facade products: weatherboarding, windows ■ PVC outdoor products: fences, decks, balustrades ■ Roofing materials: asphalt shingles	■ Individual homes ■ New housing and renovation work	■ Owens Corning (USA) ■ Elk (USA) ■ GAF (USA) ■ Trex (USA) ■ LP (USA) ■ Ply-Gem (USA) ■ James Hardie (USA) ■ Fortune Brands (USA)	■ No. 2 in the USA for weatherboarding ■ Joint leader in the USA for roofing materials
PIPE	■ Full piping systems in ductile cast iron, & fittings for pipes in any material ■ Roadworks equipment in steel & ductile cast iron ■ Full piping systems for wastewater & rainwater drainage in the construction industry	■ Drinking water supply systems ■ Irrigation ■ Drainage ■ Fire prevention ■ Rainwater drainage ■ Utility access ■ Construction industry piping	■ US Pipe (USA) ■ Mac Wane (USA) ■ Kubota (Japan) ■ Xinxing (China) ■ Buderus (Germany) ■ Tyco (USA) ■ East Jordan / Norinco (USA, France)	■ World leader in ductile cast iron pipe ■ European leader in ductile cast iron roadwork components ■ European leader in cast iron components for the construction industry
INDUSTRIAL MORTARS	■ Wall rendering products ■ Tile adhesive & grouting products ■ Technical mortars	■ Facade decoration & protection ■ Exterior thermal insulation ■ Stonework renovation ■ Decorative and technical pointing ■ Tile cleaning & protection	■ Degussa (Germany) ■ Mapei (Italy) ■ Sto (Germany) ■ Materis (France) ■ Heidelberg (Germany)	■ World leader in wall facing products & tile adhesives

** Source Saint-Gobain*

Building distribution

Saint-Gobain's 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, the Sector has enjoyed strong growth, combining organic and external expansion. It first began to develop in France through the Point.P and Lapeyre chains, then expanded in the United Kingdom through Jewson and Graham, subsequently in Germany, the Netherlands and Eastern Europe, through Raab Karcher, and then in the Nordic countries through Dahl and Optimera. In 2006, the sector pursued its strategy of bolt-on acquisitions and extending geographic reach, notably by acquiring JP Corry in Ireland, Vera Meseguer in Spain, Barugel in Argentina, as well as Jans – Belgium's leader in the interior building market(1).

An unrivalled network in Europe

With over 3,900 outlets in 24 countries, the Building Distribution Sector boasts an unrivalled distribution network within Europe. Its success is rooted in the diversity and strategic fit of its brands. Each of these has its own specific features and market position – whether geared to trade specialists or the domestic consumer market – contributing to the sales strength of the network as a whole while meeting the needs of local markets. This proactive organization means that customers are offered a full array of tailored solutions for their various needs, and reflects the diversity of customer expectations in terms of products, styles, services and trends, as well as the different businesses catered to.

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 1,660 outlets organized 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 also 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 group's presence under the Telhanorte banner in Sao Paulo, Brazil and its expansion into Argentina with the acquisition of Barugel in 2006, have given further impetus to its international development. The Lapeyre group has a network of 341 stores, with showroom areas of up to 4,000 sq.m.

In the UK and Ireland, Building Distribution operations are carried out through a network of over 920 outlets, split between general and specialized retailers, and Saint-Gobain is the region's second-largest building materials merchant. Its two main banners are Jewson and Graham, a plumbing and heating specialist, both of which are firmly focused on providing proactive local services to small contractors and tradespeople. The sector is currently strengthening its market position through bolt-on acquisitions and by expanding its networks of sales outlets. For example, the acquisition of the independent builders' merchant JP Corry in June has boosted Saint-Gobain's position in the fast-growing markets of Northern Ireland and the Republic of Ireland.

CONTRIBUTION TO THE GROUP

	2006	2005	2004
% of net sales	42%	43%	42%
% of operating income	27%	31%	28%
% of cash flow from operations	24%	24%	20%

KEY CONSOLIDATED DATA

(In € millions)	2006	2005	2004
Net sales	17,581	15,451	13,653
Operating income	1,001	888	762
Cash flow from operations	817	667	524
Capital expenditure	315	327	249

Sales data by Sector include internal sales.

(1) Source Saint-Gobain

Raab Karcher is the leading building materials distributor for trade customers in Germany, Hungary and the Czech Republic(1). The brand has also been rolled out to the Netherlands and Poland. Over 430 sales outlets now operate under the Raab Karcher banner.

Dahl is the foremost distributor of plumbing and heating products in the Nordic countries(1). It has operations in Sweden, Denmark, Norway, Finland, Estonia, Lithuania and Poland, supported by a network of 300 sales outlets primarily serving trade customers. Optimera is Norway's number three general retailer of building materials and the country's largest non-franchised building materials distributor. It is also a major player in the Swedish general trade market.

In Switzerland, Sanitas Troesch is the leading distributor of plumbing products and ranks second for fitted kitchens(1).

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 *"ave 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 strong success in France's major cities, the concept was rolled out to Poland, the UK, Hungary, Spain and Brazil, and – in 2006 – to Germany and Italy, with tailored adjustments targeted at the requirements of each local market. It currently therefore has an operating presence in eight countries through more than sixty sales outlets.

2006 also saw the launch of Aquamondo, a new highly specialized banner for bathroom products with a concept of *"Only for the bathroom and everything for the bathroom".* Targeted at the homeowner market, Aquamondo already has one store in Paris and two showrooms in the Greater Paris area. The brand's early results are promising and research is currently underway concerning a rapid roll-out of the concept both in France and internationally.

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 encourages 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 2006

The Building Distribution Sector continued to stride ahead in 2006, led by buoyant markets in France, the Nordic countries and Eastern Europe as well as considerably better economic conditions in Germany in the second half of the year. Underlying net sales increased by 13.8% year-on-year, and by 7% based on a comparable structure and constant exchange rates. Changes in exchange rates had only a slight impact, representing a positive 0.2%.

The Sector continued to expand through external growth, with a record 54 acquisitions, representing full-year net sales of €630 million. The majotity of the companies purchased were bolt-on acquisitions carried out with a view to extending the sector's existing networks.

In France, which accounts for over 40% of the Sector's sales, the home improvement, renovation and new construction markets continued to expand, with housing starts reaching an unprecedented level at 420,000. These markets are mostly served by tradespeople and small and medium-sized companies, the key clientele for Point.P and La Plateforme. Sales reported by the sector's French-based businesses again rose sharply based on a comparable structure. In addition to the favorable economic climate, growth was driven by an enhanced product and service offering tailored to all customer categories, as well as the opening of new outlets. External expansion continued with the acquisition of 31 outlets, representing €87 million in full-year net sales.

The Sector reported solid growth in the United Kingdom and Ireland, despite a lackluster market in 2006. It pursued its network expansion policy, opening 26 new outlets, and external expansion was led by the acquisition of JP Corry in Ireland as well as the Midlands-based plumbing and heating specialist network, AB Plumbing in the United Kingdom. These acquisitions concerned a total of 32 sales outlets, representing full-year net sales of €204 million.

In Germany, the construction market recovered well during the second half of the year, enabling the Building Distribution Sector to garner the benefits of the streamlining measures undertaken within its distribution network during previous years. The Netherlands also saw an upturn in the construction market in 2006.

In the Nordic countries, Dahl and Optimera bolstered their leadership positions thanks to excellent momentum in 2006, which drove organic growth to above 10%. The sector also actively pursued its bolt-on acquisition policy during the year, purchasing 38 sales outlets in Scandinavia, representing full-year net sales of €174 million.

In the high-growth markets of Eastern Europe, Raab Karcher enriched its product and service offering in a fiercely competitive environment. The sector has speeded up its move towards setting up a specialist network for tiling products in Eastern Europe by acquiring Cortina in Poland, with 9 outlets, following on from the integration in 2005 of WAW Keramika which operates in the Czech Republic and Slovakia.

(1) Source Saint-Gobain

Building Distribution

In Spain, Point.P widened the coverage of its trade sales clientele in Catalonia by opening two new Plateforme outlets, on top of the thirteen existing ones. In addition, the June acquisition of Vera Meseguer added three new outlets to the network and enabled Point.P to expand into the Levante region.

Outside Europe, Lapeyre's Telhanorte site in Brazil turned in another good showing, reporting net sales growth of 14% based on constant exchange rates. At the same time, the banner consolidated its position in South America by acquiring the 12 outlets of Barugel, the leading distributor of plumbing, tiling and kitchen products in the State of Buenos Aires in Argentina.

Amid healthy economic conditions in France and the Nordic countries, and despite the persistent difficulties in Eastern Europe and the Netherlands, the Building Distribution Sector's operating income climbed from €888 million to €1,001 million, representing 5.7% of net sales.

OUTLOOK FOR 2007

Assuming that the European construction industry remains buoyant, Saint-Gobain

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)	■ European leader in building materials distribution and world leader in ceramic tile distribution

** Source Saint-Gobain*

Packaging

The Packaging Sector is a front-ranking international player in industrial glass packaging. Its operations comprise the manufacture and sale of:

-glass bottles and jars for foodstuffs and beverages;

-glass flasks for perfume and pharmaceutical products.

It is the global leader[1] for wine and spirits bottles.

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.

Following on from its acquisitions in Eastern Europe in 2005, the sector strengthened its presence in the Latin American and wine bottle markets in 2006 by purchasing a majority stake in the Chile-based company SG Envases. This company's production plant is scheduled to come on stream during the first half of 2007.

In 2006, the Packaging Sector refocused its operations on the glass packaging business and consequently sold its plastic pumps dispensers business line (Calmar) in late June. This disposal resulted in a pre-tax gain of €146 million, based on an enterprise value of €594 million..

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

The sector's creativity and design expertise, allied with the versatility and local presence of its industrial network and the close attention paid to the quality of its customer service, have pushed it into joint top spot in the European market and enabled it to capture the number two position in the US.

The Flasks business serves worldwide perfume and pharmaceutical makers from plants in Europe and the Americas, and more recently from new production lines at the Zhanjiang plant in China, and the Sitall and Roslav plants in Russia. As the world's foremost manufacturer of flasks[1], its design flair, wide array of glass finishes, and the excellence of its process controls and quality assurance methods, – which are standardized for all its operations across the globe – are widely recognized within the industry.

In all of the Sector's businesses, the strategic focus is on ever-enhancing product and service quality, drawing on the skills and experience of its people to develop partnerships, and responding swiftly to customer needs and expectations.

OPERATIONS IN 2006

On an actual structure basis, the Packaging Sector's net sales edged up 1.7%. This figure excludes ancillary revenue and only includes six months worth of contributions from the plastic pumps dispensers business. Based on a comparable structure and constant exchange rates, the increase was 3.6%.

This highly satisfactory performance is primarily attributable to the Sector's recent expansion in emerging countries including Russia and the Ukraine.

In late 2006 a long-term supply contract was signed in the United States with Anheuser-Busch, a long-standing customer of Saint-Gobain Containers, Inc. (SGCI), and the world's largest user of glass packaging.

On a constant Group structure basis, the bottles and jars business in Europe was up on 2005 – particularly in Germany and Southern Europe – primarily as a result of price increases applied during the year due to higher production factor costs. In the United States, however, this business was hurt by a fall in volumes in the beer market although this adverse impact was partially offset by sales price increases.

Growth was vigorous in Latin America, principally fueled by the Argentinean wine market.

The flasks business turned in a satisfactory showing in 2006 thanks to a positive price impact and a strong design performance. The business also reinforced its worldwide commercial positions by once again demonstrating its ability to respond swiftly to different manufacturing and commercial requirements.

CONTRIBUTION TO THE GROUP

	2006	2005	2004
% of net sales	10%	11%	12%
% of operating income	10%	13%	17%
% of cash flow from operations	12%	16%	19%

KEY CONSOLIDATED DATA

(In € millions)	2006	2005	2004
Net sales	4,080	4,008	3,880
Operating income	376	385	459
Cash flow from operations	402	432	492
Capital expenditure	335	305	302

Sales data by Sector include internal sales.

(1) Source Saint-Gobain

Packaging

Buoyed by a rise in business volumes, the plastic pumps dispensers business reported a jump in net sales for first-half 2006 compared with the equivalent prior year period.

The overall sales increase for the Packaging Sector reflects a pro-active business model, encompassing rigorous attention to quality and an unrelenting quest to stand out from its competitors and achieve customer satisfaction, backed by a comprehensive, innovative and regularly renewed product range and efficient world-class production facilities.

Operating income for 2006 suffered for the second consecutive year from rises in gas, fuel oil and glass raw material prices. However, this impact was partially offset by a policy to raise sales prices, especially in the second half of the year, which resulted in a sharp upswing in profitability levels compared with the same period of 2005. Thanks to this policy, combined with effective gas and fuel oil hedging programs, as well as sustained efforts to enhance productivity and contain other production costs, Saint-Gobain Packaging ended 2006 with operating income on a par with 2005.

At the same time, the sector continued to implement streamlining measures within its companies which led SGCI to close its El Monte plant during the year.

Although cash flows from operations came in lower than in 2005, the level remained high and was more than sufficient to cover the sector's capital expenditure for the year.

Lastly, a tight rein on working capital requirements once again significantly helped to finance an ambitious capital expenditure plan, with the twin aims of further stepping up productivity and performance and achieving full compliance with environmental standards.

OUTLOOK FOR 2007

In 2006 Saint-Gobain Packaging started the process of selling its flasks business which was consequently classified under non-current assets held for sale. The sale is scheduled for completion at the end of the first quarter of 2007 based on an estimated enterprise value of €690 million, and the Group plans to reinvest 20% of the business's post-sale capital.

After two years of strong price inflation, production factor cost increases are expected to be more moderate in 2007. At the same time, commercial conditions should be more favorable in the bottles and jars market, with a recovery in Germany, the absorption of over-capacity in the United States and Europe and sustained growth in emerging countries.

The combined impact of the above two developments, coupled with continued measures to enhance production efficiency and adjust sales prices in line with factor costs, should enable the Sector to boost its business performance in 2007.

At the same time Saint-Gobain Packaging intends to pursue its efforts to reduce working capital requirements and keep capital expenditure on a par with that for 2006. This will entail ongoing investment in emerging countries and a large-scale program to rebuild furnaces in Europe and enhance their environmental performance.

The sector will also continue to roll out its comprehensive environmental management system and plans to step up the ISO 14001 certification program in 2007. In addition, it will pursue its drive to incorporate fume filters each time major repair work is carried out on a furnace in Europe, with the aim of equipping all of its European Union glass-making plants with these filters by end-2008.

PACKAGING

BUSINESSES AND PRODUCTS	MAIN APPLICATIONS	KEY COMPETITORS	COMPETITIVE RANKING*
■ Glass bottles and jars	■ Packaging for foodstuffs & beverages	■ Owens Illinois (USA, Europe, Asia, Latin America) ■ Rexam (Europe) ■ Anchor Glass (USA) ■ Ardagh (Europe) ■ Vetropack (Europe) ■ Vidrala (Europe) ■ Sisecam (Turkey)	■ 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) ■ Gujarat (India)	■ World Leader

** Source Saint-Gobain*

2006 Management report

2007 OUTLOOK

The Saint-Gobain Group expects the majority of its markets and business lines to benefit from ongoing favorable economic conditions in 2007, with the exception of housing starts in the United States.

For the Flat Glass Sector the recovery in sales prices and volumes experienced in the second half of 2006 should continue into 2007, and High-Performance Materials should see its earnings figures edge forward in the coming year. The main growth drivers for Construction Products are once again likely to be an active market for interior building solutions and a further strong performance from the Pipe Division. In view of the market situation in the United States, the Building Materials Division anticipates a moderate downturn in business for 2007. The Building Distribution Sector expects to sustain its growth trajectory and post further profitability gains, while the Packaging Sector should see an upturn in the United States coupled with modest growth in Europe.

Against this backdrop, the Group will continue to implement its business development model by (i) pursuing its divestment program; (ii) completing the integration of BPB, with a focus on cost saving synergies (representing an estimated €100 million in 2007); (iii) stepping up the pace of acquisitions, primarily in Construction Products and Building Distribution; (iv) maintaining a significant level of capital expenditure, both for interior building solutions and in targeted regions of emerging countries; and (v) implementing rigorous management processes for costs, productivity levels and working capital requirements.

Based on strong organic growth, Saint-Gobain's objectives for 2007 are to achieve:

- a significant increase in operating income at constant exchange rates,
- double-digit growth in net income excluding disposal gains and losses,
- sustained high levels of free cash flow and an ongoing solid financial structure.

These objectives assume that Saint-Gobain Desjonquères and the High Performance Materials Sector's Reinforcements & Composites Division will both be deconsolidated during the first half of 2007. They do not factor in any other significant changes in Group structure that may occur during the year.

RISK MANAGEMENT

MARKET RISKS (CREDIT, INTEREST RATE, FOREIGN EXCHANGE, EQUITY AND ENERGY RISK)

LIQUIDITY RISK

Liquidity risk relating to the Group's total net debt is managed by the Treasury and Financing 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 the 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. Other sources are Medium Term Notes, perpetual bonds, non-voting loan stock, bank borrowings, drawdowns on the syndicated credit facility obtained in 2005 and finance leases.

Short-term debt is composed of borrowings under French commercial paper *(billets de trésorerie),* Euro commercial paper and US commercial paper programs, as well as securitized receivables and bank overdrafts. Short-term financial assets comprise marketable securities, cash and short-term loans.

Compagnie de Saint-Gobain's US, Euro and French commercial paper programs for short-term financing purposes are backed by confirmed syndicated lines of credit and bilateral credit facilities.

A breakdown of the Group's debt by type and maturity is provided in Note 19 to the consolidated financial statements. Details of the 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 and Financing Department of Compagnie de Saint-Gobain, in accordance with the same rules presented in the first paragraph dealing with liquidity risk. Where subsidiaries use derivatives to hedge interest rate risk, Compagnie de Saint-Gobain – the Group parent company – is the exclusive counterparty.

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 may be used to hedge the 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.

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 Compagnie de Saint-Gobain, the Group parent company, 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 risk. 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, therefore, does not have any open positions.

The exposure of other Group companies to foreign exchange risk is hedged with Compagnie de Saint-Gobain on receipt of orders sent by the subsidiaries or national cash pools, or with the subsidiaries' banks.

EQUITY RISK

As the Group always favors money-market funds and/or bonds when purchasing mutual fund-type investments, it is not exposed to any equity risk.

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 its exposure to energy price fluctuations, the Group hedges part of its natural gas purchases in the United States and the United Kingdom and part of its fuel oil purchases in Europe. Hedges of natural gas and fuel oil purchases are organized by a steering committee composed of representatives of the Group Finance Department and the Group Purchasing Department (Saint-Gobain Achats – SGA).

Hedges of fuel oil and gas purchases (excluding fixed-price purchases negotiated by the Purchasing Department directly with suppliers) are arranged by the Treasury and Financing Department at the behest of the steering committee.

These hedges cover a maximum period of 18 months.

The Treasury and Financing Department may also be called upon to hedge purchases of other raw materials, subject to the same conditions.

Note 20 to the consolidated financial statements provides details of the Group's interest rate, foreign exchange and energy hedges, and of the interest rates applicable to the main components of gross debt. A breakdown of net debt by currency and rate (fixed or variable) and the interest rate revision schedule are also presented in this Note.

INDUSTRIAL AND ENVIRONMENTAL RISKS

Substantially all the Saint-Gobain Group's industrial and environmental risks stem from the storage of certain hazardous materials.

Nine Group sites are classified as presenting "major technological risks" within the meaning of European and North American regulations. Accordingly, the sites concerned are subject to specific legislation and are carefully monitored by the regulatory authorities.

In 2006, eight of Saint-Gobain's Europe-based sites were classified in accordance with the Seveso Directive on the prevention of major hazards: Conflans Sainte-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 Avilès (Flat Glass) and Carrascal del Río (Flat Glass) in Spain. Five 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 to 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, which is 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.

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 tax consolidation as provided for under Articles 223 A *et seq.* of the French General Tax Code. The Group has not requested the renewal of its entitlement to income tax assessment on the basis of consolidated fiscal income, so it consequently lapsed on December 31, 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, 2006, 597 lawsuits based on "inexcusable fault" *(faute inexcusable)* were filed for asbestos-related occupational diseases against Everite and Saint-Gobain PAM, which in the past carried out fiber-cement operations. At end-2006, 424 of these 597 lawsuits had been completed in relation to both liability and quantum. A further 93 suits based on "inexcusable fault" had been filed at the same date against 13 other French companies in the Group, where equipment containing asbestos had been used to protect against heat from furnaces. At end-2006, compensation due from Everite and Saint-Gobain PAM amounted to a total of €2 million.

Further details of these claims are provided in Note 26 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 third consecutive year in 2006, to about 7,000 (compared with around 17,000 in 2005, 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 2006, as in 2005, some 12,000 such settlements were entered into. In addition, roughly 19,000 claims, originating mainly in Ohio and Texas, were reclassified as "inactive" following legal rulings in those states. Given the number of lawsuits filed at end-2005 (100,000), new suits filed during 2006 and settlements reached, roughly 76,000 claims were outstanding at December 31, 2006.

The average individual cost of settlement based on all claims resolved or in the process of resolution during 2006 was about USD 3,000, compared with USD 2,800 in 2005. In view of the foregoing and having exhausted its insurance coverage, the Group recorded a €95 million charge for 2006, compared with €100 million at end-2005. At December 31, 2006, the Group's total coverage for asbestos-related claims against CertainTeed amounted to €342 million (end-2005: €358 million), represented primarily by the provision in the balance sheet.

Further details of asbestos-related claims in the United States are provided in Note 26 to the consolidated financial statements.

On March 13, 2007, the Group received a "Statement of Objections" sent by the European Commission to four glass makers (including Saint-Gobain) and concerning alleged anti-competitive behavior, in violation of the provisions of Article 81 of the European Commission Treaty, in the sphere of flat glass for the construction industry. A second "Statement of Objections" concerning flat glass for the automobile industry is to be issued during the second quarter of 2007.

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 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 2006 replicated that applied in 2005. Premiums were revised downwards.

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, including BPB following the expiry of its previous insurance policies 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 with respect to insurance coverage, the Risks and Insurance Department relies on the findings of the annual audits carried out by the insurance companies' prevention units. 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 plants 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.

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SUSTAINABLE DEVELOPMENT

A LEVER FOR ENHANCING PERFORMANCE

Saint-Gobain's long-standing awareness of the human, social and environmental challenges related to its operations, and of the responsibilities they entail, has led the Group to make sustainable development a central focus of its strategic planning. This outlook affects both its day-to-day working processes and the type of products Saint-Gobain designs and sells; it means being constantly attuned to market developments and changes in society.

Though its history stretches back several hundred years, Saint-Gobain, now more than 200,000 employees strong, ceaselessly hones its ability to adapt to evolving circumstances.

In 2003, the Board of Directors adopted the Principles of Conduct and Action, thereby formalizing values that had for years guided and inspired the conduct of business within the Group. The decision to join the United Nations Global Compact the same year confirmed the central place of responsible and sustainable development in Saint-Gobain's strategy and daily practice – into which the Group undertook to integrate the Ten Principles of the Compact.

A CROSS-FUNCTIONAL APPROACH

The in-house organization set up to handle sustainable development issues within the Group brings together cross-functional capabilities, while fitting into the operational framework of the Group's decentralized operations. It mainly consists of three departments that collaborate closely:

• The **Responsible Development Department,** whose mission includes distributing the Principles of Conduct and Action, raising employees' awareness of these Principles and ensuring that they are applied throughout the Group. It also works with the relevant divisions, businesses or territories on producing more specific local translations of the Principles.

• The **Human Resources Development Department** aims to support the Group's growth by providing the skill-sets that best match its needs, while responding to the aspirations of employees. The fundamental principle governing this development is that it requires optimum conditions of respect for individuals, professional commitment and solidarity.

• The **Environment, Health and Safety (EHS) Department** oversees and controls employee health and safety in the workplace, as well as environmental compliance, at all Group sites worldwide.

All three departments rely on robust networks within the various businesses and territories, ensuring that this three-pronged organization produces a consistent approach to responsible and sustainable development, both at global level and within each entity, where it is tailored to local circumstances.

HOW THIS CHAPTER IS ORGANIZED

This chapter on Sustainable Development reflects the Group's in-house organization structure: the first three sections present approaches and initiatives implemented in all three areas in 2006, while the last part describes Saint-Gobain's product and service offerings that provide solutions to sustainable development challenges in different fields.

The summary table below presents a broad outline of the Group's sustainable development challenges, both in terms of internal management and in its product and service offerings. The methodology used to collect and consolidate the data presented in this chapter is explained in the appendix entitled "Reporting methodology".

CHALLENGES, ACHIEVEMENTS AND OUTLOOK

To integrate sustainable development concerns within its strategy, the Group has identified a number of challenges, related to labor management, social issues, environmental protection and business operations.

It defines policies and action plans on these questions, basing itself on the Group Principles of Conduct and Action, as the key reference point for all employees.

The challenges listed in this table are explained in greater detail in the main body of the chapter.

AREA	CHALLENGES	ACTION TAKEN	PAGES	OUTLOOK AND FUTURE INITIATIVES
Labor relations and social issues	**Workplace health and safety**	WORKPLACE SAFETY: ➢ Mobilizing greater action to prevent serious and fatal accidents: Serious Accidents Plan ➢ Continuous monitoring of TFx indicators and creation of the composite indicator ➢ Formalization of two dedicated processes, on risk assessment and accident and incident analysis	99-100	➢ Strengthening cooperation on safety as part of the Collective Agreement on European Employee Consultation ➢ Launching a dedicated event analysis application
		NOISE: ➢ Deployment of NOS *noise standard*	101	➢ NOS deployment finalized at the end of 2007
		CHEMICAL AGENTS: ➢ Framework instructions for *Toxic Agents Standard* (TAS) and implementation guidelines issued ➢ REACH European regulations: dedicated network set up and pilot project launched in representative sites	101-103	➢ TAS deployment beginning in 2007 ➢ Creating a REACH database for chemicals
	Anticipating needs and individual development	RECRUITMENT: ➢ Bolstering relations with targeted universities ➢ Recruitment campaigns within the General Delegations	86	➢ Keeping up recruitment campaigns and intensifying them in emerging countries
		TRAINING: ➢ Regularly increasing investment in training, particularly in emerging countries ➢ Raising the proportion of trained employees ➢ Offering decentralized training courses ➢ Aligning training offerings with the key elements of the competencies reference manual	82-90	➢ Aligning training offerings with a standardized competencies reference manual for managers
		CAREER MANAGEMENT: ➢ Succession planning and individual reviews implemented throughout the Group ➢ Promoting mobility across Sectors and countries	87-88	➢ Deploying a standard employee evaluation form ➢ Deploying a global application for executive career management (SINERhGIS)
	Motivating staff	➢ Developing the **savings plan** in 34 countries ➢ Developing **international executive networks** and setting up regular meetings with Executive Management *(Carrefours)* ➢ **Executive satisfaction surveys**	85 93	➢ Broadening the reach of the Group Savings Plan to 38 countries ➢ Sharing feedback on implementing the Principles of Conduct and Action
	High-quality dialogue with employee representatives	➢ Ensuring that dialogue with employee representatives takes place **as close to the operational level as possible** ➢ **Developing dialogue with employee representatives at the European level** (information brochure produced) ➢ Regular **grassroots-level opinion surveys**	83-84	➢ Election of new European-level employee representatives and training the members of the permanent secretariat on issues of safety and acquisition/disposal transactions
	Promoting diversity	➢ Diversity Charter **signed** ➢ **Program for integrating disabled persons in France** ➢ Regular evaluations of the **proportion of women among Group executives**	90-92	➢ Drafting action plans tailored to specific local conditions ➢ Setting targets for employment of disabled persons in France ➢ Raising the proportion of women among executives
	Integration in local community life	➢ **Relations with local communities** in all countries ➢ **Promoting local job creation** (Saint-Gobain Développement in France)	74-77	➢ Strengthening over the long term ties with local communities

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AREA	CHALLENGES	ACTION TAKEN	PAGES	OUTLOOK AND FUTURE INITIATIVES
Environment	**Reducing CO_2 emissions:** - in our operating processes	➢ Decreasing **energy consumption** (oven design) ➢ **Recycling** of secondary raw materials ➢ **Choice of the type of energy used** ➢ **Combustion settings** of glassmaking furnaces ➢ **Construction industry**: insulation products	107-108	All environmental initiatives take place as part of the pursuit of ongoing progress ➢ Photovoltaic cells production plant with Shell ➢ Research & Development on new products
	- through our products	➢ **Renewable energy** ➢ **Vehicles**: flat glass, particulate filters, lighter auto body parts, etc. ➢ Setting up dedicated industry associations and labels	96 111-112	
	- through our awareness-raising initiatives	➢ Providing information and training to contractors and other professionals ➢ Launch of the Greenworks outlet chain	112-113	
	- in our transport operations	➢ Launch of the first emissions survey related to transportation in the BD Sector.	108	
	Reducing atmospheric emissions of NOx, SOx, dust, metals, etc.	➢ Pollutant abatement at the source **(primary measures)** and through treatment of fumes **(secondary measures)** ➢ **Choice of the type of energy used** ➢ **Combustion settings** of glassmaking furnaces	108-109	
	Optimizing the use and consumption of natural resources - water	➢ **Standardizing closed-circuit operation at all facilities** ➢ Improvement of operating processes ➢ Constant innovation **for Pipe products**	111	➢ Overall wood policy for the Building Distribution Sector
	- wood	➢ **Purchasing control policy** ➢ **PEFC and FSC certification** of plants ➢ Innovative ***Woodprotect® treatment***		
	- silica, iron ore, coal coke, gypsum	➢ **Recycling of secondary raw materials** ➢ Reducing the weight of products	106-107	
	Waste management	➢ Improved reporting ➢ **Reuse and recycling** of raw materials ➢ **Seeking out new avenues for reuse of waste in** new materials, in products or as energy ➢ **Disposal as a last resort** and through controlled disposal networks	105-107	
Business continuity	**Relations with suppliers and contractors**	➢ Launch of the **"Responsible purchasing» initiative,** to include social and environmental criteria in purchasing decisions ➢ **"Temporary Staff and Safety" pilot experiment**	73 100	➢ Rolling out integration of these responsible purchasing criteria to all aspects of relations with suppliers and contractors ➢ Deployment of the "Temporary Staff and Safety" pilot to other regions

CONTENTS

I) A PLATFORM OF VALUES FOR RESPONSIBLE DEVELOPMENT

The mindset that guides the decision-making and behavior of Saint-Gobain is rooted in strong values that have been expressed in the Principles of Conduct and Action.

The 2006 satisfaction survey in which 17,000 executives took part confirmed that the respondents feel strongly committed to these Principles, which represent the foundation for the Group's 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.

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 the following five Principles of individual conduct:
professional commitment , respect for others, integrity, loyalty, solidarity, and four Principles of professional conduct:
respect for the law, caring for the environment , worker health and safety, and 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 www.saint-gobain.com website.

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 transparency.

- 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.

B) VALUES TAKEN UP THROUGHOUT THE GROUP

Since they were formalized in 2003, the Principles have been widely distributed to all Group employees in all countries where the Group has facilities.

To date, the Principles have been translated into 28 languages, so that the locally distributed versions can reach the broadest possible audience.

Training and awareness-raising initiatives also play a fundamental role in facilitating employees' understanding of the Principles.

For the Group as a whole, the Responsible Development Department is tasked with facilitating such initiatives, and ensuring that the Principles are duly circulated among all Group employees, implemented and complied with. 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.

The Group training department has also added specific modules on responsible and sustainable development to the agenda of all international management seminars, in order to promote in-depth discussion concerning the Company's values and activities between senior executives and the managers reporting to them.

The Head of the Responsible Development Department spoke at several management seminars in the course of 2006.

At a local level, the various Delegations and companies take the necessary steps to raise awareness among employees and new recruits. They freely determine the form that will be most suitable in their specific cultural context.

The Group's internal communications media, from the Intranet to site bulletin boards, are a prime tool for passing on information on the Principles. In addition, in the vast majority of cases, new recruits are given a presentation on the Principles and specific sessions are organized at the various sites to remind all employees of the importance of the Group's values.

As an example, in 2006, executive seminars in the Benelux countries brought executives together to exchange feedback on their day-to-day application of the Principles in their decision-making and behavior. In the Americas, the General Delegation for Mexico, Colombia and Venezuela launched a communication campaign encouraging its workers to discuss these issues in small groups over lunch.

C) IMPLEMENTATION AND PRACTICAL TRANSLATIONS OF THE PRINCIPLES

The Principles are universal in scope, and represent the foundation and common platform for all local or function-specific charters in force within the Group. Several key Group charters explicitly refer to the Principles:

- the *Code of Ethics and Business Control Guidelines* of Saint-Gobain Corporation in North America,
- the Purchasing Charter,
- the Environment, Health and Safety Charter,
- the Information Technology Charter.

The Purchasing and EHS Charters, adopted respectively in 2003 and 2004, are direct translations of the Principles.

The Purchasing Charter provides employees with guidelines on how to apply the Principles in their dealings with suppliers. A further "Responsible Purchasing" initiative, launched in 2006, aims to include social and environmental criteria in the supplier selection process.

The Principles are also built into the Group's many in-house processes, from accounting doctrine to audit and internal control manuals.

THE GLOBAL COMPACT

Saint-Gobain's commitment to the Global Compact

Saint-Gobain has made clear that it belongs to a global community of corporate citizens who uphold the key values of respect for human rights, environmental protection and anti-corruption.

By joining the Global Compact in July 2003, Saint-Gobain undertook to make regular disclosures concerning its progress in these fields.

2) TAKING PART IN THE DEVELOPMENT OF LOCAL COMMUNITIES

Saint-Gobain wants its facilities to fit harmoniously into their local setting, as the Group wishes to be open to the world at large, above and beyond its purely economic goals.

The Group's decentralized organization structure helps it play a full role in the regions where it has operations, in a way that is suited to local conditions – which vary greatly across the more than 50 countries that host Group sites.

Saint-Gobain encourages initiatives at the most appropriate level (Delegation, company or site) to produce effective results in different areas. The form that such initiatives can take is left to the appreciation of the teams involved. They may include setting up a dedicated structure, establishing a one-time or ongoing partnership with non-governmental organizations or supporting the volunteer work of employees.

Such projects take their most institutionalized form in the US, thanks to the work of the *Saint-Gobain Corporation Foundation,*

Raising awareness of the Principles of Conduct and Action in the Mexico, Columbia & Venezuela Delegation

From March to August 2006, the Mexico, Columbia and Venezuela Delegation produced special cafeteria placemats presenting the Principles of Conduct and Action, in order to encourage employees at all sites, and particularly blue-collar workers, to discuss these issues among themselves and share their thoughts with their colleagues and family. A number of sites also held meetings and displayed posters to deepen employees' grasp of the Principles.

created by the US Delegation. In 2006 the Foundation collected over USD 1.9 million in contributions for its three programs:

- *Corporate Direct*, through which the Foundation provides grants to charities and cultural organizations, as a first priority in the regions where Group sites are based.
- *Matching Gifts*, which allows employees or retired former employees to support organizations they care about, and to have the Foundation double the amount of their contribution.
- *Plant Community*, which grants an annual charitable contributions budget to each facility based on its number of employees, and allows it to make donations to the organizations of its choice.

The projects mentioned below are only a sample of the great variety of initiatives taking place within the Group.

A) SUPPORTING AND PROMOTING ECONOMIC DEVELOPMENT AT THE LOCAL LEVEL

In most countries where Saint-Gobain has operations, Group companies have close links with professional organizations and local government authorities, while their General Delegations take an active part in the work of chambers of commerce (or similar bodies) as well as 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 economic hubs in which they are based, thereby promoting the establishment of an environment conducive to job creation.

As an example, whenever a new facility is set up, the Group makes a point of developing regular, transparent contacts with local institutions. In Romania, throughout the building of the Saint-Gobain Flat Glass plant, monthly meetings were organized with the local authorities to keep them informed of progress at the work site and anticipate any problems that might arise. In France, when an upgrade and expansion of the Placoplatre facility in Vaujours was launched in October 2006, considerable effort was invested in communicating with neighboring towns: the company held town-hall meetings, set up a showroom and provided a website and a dedicated telephone number and e-mail address for requests for information, in addition to issuing regular newsletters reporting on progress in the construction work.

In France, where the Group has its densest presence, Saint-Gobain Développement has been charged with the key tasks of assisting local development and helping to revitalize the job market around Group sites. The aim is to stimulate exchanges among economic players and support entrepreneurs by giving them the benefit of the Group's skills.

Comprehensive assistance is offered to start-ups that create jobs, including by providing low-interest loans without requiring collateral, as part of a long-term partnership between industrial corporation and entrepreneur. In 2006, Saint-Gobain Développement supported the creation of 483 jobs outside the Group, by signing 89 agreements with companies.

In addition to providing direct help to companies, the Group is involved in many local and regional development programs that bring together the economic players of an economic hub to facilitate the transfer of skills to small and medium-sized enterprises (SMEs).

- Alizé schemes, which the Group has been taking part in for several years, allow large corporations and government agencies to pool their expertise and technical and financial resources to support the growth and job creation of small businesses in a given region. Saint-Gobain Développement was part of the 2006 launch of a project in Chambéry, adding to its involvement in existing ones in Dieppe, Valenciennes and Avignon.
- A national network of regional centers for technical support and innovation, known as Creati, helps corporations in a given region provide support to start-ups, through the sharing of resources, competencies and skills. Saint-Gobain partners the Creati regional centers of Aquitaine, Midi-Pyrénées, Normandie and Ile de France, and in 2006 helped extend the network to Rhône-Alpes.
- Saint-Gobain Développement also cooperates with the Boutiques de Gestion national network of small-scale local units that provide advice for start-ups.

Also with the aim of meeting the specific job creation needs of regions where the Group has facilities, Saint-Gobain Développement has joined other local development networks. In the region of Avignon, the Group has been involved for several years (via its subsidiary SEPR) in the "Grand Avignon Initiative" project, which provides technical and financial support to entrepreneurs.

Group companies present in the grouping of suburban towns north of Paris known as Plaine Commune are part of the "Plaine Commune promotion" project, through which they built links with local SMEs and support their growth. At the end of 2005 the Group signed a Charter with the local government authorities, by which it undertook to lend its support to local development initiatives and benefited from a public relations boost within the community.

In Nancy, Saint-Gobain PAM continues to play an active role in chairing 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.

Good Citizenship Award

At the end of 2006 Saint-Gobain was granted the Good Citizenship Award by Alliances, a French non-governmental organization promoting corporate social responsibility, for the implementation of the Alizé scheme to support SMEs in the region of Valenciennes.

Saint-Gobain was aided in its efforts by the Valenciennes chamber of commerce and by other major corporations present in the area. The goal is to create 375 new jobs over three years by helping 45 local SMEs enhance their strategy and spur their development.

Saint-Gobain Développement is partly extending its work outside France: it provided support to a small French company wishing to develop its business in the Czech Republic, by giving it access to help from its local networks in the country.

Lastly, Saint-Gobain also helps employees who want to create their own business: in 2006, 27 people were offered loans, technical support and coaching over a five-year period.

Each General Delegation manages, in its country, its own initiatives for providing economic and social support at the local level. 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. One of the entrepreneurial projects submitted has blossomed and now employs more than 20 people.

B) SUPPORTING EDUCATION AND TRAINING

Supporting and partnering nearby schools, and extending extra help to underprivileged children, is a major focus in several Delegations.

These efforts are particularly intensive in India, Brazil and Turkey, where local subsidiaries help build primary schools or provide them with supplies and equipment.

In other countries, more formalized initiatives have been launched:

• The *Skills for Life* program, launched in 1989 in the United States by the corporate foundation of Saint-Gobain Corporation, gives struggling students access to tutoring with Group employees in the main subjects.

• In France, the PAM Foundation set up by Saint-Gobain PAM provides young people experiencing social or financial difficulties with both financial assistance and the support of a mentor from the company's staff. At the end of 2006, 17 young people, selected by the superintendent of schools for the Nancy-Metz district, the Prefecture of Meurthe-et-Moselle and the principals of local middle schools and high schools, were being helped by the foundation.

• A foundation, created by the Gypsum business in France, will be set up in 2007. One of its key focuses will be on training young workers into professions related to plaster.

Some subsidiaries also organize national or international contests on themes related to their professions, thereby raising awareness of specific issues among young people.

In Germany, the Saint-Gobain Akustikpreis 2005/2006 prize, sponsored by Saint-Gobain Glass, Saint-Gobain Isover and Saint-Gobain Ecophon, challenged students and their teachers to come up together with novel solutions for noiseproofing. The special prize, in the shape of an acoustic wall, was awarded to the school that produced the most original answer.

Similar initiatives have also been directed toward students in university architecture programs, who were asked to produce a project on a specific theme (e.g. acoustics, thermal insulation or interior decoration), for which they were able to draw upon the Group's advice and products. Several contests were organized in India and Eastern Europe in 2006. These initiatives yield multiple benefits: introducing the students to the requirements of the work environment, transferring knowledge, showcasing Saint-Gobain products, and providing opportunities for different schools to meet and interact.

Lastly, the Group may decide to support the initiatives of some of its employees in the field of education. As an example, Saint-Gobain Isover UK helped fund a two-week trip for charity purposes to Kenya made by one of its employees to install twenty computers in schools and train the teachers in their use and maintenance.

Supporting technical and vocational training is another major focus for Group subsidiaries, as they can leverage their skills and know-how and offer targeted training programs that meet the specific needs of their businesses. In Belgium, the Cefoverre school, founded by the Glass Industry Federation and Saint-Gobain Glass Benelux, organizes an average of 4,500 hours of training per year on glassmaking techniques. At the end of 2006, Saint-Gobain Glass Benelux set up a three-week training course that new glass-making operators are required to complete prior to starting work. It includes numerous hours of practical application in various workshops of Saint-Gobain's factories in the Basse-Sambre region.

In Thailand, Saint-Gobain Weber has joined forces with the Ministry of Education to launch a national vocational training program on tile laying. More than twenty training sessions have already taken place, with over 600 participants.

The Group also encourages its subsidiaries to bring in young workers as part of work/study or vocational training programs. In 2006, these young trainees accounted for 1.7% of the workforce in France[1].

C) PROMOTING SOLIDARITY AND SUPPORTING CULTURAL ACTIVITIES

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. Some of the most popular themes are healthcare, solidarity with underprivileged populations, and culture.

• Healthcare

In Europe and North America, all subsidiaries and Delegations are frequently involved in supporting health-related projects.

Some subsidiaries regularly contribute to operations conducted on a national or regional scale. In the United Kingdom as an example, Jewson and other Saint-Gobain Building Distribution companies launched the *"Together"* project, which raises funds for a collectively chosen cause and helps strengthen employees' shared spirit. Customers, suppliers, relatives and loved ones also contribute. Funds gathered through this program in 2006 and 2007 will be given to the British Heart Foundation for research on cardiovascular disease. In the previous period, the *"Together"* project had raised £573,000 worth of donations for cancer research in the United Kingdom.

In the region of Chalon-sur-Saône, France, several Group sites joined forces to provide the city's hospital with financial support to create a position of entertainer for children, so as to make their hospital stays more pleasant.

In countries that face social and health problems, subsidiaries often lend their help to neighboring communities through local-level initiatives. Saint-Gobain Glass India launched, in partnership with a local ophthalmology clinic, a campaign of testing for underprivileged populations. More than 12,000 persons, many of them schoolchildren, were able to be examined and treated.

Awareness-raising campaigns on AIDS are also organized, notably in South Africa where some subsidiaries play a particularly active role. In April 2006, Saint-Gobain Gypsum contributed €60,000 to the opening of a clinic providing anti-retroviral drugs to the local population.

Solidarity initiatives of the Brazil, Argentina and Chile Delegation

The Brazilian subsidiaries, supported by their Delegation, are particularly active in showing solidarity with their local communities.

The following are some of the activities that took place in 2006:

- Saint-Gobain Canalização funded the creation of a catering workshop by a Brazilian association of friends and relatives of mentally handicapped persons, paying for the purchase of the necessary machinery and the organization of a specific training program.
- Saint-Gobain Materiais Cerâmicos launched the "let's play in the neighborhood" days in the towns next to its facility, with the help of a local theater troupe and the involvement of young people from underprivileged areas. These days drew a very favorable response and helped facilitate the development of relations between the subsidiary and the local population.
- Saint-Gobain Vetrotex took part in a project helping young people from troubled backgrounds find work, by designing a training course on repairing boats and working with fiberglass. Other companies from the Delegation also lent their support to the project with material contributions.

• Solidarity with underprivileged populations

Solidarity is often expressed at a very local level, in the form of direct offers of help to the neighboring population. In Brazil, solidarity initiatives can include donations of toys at Christmas-time as well as offers of leisure activities for homeless children or of help to the elderly. In addition to the benefits they provide for the target population, such activities bring together employees and help strengthen their company spirit.

Donations are also made through specialized bodies, as in Mexico where a subsidiary collected over $1,000, which were contributed to the Red Cross.

In the United States, the Delegation provided financial support to *Women Against Abuse*, an association helping victims of domestic violence in the greater Philadelphia area.

In France, Saint-Gobain Isover has been a partner since 2004 of Action contre la Faim, a charity dedicated to fighting hunger, and contributed €50,000 to its collection drive in October 2006, around World Food Day.

In the United Kingdom, Saint-Gobain Isover provides insulation products for renovations of housing units for the homeless.

• Culture and research

Among the many initiatives taking place at the local level in artistic and research-related fields, the following are particularly significant. Over a period of six years, Compagnie de Saint-Gobain 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.

From March 7 to June 4, 2006, the Orsay Museum in Paris held an exhibition entitled *"Saint-Gobain, une entreprise devant l'histoire"* (Saint-Gobain, a company facing history), tracing back the Group's history from its establishment in 1665 to the 1937 international fair. For this event, Saint-Gobain brought together extensive resources and

(1) Data concerning "Youth employment" contracts are based on 99% of total staff in France.

archives to supply the exhibition, in cooperation with major cultural institutions, such as the French National Archives, the Versailles Castle and Tokyo's Fuji Museum.

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 created the Cournot Center for Economic Research - a corporate foundation co-chaired by Robert Solow, winner of the Nobel Prize in Economics, and Jean-Louis Beffa. The Center regularly organizes conferences and debates to support research and promote exchanges in this field.

Saint-Gobain's participation in the construction of the Quai Branly Museum in Paris

In addition to providing a large number of materials, Saint-Gobain provided financial support for the production of curtains for the theater and the Jardin gallery, which were designed by the Japanese artist Naoki Takisawa.

II) A TIGHTLY-KNIT COMMUNITY SERVING THE GROUP

Saint-Gobain's human resources policy aims to support Group strategy by supplying the best skill-sets, while ensuring that employees are able to grow and develop in accordance with their aspirations.

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

- Supporting Group strategy, particularly development in emerging countries, stepping up innovation and ongoing productivity gains;

- Anticipating future competency needs and guaranteeing that key positions are filled;

- Motivating employees and developing 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.

1) A GROWING WORKFORCE

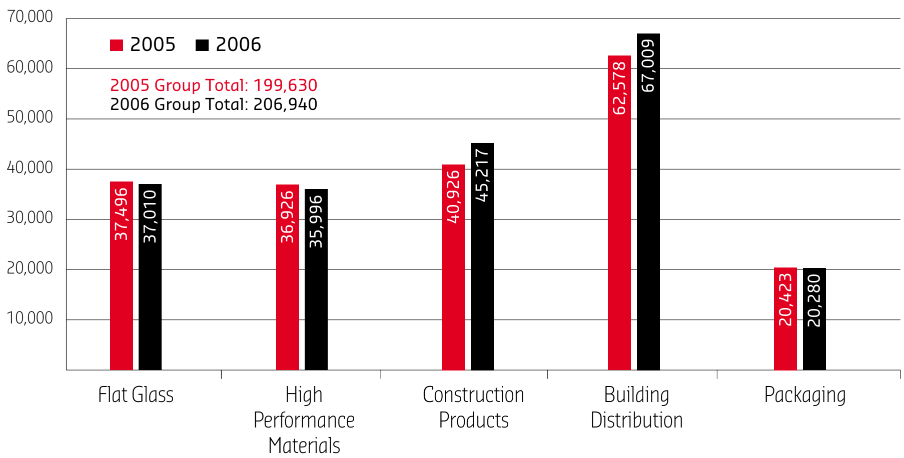
At December 31, 2006, the Group had 206,940 employees in over 50 countries, up from 199,630 in 2005. One-third of them (32%) worked in Building Distribution and two-thirds (68%) in the industrial businesses.

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

A) EMPLOYMENT TRENDS

A total of 7,310 new hires joined the Group in 2006. This expansion illustrates Saint-Gobain's continuing pursuit of both organic growth, particularly in Building Distribution, and new acquisitions in strategic markets.

BREAKDOWN OF CONSOLIDATED HEADCOUNT BY SECTOR



Headcount by Sector

• Flat Glass

The Flat Glass Sector had 37,010 employees at December 31, 2006, slightly less than the 37,496 it had a year earlier.

Following brisk development in high-growth countries in 2004 and 2005, 2006 saw a stabilization of employee numbers in these areas, as the focus shifted more to the training and development of previously integrated staff.

• Packaging

At December 31, 2006, there were 20,280 Saint-Gobain Packaging employees, up from 20,423 in 2005. With a new facility soon to be commissioned in Chile and the recent acquisitions of *Consumers-Sklo-Zorya* and *Kavminsteklo* in the Ukraine and Russia respectively, followed by a boosting of their production capacities, the Group is following through on plans to bring its operations as close as possible to expanding markets. These new developments have brought more than 3,000 new employees, offsetting the contractions in Western European and North American headcounts – attributable to slower business in Western Europe and to the disposal of Calmar, which had extensive US operations.

• Construction Products

The Sector continued to develop after the acquisition of BPB in December 2005, reaching total headcount of 45,217 at December 31, 2006, compared with 40,926 a year earlier. The Pipe Division's acquisition of a blast furnaces unit and a centrifuge plant in Xuzhou, China, accounted on its own for more than 4,000 new employees.

As regards the other major geographical areas, employee numbers remained basically level in Western Europe, while they continued to grow significantly in Central and Eastern Europe and at a slower pace in Latin America to support development in these markets – especially in the Gypsum, Insulation and Industrial Mortars businesses.

In North America, although the Gypsum and Insulation businesses maintained their staffing levels, the Outdoor Products Division saw a decrease, reflecting the slowdown in the US housing market.

• Building Distribution

The Building Distribution Sector gained a total of 4,431 employees in 2006, bringing its headcount to 67,009 at the 2006 year-end, compared to 62,578 a year earlier. This was the result both of continued acquisitions in several regions and a policy of vigorous organic growth.

The largest acquisitions in 2006 were JP Corry and Connells Building Supplies in the United Kingdom, which brought 700 new staff members. In Scandinavia the largest additions were *Bygga, P Eklund and Ekbomsgroup,* bringing a total of 451 persons. In Spain, Belgium and France, the 375-strong teams of BPB's distribution business joined the Building Distribution Sector.

Internal growth was partly driven by the opening of new *Plateforme du Bâtiment* outlets in Spain, Poland and France, each of which recruited between 100 and 200 employees. Development of the "La Maison" banner outlets continued in China, with the opening of two showrooms in 2006.

• High-Performance Materials

Staff numbers in the High-Performance Materials Sector totaled 35,996 at December 31, 2006, versus 36,926 at the 2005 year-end.

In line with its strategy, the Sector decided in 2006 to dispose of the Synflex business of Saint-Gobain Performance Plastics, which employed 450 workers at four sites in the United States and Belgium.

It continued to develop in the emerging countries of Asia, adding 230 staff members, mainly in India and China.

The Reinforcements & Composites business, however, saw lower sales in all its markets and its headcount contracted to 8,972 at the end of 2006, down from 9,654 at end-2005.

Headcount by General Delegation

In 2006, staffing levels by Delegation varied only slightly. The most notable trends were slight decreases in Germany and North America and substantial increases in Eastern Europe and Asia.

Central and Eastern Europe was at the forefront in 2006, its growth driven by Construction Products, Building Distribution and Flat Glass. Romania led the charge, since it saw both the opening of the new Saint-Gobain Glass float and the building of an additional production line for the Insulation business. In Poland, the Building Distribution Sector integrated several companies into its subsidiary SGBD Polska. Expansion in Asia was attributable to the Pipe Division's acquisition of Xugang in China.

B) DEPARTURES

In 2006, the departure rate was 17%[2] , unchanged from the previous year.

- Attrition accounted for 12.6%[3] of total departures in 2006.

There are more retirements in Europe and the United States than in Asia or Latin America, where Saint-Gobain's operations have started more recently and the overall population is younger.

- For the Group as a whole, the resignation rate rose by 0.5 percentage point, to 7.5%[2].

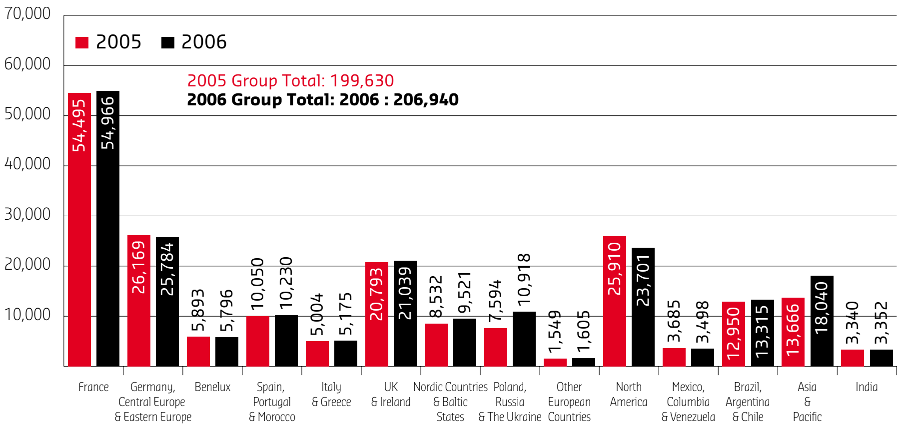
Most Sectors saw this rate increase slightly, with the exception of Packaging where the rate remained unchanged at 4.7%.

Although higher than the Group average, the Building Distribution Sector's 9.9% resignation rate is fairly low for its type of retailing business. It is the result of an effective policy promoting retention through remuneration, training and career management.

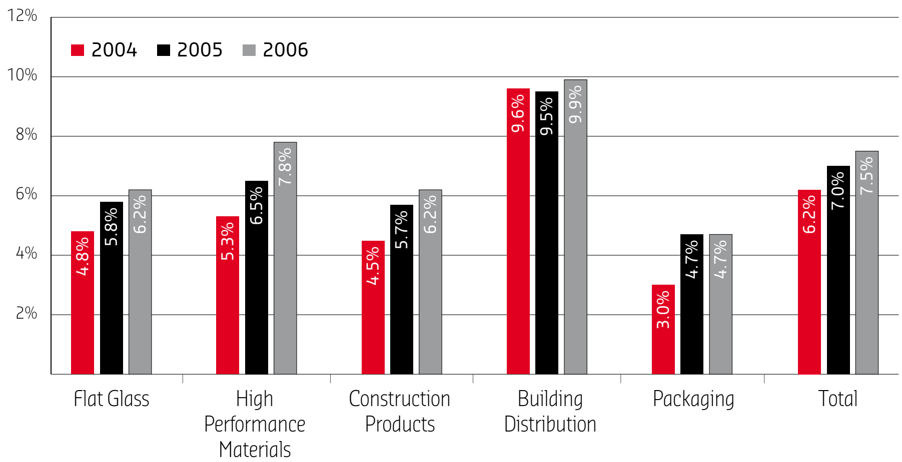
Turnover also remains structurally higher in Central and Eastern Europe as well as in emerging Asian countries and Latin America, as the Group's operations started more recently in these regions and local job markets are particularly buoyant. Realizing this, the Group has implemented a policy designed to build loyalty among its employees, particularly in Latin America, Poland, 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, the United Kingdom and North America tend to experience resignation rates that exceed the Group average, because of the more fluid nature of their job markets.

The overall layoff rate fell to 4.5 % in 2006, from 5.3%[4] in 2005.

BREAKDOWN OF CONSOLIDATED HEADCOUNT BY GENERAL DELEGATION

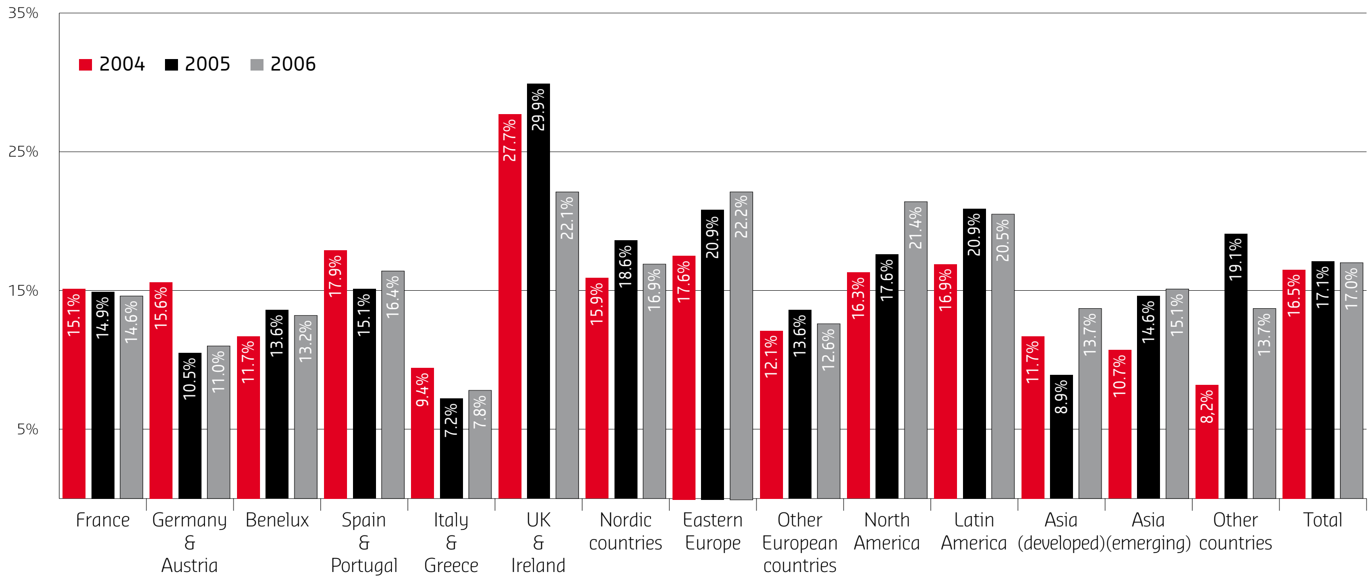


DEPARTURE RATE BY REGION



(2) Data concerning departures are based on 98% of total Group staff.
(3) Data concerning reasons for departures are based on 97% of total Group staff.
(4) Data concerning layoffs are based on 97% of total Group staff.

RESIGNATION RATE BY SECTOR



Layoffs for economic reasons remained on a par with the previous year for the Group as a whole, but increased in North America where the Packaging and Reinforcements businesses experienced a sharp fall-off in sales.

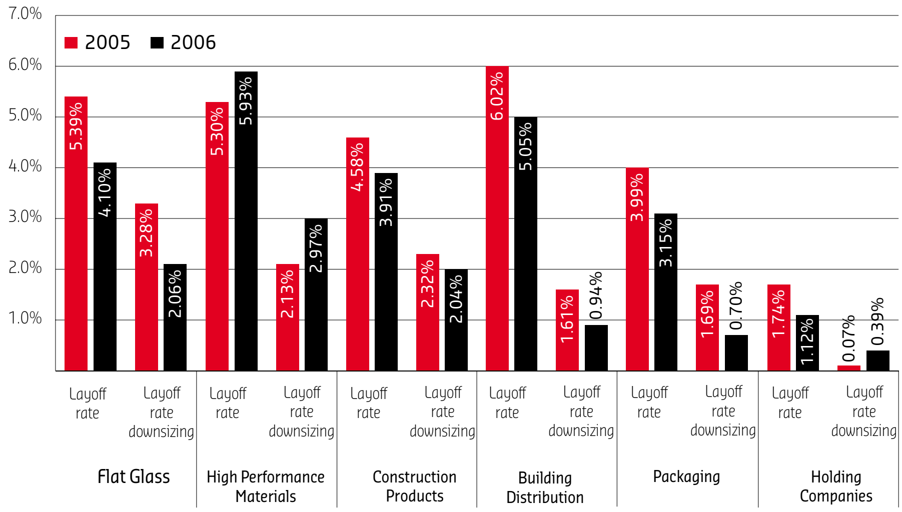
C) PROGRAMS TO PRESERVE JOBS

The Group carries out layoffs or restructuring programs only when these are unavoidable to preserve 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, the Group pursues, through Saint-Gobain Développement, a proactive policy aimed at maximizing outplacement, with appropriate structures that provide ongoing, personalized support to employees affected by downsizing, even after the closing of the facility where they worked.

Saint-Gobain Développement takes into account, for each person, the professional, material, psychological and family consequences of the redundancy. This way all can benefit, according to their needs, from additional training, assistance for relocating and outplacement for the spouse, or support for implementing a personal project, and more.

LAYOFF RATE BY SECTOR



D) RECRUITMENT

The recruitment rate rose slightly, to 18.3%[5] in 2006 from 17.5% in 2005, testifying to the rapid pace of the Group's growth in both emerging and Western countries. A total of 37,092 new recruits joined the Group in 2006.

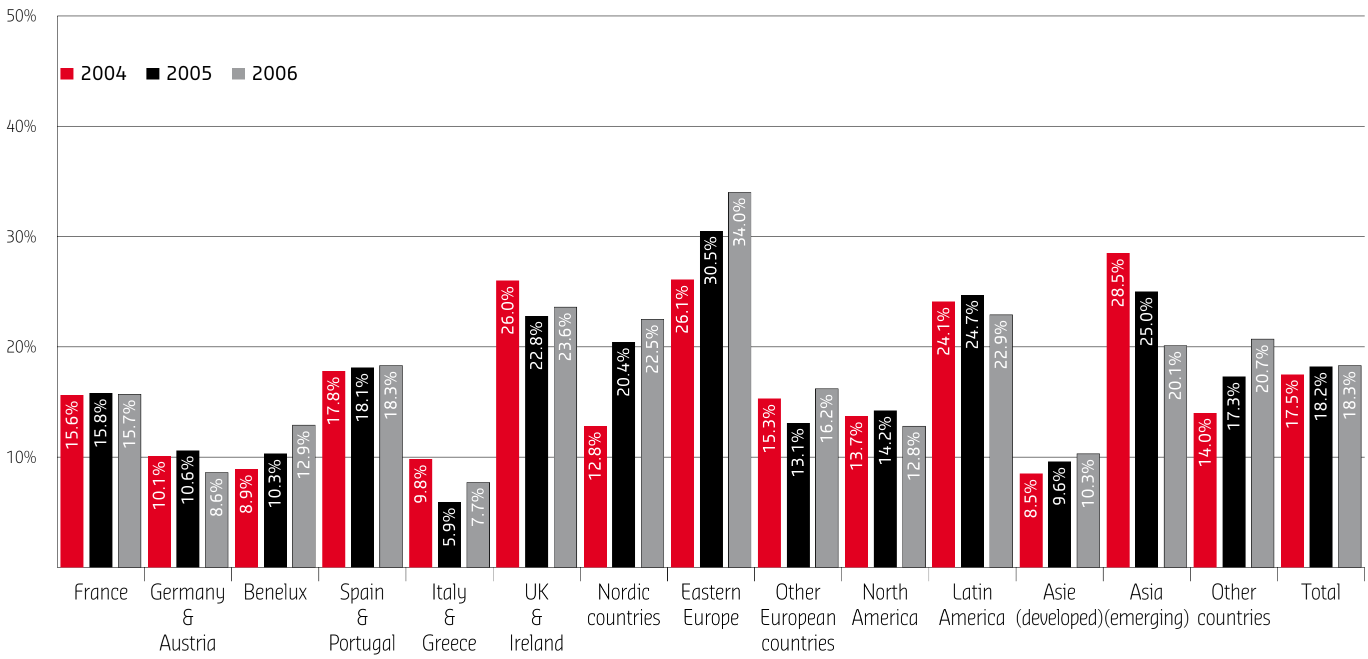
Building Distribution and Construction Products were the two Sectors that hired most intensively, as they expanded not only through acquisitions but also via organic growth.

Among emerging regions, Eastern Europe showed the strongest increase, with 6,066 hires, fueled by strong local markets in Insulation and Flat Glass. In the emerging countries of Asia, 3,932 people were welcomed into the Group, while Latin America brought in 3,614 new staff members, partly to offset high attrition rates in both regions.

However, Western nations also remain active in recruitment, particularly thanks to Building Distribution. France, the United Kingdom and the Nordic countries were the heaviest recruiters in Western Europe, with 8,573, 4,668 and 2,017 contracts respectively.

(5) Data concerning recruitment are based on 98% of total Group staff.

RECRUITMENT RATE BY GEOGRAPHIC REGION



E) USE OF TEMPORARY WORKERS AND CONTRACTORS

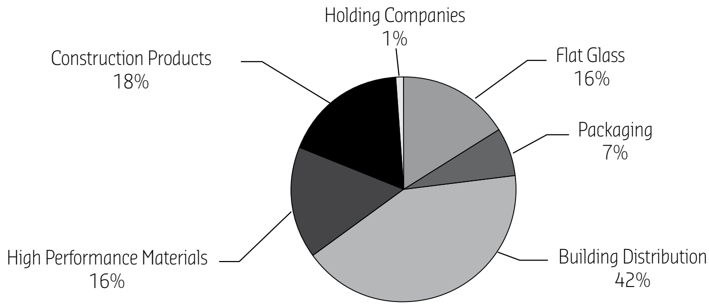
Temporary work

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 call upon temporary workers. In 2006, the absenteeism rate was 3.6%. The most common causes of absenteeism were illness, maternity and workplace accidents.(6)

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 notice. The proportion of temporary worker hours within total hours worked was 6.9%(7) in 2006, reflecting a 1.1% increase in 2005 that was mainly attributable to Flat Glass and Packaging.

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 that cause a spike in production. At December 31, 2006, 6.1%(8) of Group employees had fixed-term contracts, up 1.5 percentage points compared to 2005. The Construction Products Sector experienced the strongest increase, 4.9 percentage points, because the Pipe business often needs to increase its production capacity temporarily to fill its orders.

BREAKDOWN OF RECRUITMENT BY SECTOR



(6) Data concerning absenteeism are based on 90% of total Group staff.
(7) Data concerning temporary workers are based on 82% of total Group staff, excluding North America.
8) Data concerning fixed-term contracts are based on 90% of total Group staff, excluding North America.

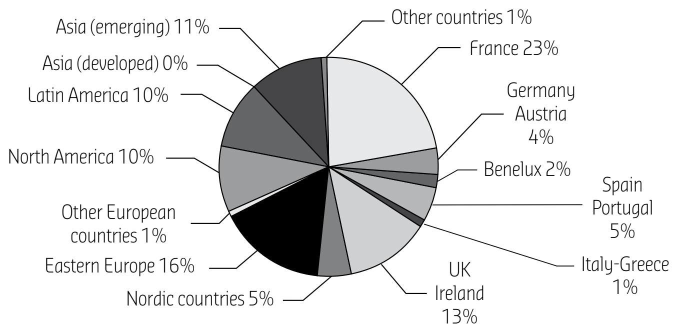
Use of contractors

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 activities 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 removed from the Group's core business.

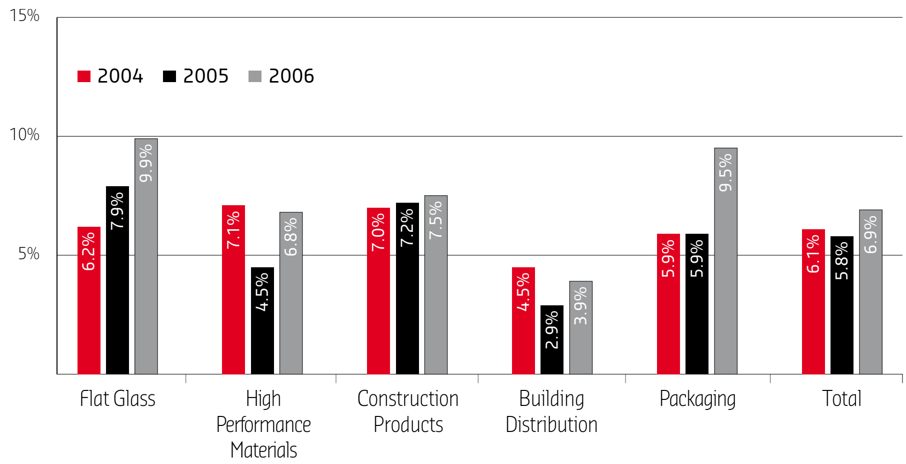
Before signing an outsourcing contract, Saint-Gobain subsidiaries are required to verify that the partner company's operations and work contracts comply with all applicable regulations. The employees of vendors and contractors called upon to work at a Group site must, upon their arrival at the site, 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.

In 2006, an action plan was designed to improve the safety of temporary workers. Based on a number of mutual commitments between Saint-Gobain and temporary work agencies, these safety measures are being tested in a pilot project for France, launched in December 2006 in the region of Chalon-sur-Saône. This pilot will last throughout first-half 2007, and will then be rolled out on a national and Europe-wide scale in a second stage (see section on Environment, Health and Safety).

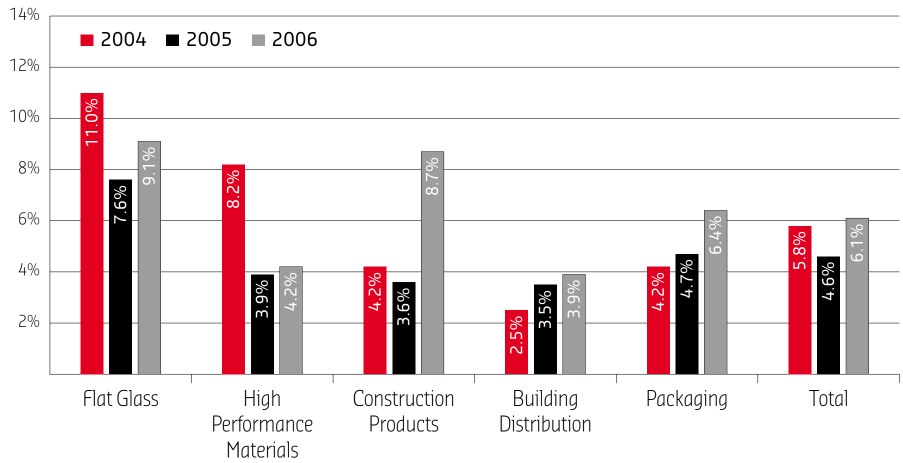
BREAKDOWN OF RECRUITMENT BY REGION



PROPORTION OF TEMPORARY WORKERS BY SECTOR



PERCENTAGE OF EMPLOYEES ON FIXED-TERM CONTRACTS BY SECTOR



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 that allows it to respond proactively and effectively to economic and social challenges.

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 2006, 65% of employees had an employee representative body within their work establishment [9].

A total of 1,065 [10] agreements were signed with employee representatives in the Group in 2006, 34% of them dealing with salaries. Lastly, 65% of Group employees, and 99% in France, are covered by a collective-bargaining agreement [11].

■ European employee consultation

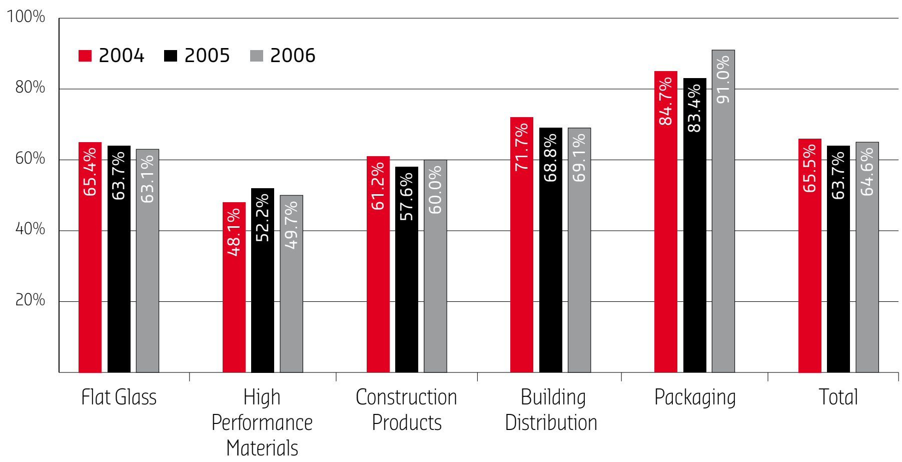
Since 1988, the Group has been holding a plenary meeting each year as part of the European collective agreement on works councils, to promote discussions on shared issues and facilitate the sharing of information that can move forward employer-employee negotiations at both local and European levels. This annual plenary meeting now brings together 70 employee representatives from 22 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 – who have been provided with technical resources and have a specific number of hours set aside for the performance of their duties.

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.

The participants in the consultation process are closely involved in strategic developments affecting the Group. In 2006, the European employee representatives monitored the Symbiosis project for integrating BPB into Isover, and a special meeting of the permanent committee was devoted to examining the planned joint venture between Vetrotex and Owens Corning. Lastly, a working group was

■ PROPORTION OF STAFF COVERED BY A COLLECTIVE-BARGAINING AGREEMENT



(9) Data concerning employee representatives are based on 94% of total Group staff.
(10) Data concerning agreements with employee representatives are based on 93% of total Group staff.
(11) Data concerning collective-bargaining agreements are based on 91% of total Group staff, excluding North America.

set up to examine how the representatives can be more involved in Group safety programs.

A "Guidebook for European Employee Consultation", the result of joint work between Executive Management and the permanent secretariat, was issued at the 2006 plenary meeting to help guide newly elected representatives in carrying out their duties. It presents the organization's architecture and mode of operation, making it easier to understand the key role that the consultation process plays in employer-employee relations.

■ 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 held its last session at the Saint-Gobain head office in October 2006 and will be merged into Saint-Gobain's annual plenary meeting process (collective agreement) as from 2007.

B) EMPLOYEE CATEGORIES (12)

■ Executives and managers

The proportion of executives and managers within total staff rose very slightly to 11.9% in 2006, from 11.6% in 2005. 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 unchanged. Management teams were expanded in emerging countries, particularly in India (up 8.3 percentage points) and North-East Asia (up 2.4 points), as the Group is determined to pursue a long-term strategy in these regions, relying on local resources and limiting the use of expatriates.

■ Clerical staff, technicians and supervisors

This category, which includes administrative staff, technicians, supervisors and sales personnel, accounted for 36.7% of Group employees at December 31, 2006.

■ Blue-collar workers

At December 31, 2006, blue-collar workers accounted for 51% of employees, up 0.8 percentage point compared to 2005. Eastern Europe saw the largest increase in the share of blue-collar workers, mainly due to the commissioning of the Saint-Gobain Glass plant in Calarasi, Romania, which caused the proportion for that country to leap to 52.7% at December 31, 2006, from 29.3% a year earlier.

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 rarely have this type of work.

In industrial operations 37.1% (13) of employees perform shift work, and these proportions have risen in comparison to 2005 in all industrial sectors. Each workstation can have two or three shifts, or even more in some cases, when work takes place 24 hours a day, 365 days a year 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 customer requirements of some outlets require that employees perform shift work – in Brazil, as an example, where some stores are open 24 hours.

• 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% (14) of hours worked in 2006, slightly less than in 2005.

• Part-time work

Part-time work is not very well suited to industrial work patterns, and it concerns only 2.6% of Group employees.

■ Compensation policy

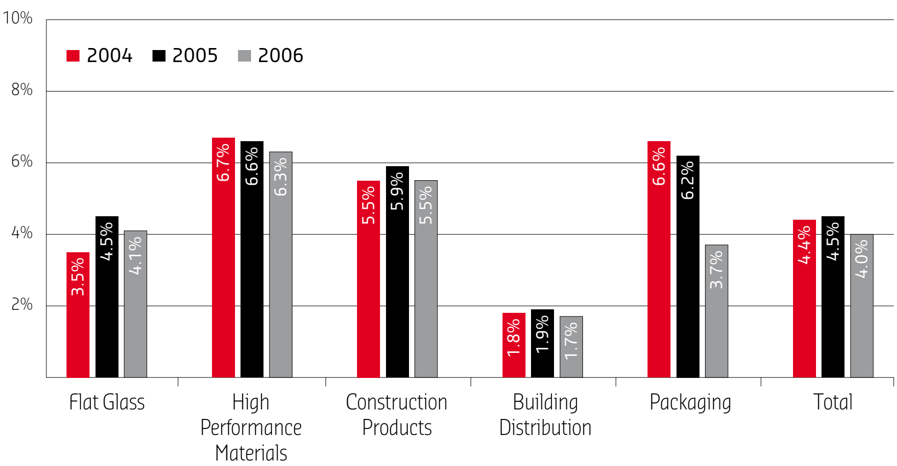
The Group seeks to provide fair and rewarding compensation to employees. This approach is not limited to wages, as it also includes ancillary benefits such as Group contributions to health insurance and pension benefits.

• Wages

The Group's compensation policy aims to be fair, motivating and transparent. The Delegations set basic wage scales for each country and industry within their territory, in relation to market conditions. Each subsidiary then 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 main-

■ OVERTIME RATE BY SECTOR



(12) Data concerning working conditions are based on 98% of total Group staff.
(13) Data concerning working conditions are based on 95% of total Group staff.
(14) Data concerning working hours are based on 96% of total Group staff.
(15) Data concerning part-time work are based on 94% of total Group staff.

tain employees' purchasing power and living standards. In emerging countries, wages rise regularly as new skills are called upon and the dynamics of the local job market change, which leads to a higher standard of living.

Executives' wages include a variable portion for which rules are set at Group level and tailored to each region based on local conditions. Also, to promote 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, 87.1% of subsidiaries have signed such agreements. In 2006 these companies paid €65.3 million to their employees as profit-sharing bonuses, which represented 4.2% of total wages.

• Employee benefits

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, as well as grants for meals and sometimes for commuting. These additional benefits vary considerably from one country to another. They generally go well beyond employers' obligations under labor law and depend on local living standards.

In China, Saint-Gobain gives its employees access to supplementary medical insurance and life insurance. The Brazilian subsidiaries also offer supplementary benefits in the areas of healthcare coverage, life insurance and pensions.

D) GROUP SAVINGS PLAN

Since 1988 and through the Group Savings Plan (PEG), Saint-Gobain has 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 5.9% of Compagnie de Saint-Gobain capital stock at the end of 2006.

Several measures were taken in 2006 to encourage employees to increase their participation in the PEG program. The number of countries benefiting from this system now stands at 38, including 24 within and 14 outside Europe. The latest entrants in 2006 were Canada, Colombia, Indonesia and Malaysia.

Top-up payments were introduced in several countries, based on local conditions, and their rates were maintained in France and in other countries where they were already in place. In the UK, the Saving Incentive Plan was strengthened, including with top-up payments as from 2006. Lastly, this offer was also extended to ex-BPB employees, in all countries where Group employees already benefited. 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.

3) HUMAN RESOURCES ATTUNED TO GROUP CHALLENGES

The Group's human resources policy is geared towards proactively identifying and building the skill sets that will support organic growth, innovation and international expansion.

To ensure that this development successfully factors in the social and human conditions of each country hosting Group operations, Saint-Gobain makes promoting diversity and equal chances for all a core focus of its day-to-day HR management.

Integrating the Gypsum business opens new career opportunities

In 2006, the integration of the BPB group, which became the Gypsum business within the Construction Products Sector, helped enhance the Group's corporate culture in many different areas. The Symbiosis project, which aims to build synergies with the Insulation business, brought many human resources benefits. Setting up shared functions and services gave an impetus to productive exchanges between teams and allowed comparisons of best practices, which help expand the toolkits available for training and management. The integration process also boosted the career mobility opportunities available to staff members, giving them an even wider range of businesses and countries in which to develop.

A) RECRUITING FOR TOMORROW'S NEEDS

■ Bringing in a new generation

The average age of Group employees, around 40 [16], is unchanged from 2005 and has remained more or less level in all sectors. It is close to 41 in Packaging, Construction Products and High-Performance Materials, while Flat Glass and Building Distribution employees have an average age of about 38.

Age distribution data show that employees tend to be older and have more seniority in Europe and the US, where the Group has a longer history. The industrial subsidiaries are paying particular attention to bringing in a new generation, as the baby-boomers reach retirement age.

In several territories applicants under 25 accounted for a substantial proportion of new hires [17], particularly in Germany, in the Benelux countries and in the emerging nations of Latin American, Asia and Eastern Europe. Such under-25 hires accounted for 33.8% of total Group recruitments in 2006, 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, to which it can offer international career opportunities spanning multiple businesses.

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.

Relations with institutions of higher learning can also be managed by individual companies. In France, Point.P has built six national-level partnerships with business schools as well as a partnership with *Ecole Supérieure du Bois* in Nantes. Over the past two years, these links have led to the hiring of about 100 young graduates with Master's degrees, to over 80 lengthy internships or work/study contracts, and to the company's involvement in many events at these schools.

The Group takes part in **international programs for hosting students** and engineers as a means of recruiting and training young people with high potential who are headed for top positions. Saint- Gobain has been a supporter since 1999 of the French Copernic program, which provides management training to engineers from Central and Eastern Europe.

Throughout the Group, senior-year internships are a particularly effective way of introducing Saint-Gobain's businesses and corporate culture to university students about to graduate, and they then integrate very easily into the Group once hired.

The VIE program at Saint-Gobain

For French companies, the French government's VIE program (Volontariat International en Entreprise - international volunteer services in companies) is a significant avenue for identifying promising future candidates, who are European Union nationals and 28 or younger. The participants, university students needing an internship to complete their degree, are offered an assignment outside France which can last from 6 to 24 months, depending on local legislation, in a unit of the Company where they can be coached.

Since 2001, over 140 such interns have been assigned to Saint-Gobain subsidiaries throughout the world, particularly in the US, Germany and China. The assignments they carried out were in the fields of finance, manufacturing, research & development and marketing.

To ensure that these volunteers maximize the benefit of their experience, the Group has prepared for 2007 a "VIE program passport", presenting the in-house colleagues they will be working with, the key milestones of their program and the "rules of the game". At the end of each VIE assignment, the experience is analyzed by both the intern and the designated mentor, in order to appraise the quality of the work performed and consider jointly whether it seems appropriate for the intern to apply for a permanent position within the Group.

Every six months, the Group reviews the situation of its VIE program interns who are about to complete their assignments, so as to consider all possible offers for the most promising candidates.

(16) Data concerning the average age of employees are based on 97% of total Group staff.
(17) Data concerning the hiring of people under 25 are based on 87% of total Group staff, excluding North America.

2006 Management report

Because **innovation** plays such a central role in Group strategy, particular care is devoted to recruiting researchers. The Group implemented, in 2005, a major three-year program to recruit researchers on three continents. The first stage consisted of identifying the best research laboratories worldwide in Saint-Gobain's areas of interest. Cooperation was initiated with several of these institutions, which in some cases has taken the form of postdoctoral internships or thesis work by students at Saint-Gobain.

With the opening of the new R&D center in Shanghai, where more than 60 researchers are already at work, and the substantial increase in R&D efforts in the Sectors, Research and Development staff grew 14%, with more than 200 new employees added to six of the main Group research centers.

The Group receives an average of **80,000 job applications a year,** a majority of them for executive-band positions. The applications are presorted, then passed on to Group subsidiaries as appropriate.

The Group posts its job offers in the "Careers" section of its corporate website (www.saint-gobain.com), where candidates can fill out an online application.

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 High-Performance Materials Sector devised a specific action plan for recruiting and retaining executives, under which new hires are offered training courses and integration sessions as well as a mentoring program that includes an assessment interview at the end of the trial period. Compensation levels are also benchmarked to take into account the competitive context and optimize salary offers.

In France, Point.P has been offering, since the end of 2004, a Professional Qualification Certificate, initially for line positions (stockroom attendant, driver, salesman), then for store manager, shift foreman and other local management positions. By December 31, 2006, over 1,000 such certificates had been earned.

B) ENCOURAGING AND PROMOTING MOBILITY AMONG MANAGEMENT STAFF

As the Group's businesses constantly grow more complex and more integrated into international networks, executives have to train towards new requirements by gaining experience in different businesses and in varied cultural contexts.

Internal mobility of employees is a powerful lever for the Group's development and the building of its corporate culture, thanks to exchanges between different businesses and countries.

Mobility can take one or more of 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:

a. Clearly advertising job postings. Job offers are posted on *Worldjob*, an Intranet site dedicated to in-house mobility. 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 to apply, and information that executives contemplating international mobility need to know;

The first Gay-Lussac Research Day

Saint-Gobain is intent on developing its community of researchers and cultivating links with the academic world.

In June 2006, at the first Gay-Lussac Research Day, students doing thesis or post-doctoral work in the Group were asked to present progress reports on their research in front of Saint-Gobain thesis mentors and doctoral thesis supervisors from university laboratories. There were more than twenty presentations, all related to the materials and processes used in the various Sectors.

b. Effective management of the expatriate experience. An international network of mobility specialists helps optimize services provided to expatriates, that include helping them prepare for departure, welcoming the employees and their families at their destination, 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;

c. Performance evaluations, which allow the human resources organization to identify employees' current or future aspirations for job mobility. In 2006, 68.4% [18] of executives had an annual evaluation with their manager. The Group's aim is in time to ensure that all do;

d. Succession planning and people reviews. These annual forecasting exercises plan for possible medium- and long-term changes in positions and staffing within the various Sectors and Delegations. They are essential to ensure that strategic planning integrates both the Group's needs and the aspirations of employees.

To facilitate the implementation of this career management policy, 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.

The Group is also upgrading its human resources management system, with the roll-out of SINERhGIS that began in 2006. This database application, shared by the Group, the Sectors and Delegations, will promote the development and effective management of executives' competencies and aspirations.

Tools to help executives in international assignments

In 2006 a brochure was produced for executives who will be spending a year or more abroad in the course of their career. It gives practical information and explains the rules that the Group applies to expatriates.

In addition, an Intranet site provides all the necessary details on the Group and on each destination country, as well some segments specific to each Sector.

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 – as an example in oven reconstruction projects.

C) BUILDING SKILLS THROUGH TRAINING

Training is a key lever of competency-building. In 2006, each Group employee received on average 25.5 hours of training [19], compared to 25 hours in 2005. Training expenditure amounted to 2.2 % [20] of total payroll (up from 1.7% in 2005) and more than two-thirds of employees [21] took at least one training course in 2006 (the proportion was 77% for executives and 66% for non-executives).

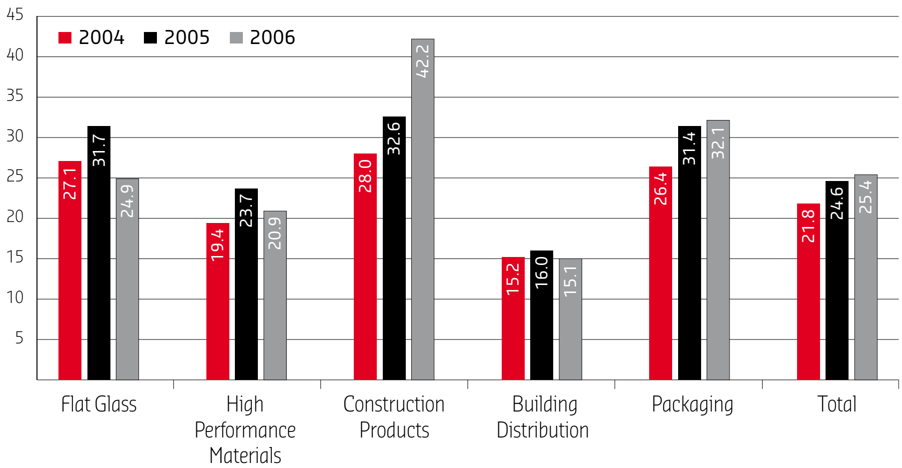
The Group's training policy follows five key goals:

• Enhancing Group competitiveness by bolstering technical skills and professional expertise.

Technical training on the work of specific Group businesses is handled at Sector level, to ensure that it meets current needs. Its purpose is to consolidate Saint-Gobain's specialized technical know-how and speed up development in the Group's new markets. Technical training accounted in 2006 for 42.3% of the training provided within the Group.

As an example, 131 Group employees benefited in 2006 from the glassmaking courses offered by the University of Glass, in 11 seminars held in France, Spain and Italy.

AVERAGE NUMBER OF TRAINING HOURS PER EMPLOYEE



(18) Data concerning annual evaluations are based on 94% of total Group staff.
(19) Data concerning the number of training hours per employee are based on 96% of total Group staff.
(20) Data concerning expenditure on training are based on 97% of total Group staff.
(21) Data concerning the breakdown by category of trained staff are based on 93% of total Group staff.

Training, a key ingredient in the *World Class Manufacturing* project

The goal of the *World Class Manufacturing* project (WCM) is to boost industrial performance through the use of tools for continuous progress. Saint-Gobain has selected a common approach for deployment throughout the Group, one which leverages various successful experiments: in both the Brazilian subsidiaries and the Gypsum business the process has been in place for the past three years.

The effectiveness of the project will hinge on the commitment of all employees, and training has a central role to play in ensuring a smooth implementation.

- The managers and supervisors at the various sites and workshops will be in charge of leading the day-to-day implementation of the WCM methodology. They are being trained to ensure that they grasp its workings thoroughly and can steer their teams through the process.

- Then, within the various workshops and at each workstation, employees will be trained in process optimization methods, in a hands-on way that is completely integrated into their daily routine. A training moment might introduce a new procedure or present a different way of performing a specific motion, to be put into effect immediately. Workgroups composed of both workers and supervisors will suggest process improvement ideas, test them and, if they pass muster, present them to the entire team.

This type of training empowers employees and thereby helps make their organizations more reactive.

• 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. It offers a range of courses intended both for non-specialists and for sales and marketing professionals. Alongside the teaching of core content by experts from the worlds of academia and consulting, the School also provides a venue for the Group's top leaders to share their experience and offer case studies both of successes and of the challenges they face. In this, debate and exchanges among attendees play an important part, since the aim is to promote the sharing of skills and the take-up of market best practices as well as lessons learnt within the Group. In its first year of operation, the School offered two broad-based courses for non-specialists – Fundamentals of Marketing, and Innovation – while sales and marketing professionals were provided with a series of in-depth seminars on four issues of great relevance to the Group: customer relationship management, emotional and sensory marketing, technology-based marketing, and brand management and customer loyalty. Over 160 employees attended the School in 2006.

In a similar vein, the General Delegation for Brazil and Argentina has opened a 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, which began in 2005, had already trained more than 600 professionals from every Sector in the Delegation by the end of 2006.

• Preparing for and facilitating the Group's international development

The Group's international development and expansion into high-growth markets call for substantial training efforts, which must not be impeded by physical distance. That is why in 2004 Saint-Gobain decided to deploy its major international training programs across its main operating territories. The Management School now runs programs on four continents and the seminar entitled "Fundamentals of Management Accounting" is now being offered in China, in addition to Europe, the US and Brazil. The Group's growth also hinges on its ability to gather the skill sets it needs in these new countries, by leveraging the ones it has in its older markets.

• Reinforcing leadership skills and imparting a shared vision within Saint-Gobain teams

To strengthen and consolidate its market positions, the Saint-Gobain Group needs motivated teams that are clearly focused on their objectives. This requires genuine leadership from an effective management structure. The Group provides a broad range of management training offerings, not only at the Group Management School, but also within the various programs in the Delegations, to ensure that all those in positions of responsibility have the best tools to perform their duties.

MKT2, the training program for Flat Glass operators

MKT2 training session in India

The Flat Glass Sector's MKT2 (*Manufacturing Know-how Transfer & Training)* program, designed in Mexico in 2001, trains float-line operators in the fundamentals of their work.

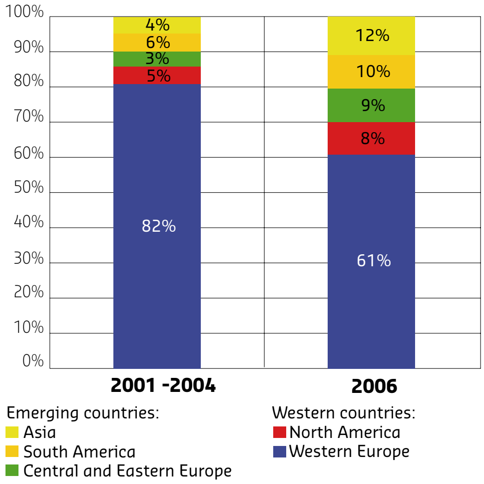
This successful process is being extended to countries that include Portugal, Spain, France, the UK, China, India, Romania and Belgium, without altering its core principle: rapid and methodical skills transfer to the Group's new fronts, through a combination of mentoring and online training. It also helps consolidate knowledge in older facilities, where training was until recently based essentially on oral coaching.

In the eleven plants involved in the program, the amount of time devoted to MKT2 training in 2006 was approximately 16,000 hours. The program will in time be rolled out to all Flat Glass sites.

Extra investment in training in emerging countries

To support its development in expanding markets, the Group makes a point of providing greater access to training for all its employees in these countries. The extensive training provided in emerging nations reflects a focus on building the skill sets of local staff and facilitating a smooth integration. In Latin America, each employee attended an average of 53.7 hours of training in 2006, well above the Group average of 25.4 hours.

Geographic origin of participants in Operational Management and Young Managers training sessions



Building local management teams in emerging countries is a major priority, reflected in the investment in training: an average of 87 hours per executive in Latin America, 70 hours in Central and Eastern Europe, 43 hours in emerging Asian countries. Toward the same end, the Management School decided in 2004 to hold some of its seminars in these regions, to make them easier to attend for executives from these countries, who now account for one-third of seminar participants.

In France, the Management School marked the 20th year of its program of seven-week seminars for supervisory-level staff. To date, nearly 900 supervisors have been able to deepen their understanding of management issues and provide more effective leadership thanks to this program.

One of the major projects undertaken in 2006 was the drafting of common guidelines on managerial competencies, which will help strengthen the Group's leadership structure by spelling out more clearly the skill sets that its managers are expected to build.

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

Beyond the variety of its businesses and the diverse features of the countries where it operates, the Saint-Gobain Group coheres around shared values and principles. Training sessions and seminars provide excellent opportunities to promote exchanges among employees from different Sectors, countries and business lines. The Management School has an essential role to play in that respect, as it lies at the heart of the Group's training system and now welcomes nearly 500 executives a year in its seminars. This number has doubled since 2004, with a surge in attendees from outside Europe, thanks to the organization of seminars in North America, Brazil and China.

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.

Lastly, all types of training, even at the most local level, help extend and strengthen the Group's corporate identity, because all courses integrate the Principles of Conduct and Action as the common bedrock of the Saint-Gobain corporate culture (see pages 72-74).

D) PROMOTING DIVERSITY AND EQUAL OPPORTUNITY

Saint-Gobain is intent on promoting diversity and equal opportunity among its employees.

The Group seeks to develop local-level initiatives, as these are most closely tailored to the specific circumstances of the regions concerned and of the different businesses.

In France, the Group signed the Diversity Charter, thus committing 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. This support for multicultural integration is not, however, limited to France, but extends to all countries where the Group has operations.

■ 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. Resumes (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.

In France, Saint-Gobain Développement and other Group entities take part in local-level initiatives aimed at linking up companies and young people seeking work or internships.

In Seine Saint-Denis, an underprivileged suburb north of Paris, Group subsidiaries, including La *Plateforme du Bâtiment,* have been taking part since 2006 in regular meetings, called the *Forums de la Cité,* between heads of companies and young people from the region.

In the region of Chalon-sur-Saône, Saint-Gobain supports a scheme called "100 chances 100 jobs", which aims to provide opportunities to struggling young people – several of whom have already visited Group subsidiaries in the area and taken part in mock interviews.

■ Promoting greater gender balance

In 2006, women accounted for 22.4% [22] of hires, 1.4 percentage points higher than in 2005.

Nevertheless, due to the overall growth in headcount, the proportion of women in total staff remained unchanged year-on-year, at 19.8% [23] . The sharpest rise in the representation of women was an improvement of four percentage points, to 28.8% at December 31, 2006, achieved in Poland, the Ukraine and Russia.

Of women employees, only 30.9% are blue-collar workers.

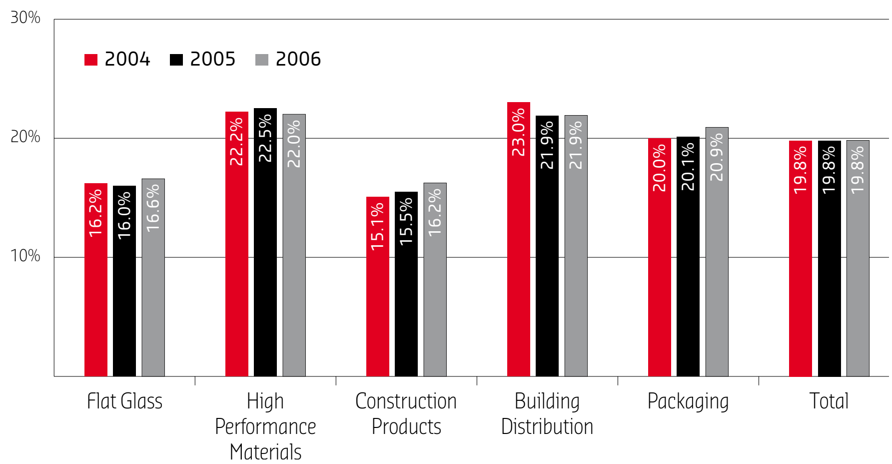
The Group is determined to achieve a better balance between men and women, particularly at the management level. The aim is to ensure, in recruitment and access to functions wielding responsibility, equal opportunity that is compatible with the nature of the work involved.

These efforts have yielded regular progress on the order of about 5% per year. Whereas women held only 10% of executive positions in 1997, the proportion has risen to 15.9% [24] at December 31, 2006, slightly more than in 2005. There has been constant growth in the percentage of women among executive hires: 22.7% in 2006, versus 22.4% in 2005 and 18.6% in 2004.

To boost the in-house promotion of women, several practical measures have been implemented in each of the Sectors to raise their representation in the Group's training cycles. The number of women attending seminars at the Management School has risen significantly over the past three years, to 72 attendees in 2006 compared to 50 in 2004.

Several steps have also been taken at Group level since 2005 to expand feminine leadership. A specific segment is dedicated to women in the staff reviews aiming 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 consider career planning possibilities for high-potential employees and in-house experts. A periodic progress report on this issue, as well as an annual evaluation, are sent to the Group Chief Executive Officer, detailing results by business and level of responsibility (senior leadership, management, supervisory staff, etc).

■ PROPORTION OF FEMALE EMPLOYEES BY SECTOR



(22) Data concerning the proportion of women in recruitment are based on 98% of total Group staff.
(23) Data concerning the proportion of women in Group staff are based on 98% of total Group staff.
(24) Data concerning the proportion of women among executives are drawn from Hypervision, the Group's executives database.

The *Women's Network* in the US

The Women's Network, which brings together female executives from the North American Delegation, was launched in 2003 to promote diversity and equal opportunity. It aims to help subsidiaries within the Delegation make the most of the talent and skills of their female employees and to identify and share best practices regarding the management of women's careers.

Toward these ends, the network has set up a mentoring program for new female recruits, provided assistance and advice with the hiring process, and exchanged information with national networks.

Members of the network have also been active in community outreach initiatives, particularly to support women in difficult situations.

■ Promoting the integration of disabled persons

In France, handicapped persons represented 2.6% (25) of Group employees at December 31, 2006, reflecting a 0.2 percentage point year-on-year increase that testifies to French subsidiaries' take-up of Group policies seeking to promote the integration of people with disabilities.

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 France, 127 workstations were adapted for disabled persons in 2006 (26).

Since the fall of 2005, a number of practical steps have been taken to raise awareness of this issue within the French subsidiaries and to encourage them to take it into account in recruitment processes.

In November 2006, Saint-Gobain participated for the second time in a recruitment fair organized in Paris, during Disability Awareness Week, by "Adapt", an organization promoting better inclusion of disabled persons in the workplace and in society. Further, several Group companies are members of an association called *Tremplin* (Springboard), which helps and coaches disabled students and helps young graduates find internships and work in a network of Paris-area companies. Several interns and recruits have joined the Group through this avenue.

Furthermore, Group companies are encouraged to order from sheltered workshops and several Sectors have set up outsourcing agreements with Centers for Aid through Work (*Centres d'Aide par le travail* or CAT) and other companies employing personnel with special needs. As an example, one of the French companies of the Pipe business 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.

E) APPRAISING AND LISTENING

The Group is constantly seeking opportunities for dynamic and interactive exchange with its staff, as a way of ensuring that its different in-house constituencies work together successfully and that employees' expectations and aspirations are addressed.

In the spring of 2006, Group management launched a satisfaction survey among all executives, to gauge their view of the Group's strategy and policies, and of its handling of several specific issues. More than 73% of those surveyed responded.

The results showed that belonging to the Group was a source of considerable pride and that respondents felt strongly committed to the Principles of Conduct and Action. The focus on safety and value for teamwork also received many favorable mentions. As regards Group strategy, expansion in emerging countries was seen as very positive by a vast majority of respondents.

The survey did, however, bring to the fore areas that call for improvement, as an example in the promotion process, and action plans are being devised to address the shortcomings.

Regular events held to allow executives to exchange views with Group leadership include the *Carrefours* Saint-Gobain meetings, organized four times a year. 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.

In Brazil, the Delegation encourages its subsidiaries to conduct annual or half-yearly satisfaction surveys of all employees in order to assess their views and expectations on various subjects, such as Group strategy, the image of the Group and company, working conditions, or the extent to which their personal aspirations are taken into account.

The annual performance evaluations mentioned above also 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.

Finally, Group management also attaches great importance to maintaining an ongoing dialogue with employee representatives. At the annual plenary meeting held as part of the Collective Agreement on European Works Councils, the Chairman presents Group policies and answers participants' questions.

(25) Data concerning employment of disabled persons in France are based on 99% of total Group staff in France.
(26) Data concerning the number of workstations adapted for disabled employees in France are based on 94% of total Group staff in France.

2006 Management report

III) DEVELOPMENT BASED ON A PROACTIVE EHS POLICY

Respect for others, health, safety and the environment are at the forefront of the Group's management of its industrial, distribution and research activities. Saint-Gobain has instituted policies in the sphere of environmental protection and industrial health and safety, which apply to all the Group's businesses.

« By their very nature, our industrial and distribution businesses entail certain environment, health and safety risks. As entrepreneurs, we must take our responsibilities with regard to these risks. »

Jean-Louis Beffa, Chairman and CEO,
Saint-Gobain
March 2006

1. OUR EHS COMMITMENTS

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.

1.1. PRINCIPLES OF CONDUCT AND ACTION

In its *"Principles of Conduct and Action"*, 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.

1.2. EHS POLICY

The Group's EHS Policy is based on respect for the individual and his or her environment. It invites each Saint-Gobain employee to commit towards reaching definite targets. It is distributed to all facility managers in the "Charter and Resolutions" brochure and is available on the Group's intranet portal.

1.3. EHS CHARTER

The EHS Charter, an offshoot of the EHS Policy, is on display at all Group sites. It aims to get the Group's roughly 206,000 employees working towards three key objectives: zero work-related accidents, zero occupational illness and zero non-recovered waste. To date, the Charter has been translated into 30 languages.


Zero work-related accidents.
Zero occupational illnesses.
Zero non-recovered waste!

Every day, all of us in the Group are actively committed to pursuing the ambitious objectives of the Saint-Gobain EHS policy through the implementation of the following principles:

- respect for the law and for best management practices.
- management of all forms of risk.
- measurable priorities and performances, based upon particularly effective performance standards found in the Group for comparable sites.
- application of the EHS policy to outside contractors who are working on a Group site.
- continuous, responsible and open dialogue with our partners (public authorities, clients, suppliers, etc.).

Charter
Environment, Health and Safety
SAINT-GOBAIN

General Management is responsible for setting 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 by plants that use high-temperature processes). These objectives are transposed 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 faced by it. The integrated Environment, Health and Safety approach provides a comprehensive overview of these three inseparable subjects, leading to greater effectiveness.

2. RESOURCES DEPLOYED

2.1. EHS MANAGEMENT TOOLS

The Group EHS Department has designed a 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.

a) Management methods

The Group recommends certain management approaches intended to deliver the best results in terms of environmental protection and industrial health and safety. The sectors and Delegations, and then the companies themselves, design and develop their own tools, taking into account the specific constraints of their business.

The **WCM (World-Class Manufacturing)** method is a standards-based approach to achieving manufacturing excellence. After conducting a number of pilot projects, notably within the Gypsum division and the Brazilian Delegation, Saint-Gobain decided in autumn 2006 to centralize all related feedback with a view to crafting a common approach for the Group as a whole. This exchange of best practices, coupled with the support of external consultants, will facilitate the implementation of WCM for the Group's industrial operations. The method will be rolled out at designated divisional pilot sites during 2007.

In 2004, the Group initiated across-the-board deployment of the **"5S"** management method as part of the WCM framework. 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 five Japanese words: *seiri* (clear out), *seiso* (clean), *seito* (organize), *seiketsu* (formalize) and *shitsuke* (maintain). Saint-Gobain launched a dedicated "5S" self-study program in 2005, through an e-learning process that is freely accessible via the Group intranet portal.

b) The Saint-Gobain Group's EHS standards and recommendations

The above global management methods are used alongside more target-specific approaches. These include the **standards** and **recommendations** formulated by the Group's EHS network in response to given EHS issues. Application is either compulsory (as in the case of **standards**) or recommended (as in the case of **recommendations**), and various aids (including application guides, procedures, training kits and IT tools) have been developed and made available to assist with implementation. These EHS standards and recommendations 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. They are presented below under the relevant headings: for example, the Toxic Agent Standard (TAS) and Noise Standard (NOS) are dealt with in the section on industrial health and the accident analysis standard is discussed in the section on safety.

These methodological approaches are shared by EHS personnel in the various Sectors, Divisions and Delegations and may be adapted or even enhanced. For example, in 2006, the Pipe Division compiled a manual detailing all the industrial health and safety issues associated with its operations, together with the methodologies applied within the Group.

c) EHS documentation

A number of documents are used by the EHS network to ensure the deployment of the above prescribed methods.

The *"EHS Charter and Resolutions"* brochure, published in summer 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 and, particularly, for site managers, to whom authority for EHS issues is delegated. It presents the key obligations incumbent upon them in keeping with the principles applicable throughout the Group: EHS policy definition, risk identification, implementation of a management system, education and information of employees, management of emergency situations, integration of outside contractors into EHS processes, control of new products and capital expenditure projects, and performance tracking and measurement.

Another fundamental document is the **"EHS Reference Manual".** This guide to all Group EHS tools provides a step-by-step walk-through of a functional EHS management system, encompassing identification and planning, implementation of the action plan, evaluation and control procedures, and remedial action/adjustments. A tailored version of the Manual has been produced for the Building Distribution Sector, taking into account its particular features.

The most recent EHS-related document, the **"EHS Handbook"**, was published in September 2006. This publication is a compilation of the best practices found within the sectors and is aimed at senior executives across the Group. It is intended to distill the key EHS policy guidelines and associated management systems used within Saint-Gobain, as well as the EHS tools, standards and recommendations to be applied in the field. The "EHS Handbook" is currently available in French and English; it will be translated into other languages by the Delegations during 2007 and will be updated regularly to reflect feedback from the field and changes to the Group's EHS policy.

Last, but not least, the **Group's EHS intranet portal** is a forum where all EHS teams can exchange information and feedback. The portal is constantly evolving, thanks to the addition of new tools, data and documents, enhancing the responsiveness and efficiency of the EHS organization. It displays all in-house material concerning EHS within Saint-Gobain: the EHS Policy (Charter, Reference Manual, objectives, etc.), the Gaïa reporting tool (see section on reporting methodology), EHS standards and recommendations, audit grids, training courses offered by the Company and so forth. The portal was completely revamped in 2006, in connection with the general upgrade of Saint-Gobain's intranet. This led to the creation of a new, more informative and user-friendly portal from early 2007.

2.2. AN EFFICIENT NETWORK

The EHS structure is matrix-based, mirroring the organization of Saint-Gobain itself. Its activities are coordinated by a central department, which reports directly to General Management. Within 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 is designated to oversee the implementation of Group, sector and divisional EHS initiatives and to ensure compliance with national regulations. These coordinators work with a team of correspondents within the various companies and facilities.

The Sector- and Delegation-level coordinators, together with the Group EHS Department and their local correspondents, form a network of professionals who support operational managers in designing EHS policies and facilitating their implementation. As in the operational sphere, the matrix-based organizational structure enables the EHS function to remain close to business operations, respond to specific national circumstances and achieve compliance with overall objectives.

The **International EHS Committee,** composed of the Sector and Delegation-level coordinators, meets twice a year to take stock of EHS policies, review the tools provided to aid policy implementation by the network and share best practices identified within the Group. Similar meetings are increasingly organized within the Sectors and Delegations to promote the exchange of information concerning their specific activities or local conditions.

Within the EHS network, doctors and industrial hygienists also meet to set objectives and collaborate on the design of preventive methodologies and tools aimed at enhancing health in the workplace. The outcomes of these efforts are then communicated to the Group.

In addition, **regular meetings are held on matters of general interest in the sphere of EHS.** These meetings involve project specialists associated with, for example, the accident analysis tool (currently under development), to which a specific working group was assigned throughout 2006. Another such project is the database of chemical substances used within the Group, which will drive compliance with the new European chemicals regulation, REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals).

All these meetings, in conjunction with daily exchanges and the use of EHS-related information in various forms, as described herein, enable EHS teams at all Group levels to work successfully in a network. This ensures that the Company's EHS messages and tools are consistently passed on in ways that build synergies between businesses and countries.

2.3. COLLABORATION WITH RESEARCH & DEVELOPMENT CENTERS

Collaboration between Saint-Gobain's Research & Development centers and the EHS network has a clear-cut objective: the enhancement of the Group's performances with respect to environmental protection, and industrial health and safety. This collaboration occurs at three levels:

- product innovation;
- process innovation;
- cooperation on new EHS issues like the health effects of nanoparticles.

a) Putting EHS at the heart of product innovation

Product creation originates within the Research & Development function. From the outset, R&D projects focus on the impacts on human health and on the environment resulting from product manufacturing, the use of products throughout their entire life cycle and end-of-life disposal.

In some cases, product innovation may go even further and contribute directly to the preservation of the environment and the protection of human health. Examples include glass produced for use in photovoltaic panels and particle filters (see section on products contributing to sustainable development).

b) Putting EHS at the heart of process innovation

The Research & Development function also plays a role in taking EHS compliance to a higher level with respect to processes used within the Group. The main sustainable success criterion for related projects is, of course, close collaboration between Research & Development teams and technical units within the sectors.

The Saint-Gobain Recherche and Saint-Gobain Conceptions Verrières research centers regularly join forces to improve the environmental performance of glass-melting processes. Research efforts are concentrated on a number of ground-breaking technologies concerning combustion optimization to reduce nitrogen oxides (NOx), the development of fume-treatment, energy-saving and carbon dioxide (CO_2) abatement techniques, and the recycling of products and process waste. Research findings are applied by the sectors during the reconstruction of furnaces.

Similar research work is also conducted in the sphere of non-glass activities, for example, with respect to the quantity of water used in the plaster manufacturing process (Gypsum Division).

Innovative Woodprotect®

This new Lapeyre product range exemplifies the fruitful collaboration between the Group's EHS and Research & Development teams. Woodprotect® offers a dual environmental advantage:

- it increases the resistance of European woods in line with that of the most resistant hardwoods, thereby aiding the preservation of rare species like tropical woods, and has engendered a range of products made from wood from certified forests.
- the in-depth timber treatment used is a product of "green chemistry": it is 100% natural, has no impact on flora and fauna, poses no threat to human health and is entirely recyclable (including waste).

c) Working together to meet new EHS challenges

Research & Development teams assist with the design of implementation procedures to enable the Group to respond effectively to the new challenges that regularly arise in the sphere of EHS. The best example of this type of input to date is the collaboration since 2005 concerning the risks posed by nanoparticles. Although Saint-Gobain is not a large user of nanoparticles, some of the Group's R&D projects require the utilization of nanometric particles. Accordingly, the Group has compiled an application guide for Research & Development teams with a view to limiting the handling of nanoparticles and prescribing the procedures to be followed during handling operations (authorization restricted to selected centers subject to rigorous monitoring, introduction of stringent precautionary measures).

In 2006, research expenditure directly related to environmental matters came to €20 million. This sum represents the first step in the overall R&D investment. Each of the projects funded in this fashion is then followed by one or more development programs at the sector and divisional levels, which require at least three times the initial investment.

2.4. EHS REPORTING

Since 2004, the Group has used a centralized EHS reporting tool called Gaïa. A description of the applied reporting methodology, including an explanation of the data collection method, is provided at the end of this section.

2.5. EHS AUDIT SYSTEM

Saint-Gobain's audit system comprises three approaches: EHS audits, internal auditing and self-diagnostic tools.

■ EHS audits

Actual EHS compliance audits offer the most in-depth and reliable evaluations of the EHS management system at the level of the Group. Whether launched on the initiative of the Company or the Delegations, in consultation with sector-level leadership, they operate on a cross-sector process. Audits are performed by teams from outside the sector concerned who have thorough knowledge of Saint-Gobain's EHS approach. The audits are of an "integrated" nature, encompassing the central aspects of environment, health and safety. The audit grids used comply fully with the OSHAS 18001 and ISO 14001 standards.

The "20-step" audit has been designed for the industrial businesses. The "12-step" audit, adapted from the "20-step" version in 2005, is tailored to the Group's distribution operations. In 2006, 242 "20-step" audits and 205 "12-step" audits were conducted. In the case of the Group's industrial sites, audits are performed at three-year intervals.

EHS auditors are drawn from a pool of specially trained, experienced managers, not only from the EHS field, but also from other areas like human resources, quality assurance and risk management. In 2006, the deployment of the specific training program for EHS auditors continued, with sessions organized in about 30 countries, most recently in South Korea and Poland.

The aim of audits is to produce practical recommendations. The implementation of the resulting action plans is overseen by the site manager and the local EHS manager, with the support of the EHS Department at the Delegation level or, as in the case of France, at the Sector level. The most common recommendations concern EHS management, technical issues and training requirements.

In 2006, no significant changes were made to the audit approach. The emphasis placed on enhancing the skill-set of auditors since 2005 was maintained through a professional certification course for auditors taught by outside consultants specialized in audit methodology and by seasoned in-house auditors providing expertise on the Saint-Gobain internal auditing process. Audit developments during the year included the start of the integration of Gypsum operations and the introduction of more frequent audits for the Building Distribution Sector, leading to synergies between companies, notably between Lapeyre and Point.P.

2006 also saw the inception of audit quality assessments in France. The assessments performed at the end of each site audit revealed a high satisfaction rate, but also pinpointed some areas where improvements could be made. Audit quality assessments should be rolled out throughout France and to other countries from 2007.

■ Internal auditing

The second level of control for EHS-related practices is performed by Saint-Gobain's Internal Audit Department. Internal auditing was previously exclusively financial, but has now been expanded to include the verification of risk management processes in various operational and functional areas, including EHS. About 40 such internal audit engagements took place in 2006. The audits are performed under the centralized control of the Company and by a specialist team, which is also tasked with following up audit recommendations. If the findings of an audit point to the need for an in-depth EHS audit, EHS teams are called in.

■ Self-diagnostic tools

Self-diagnostic tools are used for general internal control purposes. The approach is based on a detailed list of questions and an evaluation grid, and is intended to provide site managers with a straightforward and rapid overview of their facility's EHS situation.

Saint-Gobain uses two types of self-diagnostic tools, one for industrial sites and the other for distribution operations. The first diagnostic tool type was overhauled in 2005 to make the software more user-friendly and to tailor its content more closely to the needs of the operations monitored. The second was tested during 2006 under a pilot program in France and has now been made available to all the Delegations. Unlike the industrial self-diagnostic tool, the software for distribution operations is intended for small-scale facilities (with less than 50 employees) and factors in two features specific to the Building Distribution Sector: the presence of customers on site and a more dispersed management structure that may be less hands-on and more consensual. The self-diagnostic process must be performed at least once a year at all industrial and distribution sites, except those having undergone a full EHS audit, beginning in 2007.

2.6. CERTIFICATION

The Group remains committed to obtaining environmental certification at those sites for which it is relevant. As explained in the Group's reporting methodology, concerned sites include facilities subject to permit requirements and sites whose environmental impact is deemed significant by the Management of the businesses and companies responsible for them.

However, some facilities, including Building Distribution sites (which are mainly sales outlets), are free – and are even encouraged – to incorporate environmental certification into their action plans. For example, after obtaining QSE (Quality Safety Environment) certification for a pilot region in 2006, Point. P in France is looking to have all its sites certified in the upcoming years. These efforts are aimed at reducing the negative environmental impacts of operations and – above all – at fostering a truly pro-environment culture at all levels. QSE certification is to be sought for Point. P's industrial operations following the award of ISO 9001 quality certification in 2006.

At December 31, 2006, 36% of sites concerned had obtained environmental certification under ISO 14001, EMAS or similar standards. This corresponds to 27% of the sites included in the safety reporting process, up 17% on 2005. Note that some facilities included in the safety reporting process have little or no impact on the environment. In the case of the Gypsum division, 20 sites have obtained environmental certification (18 ISO 14001 certifications, one EMAS and one Euromark Silver).

In all, 57% of reporting sites have quality certification under ISO 9001:2000, ISO 9002, QS 9100 or other standards and 12% have been awarded health and safety certification under BS 8800, OSHAS 18001 or equivalent standards. The Packaging sector is aiming for OSHAS 18001 certification for all its sites by end-2007.

2.7. FINANCIAL RESOURCES

In 2006, capital expenditure on environmental protection rose to €108 million from €75 million in 2005. Funds were used to strengthen the Group's environmental policy, including through the purchase of filters (Packaging and Flat Glass sectors).

Other areas of investment were:

- **protection-related investments** (remediation or protective equipment, anti-accidental pollution resources and measurement and/or alert equipment);
- **efficiency investments** (reduced raw material and energy consumption upstream) and primary measures (pollution prevention at source);
- **recycling investments** (systems for recycling raw materials, water, calories and so forth);
- **R&D investments** (optimization of product life cycles).

The above-mentioned capital expenditure takes account of specific environmental investments and, where possible, the estimated environmental portion of various other investment programs (quality, production, EHS and so forth).

Total environment-related expense rose in 2006 to €178 million. This amount includes the wages of all persons working in the EHS field, EHS training costs, depreciation and amortization expense on environmental protection assets, insurance coverage and guarantees, R&D expenditure, outlays for obtaining or maintaining ISO or EMAS environmental certification, the cost of external contracts and all other environment-related costs. The increase relative to 2005 is due mainly to the acquisition of the Gypsum operations, effective December 1, 2005, whose environment-related expense came to €17 million over full-year 2006.

In 2006, the Group increased its provisions for environmental risks by €11.7 million.

2.8. TRAINING

Training offers a unique opportunity to convey the knowledge essential for the fulfillment of EHS policy objectives to all levels of personnel (senior executives, EHS managers, EHS auditors, operational managers, blue-collar workers and so forth). Matters related to the environment, health and safety accounted for about 18% of training hours provided in 2006.

Each year, the Group updates the core curriculum defined for all training courses, which includes different types of content for the various target audiences. The implementation of the training sessions is entrusted to EHS representatives within the Sectors and Delegations, who are best placed to adapt the material in line with the specific prevailing local conditions and technical imperatives. The training sessions offered deal with broad management issues, as well as targeted areas like risk identification, industrial health and environmental compliance solutions, and audit performance and feedback.

2006 saw the development of an EHS-specific training program by the Group Training Department, in close collaboration with the EHS Department. The program takes account of the imperatives of the EHS network, senior executives, production management, maintenance/new works teams and distribution management. It aims to provide participants with the knowledge and skills required to undertake their tasks.

In 2006, the Packaging Sector set up a pilot training project in France using e-meetings and conference calls, with one training module held per month. The project is aimed at managerial staff and covers a broad range of topics to meet participants' varying needs (for example, risk evaluation, regulatory compliance training and work equipment compliance).

Lapeyre and Point.P offer courses in workplace first aid (conferring the qualification of *Secouristes Sauveteurs du Travail* or SST), which make a major contribution to the creation of a consistent safety culture. Lapeyre's objective is for 25% of employees at its manufacturing plants to receive first aid training, above the regulatory quota. Progress has been greatest at sites which emphasize training, particularly in workplace first aid. On average, over 20% of employees have been trained to date, with one site achieving a score in excess of 40%.

Another example in this vein is Saint-Gobain Glass Benelux's EHS e-learning program, introduced in 2006. The program, designed primarily for new recruits and outside contractors, is accessible via the Group's intranet portal and covers areas like sprains, heat exposure and manual load-handling, with supporting filmed sequences. Potential workplace risks and related best practices are stressed with the aim of embedding EHS into the operating culture and enabling employees to assess their knowledge in the EHS sphere.

2.9. COMMUNICATION

■ Events

The "Health & Safety Diamonds" awards have been organized once a year since 1990. The efforts of sites with the best results in health and safety are recognized and their best practices shared 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. Some Delegations, including the United Kingdom and Italy, and some companies, including Lapeyre, have set up similar ceremonies of their own to give their teams added encouragement.

The "Communication Stars" awards provide an opportunity for competition among Group companies' communication initiatives. In 2006, 28 submissions were received in the EHS category, with four winning awards. One Pipe division site in Brazil won dual recognition for its campaign emphasizing the need for hand protection in the workplace and for the ecological walks organized for employees' children to raise their environmental awareness. The Construction Products sector in Poland won an award for its workplace displays of safety indicators (TF1-TF5) and the Chinese Delegation was honored for its film about Saint-Gobain's noise standard (NOS).

An International Healthy & Safety Day, a follow-up to that of October 2004, was organized at the Group's sites worldwide on June 13, 2006. This event is intended to raise the awareness of the Group's 206,000 employees and outside contractors with respect to health and safety in the workplace and at home. Local initiatives (such as workshops, conferences and games) are encouraged across sites under the aegis of the Group, with input from employees, workplace health and safety committees, and representatives of consultative bodies, among others. The event is also intended to galvanize managers to take ever more vigorous action in support of health and safety through speeches and field visits, with participation at all managerial levels, from senior executives to site managers.

As in the case of EHS committees, the Sectors and Delegations now also organize their own versions of the International Health & Safety Day.

■ In-house publications

Every month, at least three or four "newsflashes" on EHS matters are published in the Group's weekly or monthly newsletters *(Le Pont* and *Le Mois)* and on the Group intranet portal. A dedicated EHS newsletter called EcHoeS has been published by the EHS Department since January 2005 and is distributed throughout the EHS network at roughly quarterly intervals.

The Delegations and Sectors also include EHS information in their own internal communication publications. The Benelux, Indian, Italian and United Kingdom Delegations, among others, also publish specific EHS newsletters, as do the High-Performance Materials Sector and a number of companies, including the Lapeyre Group, SGBD-UK and SGG Italy. Communication is nonetheless strongest at the site level because, like training, it plays a central role in performance enhancement.

2.10. INTEGRATION OF 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".* Accordingly, EHS procedures also apply to accidents involving such workers. Several years ago, Saint-Gobain issued a specific booklet entitled *"Health and safety recommendations for the staff of outside companies",* setting out the responsibilities and obligations of the client company (Saint-Gobain Group company) and the duties of the outside company. Risk-prevention measures have likewise been taken to guarantee the safety of customers present on site. In the Building Distribution subsidiaries, the Group EHS Charter is on display in the "back-office" part of facilities and a slightly different charter, directed at customers and expressing the site management team's concern for their safety, is posted in the customer-facing area. In addition, one of the criteria applied by the self-diagnostic software for distribution operations is precisely the quality of customer safety information.

For the second year running, Lapeyre and Point.P organized the "100 minutes to save a life" operation, in conjunction with the Red Cross and the OPPBTP (consultative body on accident prevention for the construction industry). Participants are familiarized with life-saving gestures in the context of the construction industry. The 100-some meetings led by instructors from the French Red Cross in 2006 enabled roughly 5,000 persons to be trained, all at Point.P outlets.

Purchasing memo on the safety of temporary employees

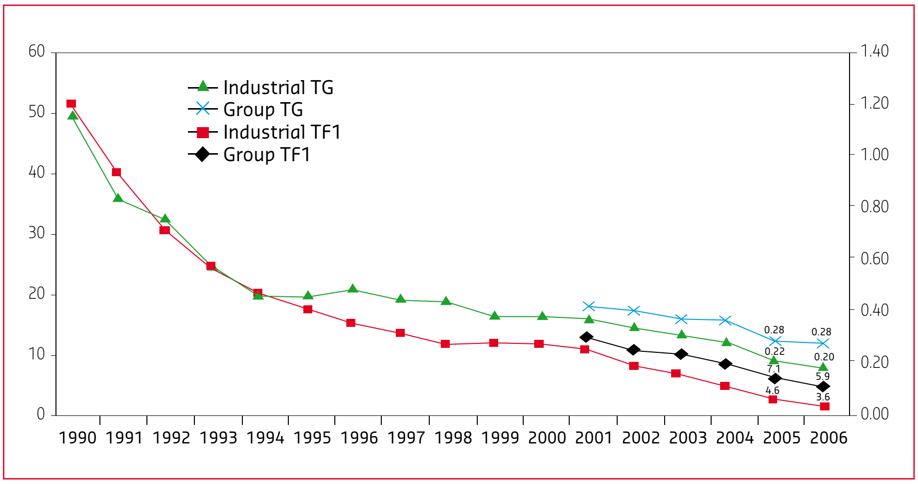
In 2006, the Group's Purchasing Department launched an action plan to promote the safety of all temporary employees, as part of its "Responsible Purchasing" approach. The safety measures are underpinned by reciprocal commitments between Saint-Gobain and the temporary employment companies. After undergoing testing in a pilot region in France, they will be rolled out nationwide during 2007.

3. STEPS TAKEN AND RESULTS ACHIEVED IN 2006

3.1. SAFETY

■ LTI/D and SR readings

As part of its safety management process, Saint-Gobain has used a number of specific indicators to monitor its progress and performance in the sphere of safety for several years now. For 2006, the Group LTI/D (lost-time injury/days for every million hours worked) stood at 5.9, down 17% on 2005 and 36% lower than in 2004. The severity rate (SR) was 0.28, unchanged from 2005. The improvement in the LTI/D reading was driven by all sectors, except the Packaging Sector, and by substantially all the Delegations. Some sectors nonetheless need to keep up their efforts.



■ By Sector

With the exception of Packaging, all sectors achieved strong performance gains.

The Building Distribution Sector's LTI/D reading remained on the improving trend observed in recent years, dropping from 12.4 to 10.9 (down 38% from the 2003 level). The sector's SR rose slightly, to 0.44 from 0.39 in 2005.

The industrial sectors posted even larger decreases in their LTI/Ds, with the average reading down from 8.5 to 3.6 since 2003 (-58%). The SR was 0.20, compared with 0.23 in 2005.

As in 2005, the sector registering the greatest improvement in LTI/D was Construction Products, whose reading dropped 1.2 points or 29%. For the second year running, the best LTI/D was achieved by the High-Performance Materials Sector, whose reading fell to 1.7 from 2.2 in 2005.

■ By Delegation

Aside from the Nordic countries and the Asia-Pacific region, the Delegations posted better LTI/Ds, with a sharp improvement in the majority of cases. The top performances came from the Benelux countries (down to 4.6 from 9.9), the United Kingdom (down to 3.4 from 5.7) and Poland (down to 2.9 from 4.7). The best LTI/D readings were achieved by Brazil and Argentina (down from 1.6 in 2005 to 1).

In all, 11 Delegations had an LTI/D reading of less than 5 in 2006 (compared with seven Delegations in 2005 and six in 2004): the Benelux countries, Spain, Italy, the United Kingdom, the United States, Mexico, Poland, Germany, Asia-Pacific, India and Brazil and Argentina. Progress continued to be made in France, where the LTI/D dropped more than two points to 10.4 from 12.8. This improvement is due to the contribution of the Gypsum division, which joined the safety reporting process in 2006, and to the efforts deployed by the Group in recent years.

■ Serious accidents

Despite the generally improving trend in accident incidence, 2006 was marked by a regrettable increase in the number of fatal accidents. Despite all the preventive action taken, the Group recorded with great sadness a total of 23 fatal accidents in the workplace during the year, together with 12 non-workplace deaths and 11 fatal accidents occurring on the way to or from the workplace.

The Serious Accident Plan

The Serious Accident Plan was drawn up in close consultation with EHS managers at the Sector and Delegation levels. It has three central aspects: the consolidation of prevention-related information, the structuring of communication channels and the management of outside contracting operations. Deployment of the plan will get under way at all sites by December 31, 2007, under the responsibility of the Delegations in the case of most countries. The EHS network will provide support.

The Plan involves the use of a new tool called a composite indicator, which measures progress made. The indicator complements the LTI/D reading, which is a key indicator of performance, and assesses ongoing work and resources deployed at each company to enhance health and safety management. It is composed of several parameters that can be assessed with the least possible subjectivity, and are easily measurable by the sites and controllable during audits (number of EHS audits performed at the site, causal analysis of each accident on record, risk evaluation based on the Saint-Gobain methodology for each perceived threat and each employment position/task, etc.). The final outcome, which is a combination of these parameters, gives a general indication of progress made with respect to industrial health and safety compliance at the site. The composite indicator was tested by the Italian Delegation in 2006 and was formally accepted and rolled out at the end of the year.

Two other new tools – in the areas of risk analysis and accident analysis – have been added to the Group's EHS standards for the purposes of the Serious Accident Plan.

In response to this situation, General Management announced the launch of the Serious Accident Plan in September 2006 to step up prevention of the most significant risks. The Plan uses resource indicators (composite indicators) against which core preventive measures can be assessed (see box below).

Measures have also been intensified at the sector level. In Flat Glass, for example, three working groups were formed in 2006 to brainstorm on three key issues for the sector: the use of outside contractors, the handling of heavy weights and falls from a height. The working groups, which are still in operation, have identified a number of safety-enhancing solutions and have helped promote the exchange of best practices.

■ The Millionaires' Club

The Millionaires' Club, launched during the March 2004 "Health & Safety Diamonds" awards, brings together entities (sites or groups of sites) with the highest safety performance. At December 31, 2006, the Club had 93 member-sites. Of these, 44 had clocked more than one million hours worked without a lost-time injury caused by an accident and 49 smaller-sized sites had sustained this performance for over five years.

3.2. INDUSTRIAL HEALTH AND SAFETY

Because the Group's operations entail industrial processes using mineral and chemical substances, part of Saint-Gobain's employee population is exposed to risks. The industrial health initiatives and innovative remedial solutions developed by the Group seek to minimize such risks.

a) Noise exposure

The Group's industrial processes involve multiple and varied sources of noise, including cooling systems, machine tools and furnaces. Collective and individual protective action against noise exposure has been taken at each site.

In 2004, the Group took anticipatory action to comply with the new European Union Directive on the measurement and reduction of noise levels in the work environment by introducing its own NOS *(NOise Standard)* program. NOS defines a process for detecting, measuring and controlling potential sources of noise exposure in the workplace. It was rolled out to the entire Group, within and beyond Europe, in 2005 and is intended to protect all employees and contractors. Based on the indicators derived from the standard, priority action plans and monitoring and control processes can be set up over the long term. The standard is applicable to all Group companies, regardless of the requirements of national law (which it may sometimes exceed), resulting in a harmonized approach across the Group. The method can be applied to identified homogeneous noise-exposure groups, ensuring more precise measurement of exposure levels. Outcomes are channeled through the Gaïa reporting system in matrix form and are classified in accordance with the exposure level (high, medium or low).

A training kit has been designed to assist with the local deployment of the NOS standard, which is to be rolled out to all Group facilities by end-2007.

b) Exposure to toxic agents

The Group's operations entail the use of basic materials, which are transformed and processed to create high-technology products. During such processing, exposure to mineral dust and chemicals may arise. The Group has introduced a common approach for measuring and controlling the related risk.

The TAS *(Toxic Agents Standard)*, implemented in 2004, provides a framework for identifying, assessing, eliminating or controlling potential sources of exposure to toxic agents in the workplace. As with the Group's other standards, application guidelines are provided. At present, there are four versions of the TAS application guide. The first of these concerns the measurement of crystalline silica exposure using a common methodology, designed during a pilot project in 2005, whose deployment phase is nearly complete (dissemination of the crystalline silica measurement kit to all companies, accompanied by appropriate employee training programs). 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 so stipulate. Saint-Gobain played an active role in the crafting of the European agreement of April 25, 2006 on "Workers' Health Protection through the Good Handling and Use of Crystalline Silica and Products containing it". Negotiations were held through the Negotiation Platform on Silica (NePSi) and brought together the European

Union, industrial companies and trade unions in discussions covering the protection of workers' health and the minimization of exposure to respirable crystalline silica (RCS).

Since 2004, other application guides have been issued concerning:

• the handling of nanomaterials in R&D centers (see paragraph dealing with nanomaterials below).

• the use of fibrous materials, stipulating prevention rules applicable to the use of fibrous materials contained in processes, equipment, systems and buildings. A Group database called *Fibase*, which is managed by Saint-Gobain Conception Verrières, is currently being tested and will soon be made available to all entities concerned.

• the construction, renovation and maintenance of melting furnaces.

The Sectors and Delegations have implemented a number of risk-reduction solutions that are appropriate for each business. The *Toriman* system, implemented by the High-Performance Materials Sector, meets all TAS-related requirements: it records all substances used by the sector and provides information and recommendations for each product family based on its level of hazardousness and the way in which it is used. This might concern product substitution or, where this is not possible, the provision of appropriate individual protective equipment for compulsory use. *Toriman* has been integrated into the Group's overall risk assessment system, which is currently being tested with a view to Group-wide deployment.

The issue of wood dust concerns mainly Lapeyre. Measures to reduce the exposure of Lapeyre's employees to this type of dust have been in place for six years and the number of persons exposed at industrial sites was less than 7% in 2006, compared with 25% in 2001. Lapeyre has set up continuous monitoring, with a requirement to measure exposure levels regularly against annual improvement targets. Medical surveillance has been strengthened in consultation with doctors at the various sites and, since 2003, its scope has been extended beyond plants to workshops at stores, where technical improvements have been implemented alongside the monitoring and measurement processes.

It is noteworthy that the Group's policy with respect to chemicals is perfectly consistent with the new European chemicals regulation, REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals), which was adopted in December 2006 and will come into force on June 1, 2007. The REACH regulation aims to determine instances where the use of a chemical substance is unsafe during all life cycle steps (Registration and Evaluation) and to bring about the gradual elimination of unsafe substances (Authorisation and Restriction) (see box).

Launch of the REACH network

The European chemicals regulation, REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals), was adopted in December 2006 and will come into force on June 1, 2007. To ensure the proper implementation of this regulation within the Group, Saint-Gobain has set up a dedicated REACH project. An in-house REACH network was formed in 2006 under the coordination of the EHS Department. It is supported by a group of experts and is charged with providing compliance monitoring, defining and disseminating action plans, formulating recommendations and providing the appropriate tools.

Many countries are also adopting the UN's Globally Harmonized System (GHS) for ensuring uniform hazard classification and labeling worldwide. GHS deployment and implementation are being monitored concurrently with the REACH project.

c) Workstation ergonomics

Although automation at Group plants and the use of handling equipment have gradually reduced the risks faced by employees, the Group remains vigilant with respect to movements, gestures and postures at workstations. A specific method for identifying risks associated with handling operations, the lifting of weights and postures in the work environment (PLM – Posture Lifting Movement) has been developed and is being made available to EHS managers at the Sector and Delegation levels. An EHS recommendation exists concerning the use of this method.

Four related manuals highlighting risks can be downloaded from the EHS intranet. They are of an interactive nature and are composed of two parts, one emphasizing preventive actions to be applied at workstations and the other providing workstation observation grids. The manuals exist in French and English, and will be translated into other languages.

A software package permitting easier use of the PLM method has been developed by Saint-Gobain. It is currently being tested, prior to rollout to the entire Group.

To eliminate or reduce ergonomic risks, some sites have also adopted workflow management processes that avoid overly repetitive gestures over time. This has been the case, for example, in the Flat Glass Sector, where handling operations and manual finishing are commonplace.

At Point.P, musculoskeletal disorders are a major health risk for employees because of the extensive handling operations required in the Building Distribution Sector. Point.P responded to this situation in 2006 by sending occupational hygienists to pilot sites to study risks and potential solutions, with a view to designing a PLM plan. Training on gestures and postures now accounts for 25% of the overall training budget.

In the High-Performance Materials Sector, some sites have introduced color coding labels on products that need to be handled. A green label indicates that the product can be lifted by a single person; a red label indicates that the item should be moved by more than one person.

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

Lastly, an occupational hygienist was hired by the Pipe division in 2006 to find solutions to the ergonomic problems its businesses face.

d) Biological risks

Following an outbreak of Legionnaire's disease in France at end-2003 and in accordance with new French regulations issued in 2004, Group sites in France took proactive steps to prevent and control risks in this area.

All sectors concerned in France have taken the necessary action to ensure compliance, including monthly or weekly monitoring of water quality, frequent cleaning of pipes to prevent bio-film formation and audits by approved outside firms. Most sectors have also organized seminars on crisis management. Some sites have overhauled their building plumbing systems to minimize the risk: for example, pipe bends where stagnant water could accumulate have been eliminated to prevent the formation of the bacteria responsible for Legionnaire's disease. Although these stringent regulations currently apply to France alone, a number of sectors have replicated the related practices in other European countries and beyond Europe. The Flat Glass Sector, for example, has instituted crisis management programs at all float plants.

e) Nanomaterials

In response to growing international concern regarding the EHS risks posed by nanomaterials, the Group set up a cross-functional watch group composed of R&D and EHS experts at end-2004. In the absence of regulations, the watch group was formed on the basis of the precautionary principle and was tasked with collecting and disseminating all available information on the subject, and with the subsequent implementation of a procedure for the safe handling of nanomaterials at R&D centers.

The procedure is presented in an application guide entitled *"Handling nanomaterials in Saint-Gobain R&D facilities: EHS policy and guidelines"* and is included in the standard concerning toxic agents (TAS), referred to above. The guide dealing with nanomaterials, application of which is compulsory, recommends the assessment of the risk associated with each handling operation, the acquisition of equipment specifically designed for the handling of nanomaterials and the introduction of procedures for the management of nanomaterials. R&D centers that wish to use nanomaterials are required to submit a request for registration or authorization, depending on the type of nanomaterial concerned. In addition, a person must be appointed to oversee the application of the procedures and to liaise between each center and the watch group. The guide on the handling of nanomaterials was produced jointly by EHS, medical and R&D teams and will be adapted for use by production sites in due course.

In 2006, four R&D centers in France (SGR, CRM and CREE) and in the United States (Northboro) were authorized to handle nanomaterials. The centers in question have initiated the construction of dedicated facilities.

Pandemic management preparation

In response to the increased risk of an avian flu pandemic, the Group introduced a number of preventive measures at end-2005 involving, among others, the EHS and Human Resources Departments:

- The Group has issued general instructions founded on the pandemic risk scale published by the World Health Organization.

- The Sectors have integrated pandemic risk into their operational crisis management plans.

- A network of dedicated contacts has been set up in each sector and each Delegation and at the parent company, and a collaborative workspace has been created on the corporate intranet.

- Safety recommendations, links to specialist information websites and avian flu knowledge tests have been posted on a webpage that may be accessed by all employees via the intranet.

3.3. ENVIRONMENT ISSUES

Saint-Gobain's industrial operations are not particularly prone to technological risk. Most involve the transformation of inorganic materials and require very few explosive or environmentally hazardous substances. Distribution of building materials accounts for over one third of group sales. It is a labor-intensive service business that incurs very little environmental risk.

The top two priorities under the Group's environmental policy are as follows:

• Optimized use of materials in industrial processes, sought through waste control, in-house recycling, and end-of-life product recyclability.

• Reduced air pollution from the melting processes used in making glass, pipe and some industrial ceramics. These processes, which require furnaces at temperatures that can exceed 1600°C, consume a great deal of energy and emit carbon dioxide (CO_2) and atmospheric pollutants such as nitrogen oxides (NOx) and sulfur oxides (SOx).

a) Low industrial risks: typology of Saint-Gobain sites

• Sites subject to special regulations

As of December 31 2006, eight of the group's European industrial plants were classified as "Seveso" sites under the European directive of December 9, 1996 on the "control of major-accident hazards involving dangerous substances", which introduced special regulations applying to potentially risk-prone industrial sites. The directive's lower threshold level applies to five of these eight sites, and the upper threshold level to the remaining three. The Seveso classification is not based on the sites' manufacturing processes, which are free of major industrial risks, but on their storage of hazardous materials.

Outside Europe, another of the group's sites is subject to legislation equivalent to the European Seveso directive: the Lake Charles site in the USA, which uses vinyl chloride for making PVC pellets, a raw material used in some of the construction materials made by CertainTeed (wall facings, windows, garden products, etc.). 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 Group's other industrial facilities are subject to permit requirements (administrative authorization in France) and must first and foremost comply with the terms of their permit.

• Sites with low environmental impact

For the sales outlets in the Saint-Gobain Building Distribution Sector, smaller industrial facilities, and plants at which there is no significant environment risk (mainly processing subsidiaries of the Flat Glass sector and Construction Products sites), neighborhood issues form the only environment constraint. As set out in the reporting methodology, because of their low environmental impact, these sites are not included in the scope of EHS environment reporting.

• Environmental disputes

In 2006, the group did not have to pay any 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 resources and promoting recycling and reuse of waste products.

• Controlling consumption of raw materials

Different industrial operations involve different approaches to raw materials consumption. The following paragraphs cover only those Saint-Gobain businesses in which significant quantities of non-renewable raw materials are consumed.

The main way to reduce consumption of natural resources in **glass furnaces** is by including cullet (crushed recycled glass) with the raw materials. In 2006, Saint-Gobain glass furnaces consumed 7.4 million tonnes of cullet (from internal and external sources) along with 14 million tonnes of natural raw materials, meaning that 49% of Saint-Gobain's glass was made from cullet.

Site	Business	Country	Materials stored
Conflans Sainte-Honorine	Abrasives	France	Phenolic resin
Mers-les-Bains	Packaging	France	Hydrogen & oxygen (H_2 and O_2)
Neuburg	Packaging	Germany	LPG
Vamdrup	Insulation	Denmark	Phenol (C_6H_6O)/Formol (CH_2O)
Hyvinkaa	Insulation	Finland	Phenol (C_6H_6O)/Formol (CH_2O)
Bagneaux	Flat Glass	France	Arsenic (AS_2 O_3)
Avilès	Flat Glass	Spain	Propane (C_3H_8) & Oxygen (O_2)
Carrascal del Rio	Flat Glass	Spain	Fluorhydric acid (HF)

The proportion of recycled materials used in product manufacture remains highest in Saint-Gobain's Packaging Sector and Insulation Division. However in 2005, the Flat Glass Sector began a major cullet recovery program at its glass transformation sites, with cullet skips, and a scrap glass sorting system at Sekurit sites. The original initiative was gradually extended to sites across France, Benelux and Germany. Today, recycled glass accounts for 30% of the flat glass made by Saint-Gobain. The quantities of cullet brought in from external sources (automotive and construction industry transformation shops) doubled from 2000 to 2006, largely through a major effort at transformation sites on sorting cullet by type of glass. Close to 300,000 tonnes of glassmaking raw materials have been saved in Europe through externally sourced cullet recovery, bringing CO_2 emissions down by 70,000 tonnes.

To produce cast iron, the **Pipe Division** uses two smelting processes: "primary smelting", which produces cast iron from iron ore in blast furnaces; and "secondary smelting", which produces cast iron from scrap metal and recovered cast iron, in cupola or electric furnaces. The balance between these two production methods depends on factors such as types of markets served, product requirements, scheduling, and market prices of primary and secondary raw materials.

In 2006, primary smelting rose to 62% of production, owing to acquisition of a large Chinese facility using this process, and the proportion of recycled materials per tonne of finished product reached 80%.

The Pipe Division pursues its strong R&D emphasis on optimized use of cast iron in finished products (through ongoing improvements to the centrifuge process and design of lightweight pipes) and on improved control over the amount of materials used for internal and external product coatings. For example, a new cataphoresis deposition technique for pipe connectors has been developed, giving a very even coating and minimizing the amount of material used.

Lightweight product design has been a major Saint-Gobain R&D focus for several years now. Developments here bring three main environmental advantages: smaller quantities of natural resources, reduced energy consumption during product manufacture (since there is less raw material to be smelted), and lower CO_2 emissions (owing to lower demand for transport of raw materials and finished products). For example, the Natural pipe of 2005 weighs 25% less per linear meter than the K9 pipe of 1990.

• Minimizing waste and improving recycling or reusability

Saint-Gobain plants consume raw materials to make either finished products or intermediate products for further transformation at other Saint-Gobain sites. In addition to these products, manufacturing processes often generate production residues, or by-products. A number of alternative criteria can apply for determining whether or not this material is considered as waste:

- Local regulations
- Physical and chemical parameters of the material, and technical characteristics of the industrial process concerned
- Whether or not reuse processes are available.

Because alternative concurrent categorizations make consistent group-wide reporting difficult, Saint-Gobain began work on clarifying the issue in 2004, through flow charts, more precise definitions (by business) and new indicators. [27]

Group priorities on waste management (expressed in the EHS charter through the objective of "zero non-utilized waste") are as follows (by order of importance):

- Lower amounts of by-products
- Internal utilization of by-products
- Promotion of external utilization processes (recycling or heat-from-waste) for by-products that cannot be utilized internally
- Burial of residual waste as a last resort .

Saint-Gobain classifies its by-products in three categories:

- By-products for internal utilization
- Non-hazardous waste or by-products for external utilization (e.g. foundry sand and furnace slag)
- Hazardous waste treated externally (e.g. solvents and oils)

Of the four million tonnes of production residue generated across the group in 2006, 50.4% was utilized internally or externally, and slightly over 49% was non-utilized. The significant increase in production residue with respect to 2005 arises from factors such as acquisition of the Xuzhou Pipe site, which alone produced 742,000 tonnes of residue. Under like-by-like conditions, the Pipe Division produced 232,000 of residue in 2006.

Saint-Gobain introduced its **"Procure-Environment Waste"** waste management program in 2003, prior to wide-scale rollout from 2004 onwards. Through liaison with the group purchasing function, this involves setting up baseline contracts with specialist waste management suppliers on services including waste collection, consulting on waste management improvements, and development of new waste utilization processes.

Rollout of Procure-Environment Waste contracts will continue in 2006, to cover all major Saint-Gobain group sites in France, including distribution outlets. A number of new utilization processes have been developed already, for certain types of insulation waste, for example. Progress along similar lines continues in Benelux. Contracts have also been signed in Germany, Spain and the USA, bringing substantial reductions in waste management costs. The program has been taken up in Poland, drawing upon other countries' experiences. Negotiations are under way in Italy, where the program should be finalized in 2007. The approach will be extended to other countries (such as the UK) and geographical zones (such as Central Europe and China) during 2007.

In 2005 and 2006, the Lapeyre and Point.P banners, in the **Saint-Gobain Building Distribution Sector,** completed joint development work on a waste reporting system based on Gaïa but adapted to address the specific needs of distribution businesses. This system is currently being rolled out.

(27) The "Communication from the Commission to the Council and the European Parliament on the Interpretative Communication on Waste and By-products" (COM(2007) 59 final), dated February 21, 2007, clarified this complex situation, and this document will be taken as a basis for Saint-Gobain reporting in the future .

Point.P has also developed a pay-access waste disposal system with strict specifications for its customers: Tradespeople are invited to dump their construction site waste on completion of a project, then load their trucks with new construction materials for the next one. There are around a hundred Point.P waste disposal points in service today. The scheme, which creates a competitive advantage for Point.P., is proving highly successful and should be extended to other banners such as PUM Plastiques and Plateforme du Bâtiment.

The **Saint-Gobain Insulation business** today is able to recycle a large proportion of its production scrap through two methods. Glass wool scrap is recycled using the *Oxymelt* method, which involves burning off organic matter in the furnace and recovering the glass material in the form of cullet. This method has so far been taken up by Saint-Gobain plants in Sweden, Korea and France. The facility in Orange, France recovers over 95% of its scrap using this method, and also processes waste from the Chalon-sur-Saône plant. The Cyclone method, used with a flame furnace, is used at two plants in Germany, where the technique was developed. In addition, various recycling initiatives for worksite scrap have been launched, despite the difficulties involved, primarily in terms of logistics.

In the Ceramics & Plastics business, Valoref, founded in 1987, is the European number-one in recycling of refractory products. Valoref handles global management of end-of-life refractories for the glass industry (including Saint-Gobain companies) and chemical and steel industries. This covers selective demolition of furnaces, on-site sorting, waste removal, consulting and technical assistance. All Valoref projects are carried out within extremely strict specifications, drawn up in close partnership with the industrial client. Valoref offers clients in refractories and ceramics industries a full range of products and secondary raw materials. For glass furnaces, Valoref solutions can attain 95% utilization for post-demolition materials.

Consumption of **recycled glass (cullet)** from internal and external sources accounts for 48% of production in the Insulation business (around the same as in 2005) and in the Packaging Sector (slightly down on 2005). It is estimated that nine out of ten champagne bottles are produced from recycled glass. Some of the group's cullet needs are met by external sourcing, though Saint-Gobain also has five glass processing sites, in France, Germany and Italy, which mainly supply the furnaces of its Packaging Sector. In 2006, Saint-Gobain directly processed more than 983,000 tonnes of cullet. There are two main constraints on glass recycling. The first is the difficulty in obtaining cullet that is uncontaminated by foreign matter, especially critical in the manufacture of flat glass. The second is the stagnating level of household waste glass collection in some countries, for various reasons, such as lower consumption of alcoholic drinks and changes in waste collection habits.

In the **automotive industry,** the directive on end-of-life vehicles (ELV) is prompting suppliers to investigate solutions for recycling their products at the end of their useful life. Since 2003, Saint-Gobain has been involved in the European Composites Recycling Services Company (ECRC), an interprofessional organization developing and promoting methods for recycling the thermosetting composite materials widely used in automobile manufacture. ECRC has also developed a "green label" scheme, under which recyclable composite parts made by member companies, compliant with European regulations, are entitled to bear the ECRC logo. The scheme was initially developed for the automotive industry, but under emerging demand from other sectors, it is now to be extended to other products whose specifications include requirements on end-of-life disposal.

Environment award for Saint-Gobain Glass UK

On June 7, Saint-Gobain Glass UK won a BCE (Business Commitment to the Environment) award, under a scheme initiated in 1975 to reward companies implementing good environmental practices. SGGUK was selected for its innovative flat-glass cullet recycling program. Two main initial difficulties had to be overcome, namely glass contamination and transport. Special sacks were designed to collect glass waste, and training courses held to ensure clients would keep the scrap glass clean and put the collection system to good use. Then a special system was devised for transporting the scrap glass to SGGUK. Through its cullet recycling system, SGGUK reduced energy consumption by 8%, raw material consumption by 25%, and CO_2 emissions by 10%.

c) Reduction in atmospheric emissions

Aware of the environmental impact of the gases and substances emitted as a result of its industrial operations (mainly, glass furnaces and pipe manufacturing plants), Saint-Gobain has been running a committed environmental policy for several years now, with a view to minimizing air pollution.

• CO_2 emissions and energy consumption

The type of energy source and the amount of energy consumed have a direct impact on the greenhouse gas emissions (mainly CO_2) responsible for climate change. One of the key points in the Saint-Gobain environmental policy concerns reductions in carbon dioxide (CO_2) emissions and energy consumption of its furnaces. The emission levels noted below are for CO_2 emitted by the combustion of fossil fuels, plus process CO_2 produced by chemical reactions. Indirect emissions arising from electricity consumption are not included.

Seventy-four Saint-Gobain plants in Europe are concerned by the first implementation phase (2005-2007) of the European directive on emission quotas: 69 glass plants, 1 pipe plant, 3 plaster plants and 1 abrasives plant. The change in scope arises from inclusion of BPB, acquired in December 2005, which brings additional emissions of around 100,000 tonnes of CO_2 (1.5% of the quota managed by the Saint-Gobain group). These sites were included in the Saint-Gobain centralized management system in 2006.

In 2006, Saint-Gobain took an active part in negotiations on quota allocations for the period 2008-2012, and pushed ahead with exchange of information and experience among different countries.

In France, Saint-Gobain remains a member of the AERES association of enterprises working to combat the greenhouse effect, and is committed to achieving a 15% reduction in emissions per production tonne from its glass furnaces over the period 1990 to 2010. As well as a commitment on reduced CO_2 emissions, plants involved in the AERES initiative, along with the pipe plant, undergo independent verification of emission levels by Ernst & Young.

Of the 14.7 million tonnes of CO_2 emitted by Saint-Gobain plants in 2006, 7.1 million tonnes were emitted in European Union countries, with 6.47 million falling under the quota system.

Emissions from glass furnaces average 614 kg of CO_2 per production tonne today, varying with the type of glass from an average of 503 kg per tonne in the Packaging business and 1,010 kg in the Reinforcement business.

One way to reduce CO_2 emission levels is by feeding back recycled materials into the production process. In glass production, the inclusion of one tonne of cullet avoids 255 to 300 kg of CO_2 emission.

All Saint-Gobain companies place a strong emphasis on reducing energy consumption. On average, it takes 2,420 kWh of energy to make one tonne of glass, and 4,320 kWh to make one tonne of cast iron.

Energy consumption across Saint-Gobain glass furnaces totaled 38,603 GWh in 2006, an increase of 2.5% on 2005, with 1.5% attributable to increased production and the remainder mainly to inclusion of Chinese sites in reporting by the Flat Glass Sector. Fuel oil and natural gas were the main energy sources.

We should note that the products themselves help clients to reduce their CO_2 emissions. This is especially true of Saint-Gobain's low-emissivity glazing and insulation materials, which enable air conditioning and heating systems to be run at lower settings.

The Pipe Division emitted a total of 1.61 tonnes of CO_2 per tonne of cast iron in 2006 (compared to 1.03 tonnes in 2005), and consumed 9,232 GWh (compared to 5,240 in 2005). This sharp increase is explained by acquisition in late 2005 of the Chinese plant Saint-Gobain Xuzhou Pipe, which uses a primary smelting process with a virtually all-carbon energy source (the most penalizing in terms of CO_2 emission), even for on-site electricity production. On acquiring the site, Saint-Gobain decided on a major investment program, starting with renovation of three of the plant's antiquated, inefficient blast furnaces, followed by an action plan to modernize the site and increase efficiency by bringing in best practices available across the group. The plant will continue to use a primary smelting process, mainly for reasons of raw material availability. (The secondary smelting process presupposes a substantial regional scrap-iron market, which has been the case in industrialized countries for over a century now, but is not the case in developing countries like China.)

In like-by-like terms, Pipe Division energy consumption remains steady, at 5,196 GWh in 2006 (compared to 5,240 in 2005), i.e. 1,129 tonnes of CO_2 per tonne of cast iron.

Coke and coal are the main energy sources for firing the blast furnaces and cupola furnaces making the iron needed in this kind of industry, though electricity and natural gas are also used. Pipe Division efforts to improve plant yield and energy efficiency include transition to secondary smelting wherever possible, along with techniques for injecting oxygen and carbon-bearing matter in the smelting process.

For the High-Performance Materials Sector, energy consumption (except in glass furnaces) totaled 4,690 GWh in 2006 (4,294 excluding the Reinforcement business), which is slightly less than in 2005.

Group-wide energy expenditure reached €1.8 billion in 2006, with 61% for purchase of fossil energies.

Saint-Gobain's business activities also entail CO_2 emissions arising from transport at various product manufacture and distribution stages: transport of raw materials to the plant, possibly followed by transport of semi-finished products to a second plant for further transformation, followed by transport of finished products to sale outlets.

In 2006, Saint-Gobain began an investigation into transport-related emissions, starting with an inventory of relevant actions undertaken at sector level. The Building Distribution Sector, for which this is a major issue, owing to the large quantities of goods conveyed to sale outlets, has set up a reporting system on transport-related emissions, and its Point.P banner provides all new recruits with training in environment-conscious driving practice.

The group purchasing function is taking measures to include CO_2 emission level as a criterion in the selection of company cars.

• Atmospheric emissions having acidification and eutrophization effects

Some Saint-Gobain production facilities

- mainly glass furnaces and pipe plants (covered by a glass operations subsection in Gaïa) - emit two types of substance having an acidification effect: sulfur dioxide (SO_2) which is produced by the combustion of heavy fuel oil and coke, and nitrogen oxides (NOx), which are produced by high-temperature oxidation of the nitrogen in combustion fumes, and also have a eutrophization effect. Both of these types of emission are covered by the European IPPC (*Integrated Pollution Prevention and Control)* directive, which aims at reducing pollution from industrial plants in the European Union.

Saint-Gobain sectors have been seeking to reduce sulfur dioxide **(SO_2)** emissions for several years now, by using better quality fuel oil or coal slack, by cutting down energy consumption, and by setting up desulfuration processes. The Flat Glass Sector has so far set up desulfuration systems at four production sites in France, Portugal and Belgium.

In all, Saint-Gobain glass furnaces discharged a total of 36,340 tonnes of SO_2 in 2006, an average of 2.43 kg of SO_2 per tonne of glass produced. This figure is higher than in previous years, for two main reasons: extended scope of operations, and introduction of unified measurement methods, bringing corrections to the figures obtained at some plants.

The Pipe Division emitted 5,254 tonnes of SO_2 in 2005, representing 2.5 kg per tonne of cast iron produced. As with CO_2 emissions, the sharp increase is explained by acquisition of the Xuzhou Pipe site, whose coal-fired blast furnaces are scheduled for a major upgrade.

For over more than ten years now, Saint-Gobain companies have been endeavoring to reduce nitrogen oxide **(NOx)** emissions, chiefly through primary measures to prevent or minimize NOx production at the source, as opposed to secondary measures that involve treatment of gases once emitted, and thus require chemical reagents or entail additional energy consumption, which in turn increases CO_2 emissions. Primary measures thus offer a dual environmental advantage. Saint-Gobain is one of the highest-performing industrial groups on primary measures for reducing nitrogen oxide emissions, especially in the glass sector.

One attractive alternative is the oxygen furnace, which produces much less NOx by inputting oxygen instead of air (which contains a high proportion of nitrogen). But economic constraints make it difficult to use this technology in the Flat Glass and Packaging Sectors.

Saint-Gobain glass furnaces emitted a total of 40,063 tonnes of NOx in 2006, averaging 2.68 kg of NOx per tonne of glass produced, with wide variation by production process (from 0.97 kg in Insulation to 3.76 kg in Reinforcement). The sharp increase is explained by major efforts to increase the uniformity and reliability of the methodologies used for measuring and quantifying emissions at Flat Glass Sector sites outside Europe.

Saint-Gobain plants making ductile cast-iron products emitted around 3,000 tonnes of NOx in 2006. Again, the increase is explained by acquisition of the Xuzhou Pipe site in China.

• Atmospheric emissions producing photo-chemical pollution

Two types of emission from Saint-Gobain plants produce photo-chemical pollution: nitrogen oxides (as discussed above) and, to a lesser degree, volatile organic compounds (VOCs), released during certain transformation and finishing phases in certain businesses.

Even though most of the products concerned are in liquid form, some VOCs are released during manufacturing, from the organic substances used in operations such as the following: bonding of fibers, glass wool and abrasives (phenol and formaldehyde); manufacture of silicon carbide (mainly polycyclic aromatic hydrocarbons); manufacture of asphalt roofing shingles (formaldehyde); application of coatings to cast-iron pipes (solvents); and treatment and finishing of wood products at Lapeyre.

Because atmospheric release of VOCs can entail a risk of exposing personnel to dangerous chemical substances, increasingly widespread chemical risk assessments on emissions are made throughout the Saint-Gobain group, providing valuable input so that corrective action can be implemented to reduce emission levels.

In the **High-Performance Materials Sector** and at Lapeyre plants, such assessments have already prompted replacement of several hazardous substances. The Pipe Division has developed a number of solvent-free coating processes: epoxy powder for pipe fittings; cataphoresis for pipe connectors; and, since 2004, autophoresis chemical coating for roadway fittings. Where there is no alternative to solvent-based paint (for pipes, for example), special systems are used for removing and treating VOCs by oxidation on the production line.

• Dust

Saint-Gobain also pursues vigorous measures on cutting down on dust. In response to the European IPPC *(Integrated Pollution Prevention and Control)* directive, which seeks to bring down pollution from industrial plants in the European Union, Saint-Gobain undertook a series of investments in electrostatic precipitators and bag filters (depending on the type of furnace). Efforts are also being made on rollout of *Best Available Techniques*

(BATs) across all Saint-Gobain sites worldwide. As mentioned previously, the Flat Glass Sector has invested around €16 million on special equipment at four production sites, bringing them into line with new European legislation. Implementation across Europe stands at 57% today, and Saint-Gobain is now targeting 70%.

In 2006, Saint-Gobain glass furnaces and production lines discharged 5,800 tonnes of dust, averaging 0.39 kg of particles per tonne of glass produced.

In the Pipe business, a distinction is made between pipe-carried dust and diffused dust. For a long time now, Saint-Gobain plants have been filtering and processing the very large amounts of dust carried in pipes, and systems have been regularly upgraded in pace with technological developments. In 2006, processed pipe-carried dust totaled 2,500 tonnes (compared to 634 tonnes in 2005), an average of 1.16 kg per tonne of cast iron. The sharp rise on 2005 is explained by acquisition of the Xuzhou Pipe site in China, which alone produced 700 tonnes. Diffused dust emissions are much less substantial, and are difficult to filter and process. Moreover, there is no standard methodology for quantifying this kind of emission, which only occurs in metal smelting areas, and very largely involves mineral matter. In 2004, the Pipe Division initiated actions to improve filtering and processing. Equipment has already been installed in France and Brazil, and will gradually be rolled out to all Pipe Division sites.

• Heavy metals

Specific monitoring is performed for other regulated hazardous substances emitted by Saint-Gobain sites (Packaging and Pipe sites, mainly), such as heavy metals from impurities in furnace input material (raw material or cullet). The environmental impact here, already negligible, is to come down even further with widespread implementation of dust filtering in Saint-Gobain Packaging Sector furnaces in Europe, under the IPPC directive. In addition, filtration dust is increasingly recycled at the plants themselves or utilized through special processes.

d) Control over the impact on natural balance

• Fauna and flora

The Group's main impacts on the environment mainly come from atmospheric emissions, energy consumption and waste material. Although Saint-Gobain plants do not, generally speaking, pose any threat to local fauna and flora, impact studies are nevertheless performed in most countries prior to the siting of a new industrial facility.

An agreement was signed between the Saint-Gobain Packaging Sector and the WWF in the south of France for the protection of the Herman tortoise. A plot a land was bought specifically to ensure unimpeded migration for Herman tortoises, since one of the group's quarries was found to be located on a usual migration path.

• Soil

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 Saint-Gobain group operates 120 quarries worldwide, extracting raw materials for making glass (silica sand, the main constituent of glass, plus phonolite, dolomite, limestone and feldspar), and plaster (gypsum). In the United States, Saint-Gobain extracts rhyolite, which is used for making roof shingles, and novaculite, a hard stone used for its abrasive properties. In Brazil, quartz is extracted for making mortars, and quarries in France extract clay along with aggregates and gravels for making bitumen products and concrete.

All Saint-Gobain quarries are managed in compliance with local and national regulations.

Saint-Gobain's main objective in owning quarries is to supply the raw materials it needs for certain of its manufacturing operations. Sale of quarried minerals is therefore marginal.

• Wood supplies

In 2006, the Saint-Gobain Building Distribution Sector bought more than 3.5 million cubic meters of panel-making wood, 94% sourced from temperate forests, and the remaining 6% in the form of tropical woods. The main units buying this type of product are Lapeyre, Point.P, Saint-Gobain Building Distribution UK and Optimera, which together account for 90% of panel-making wood purchases across the Building Distribution Sector.

For several years now, each of these units has been running its own control policy regarding timber supplies. A sector-wide environmental policy on wood is now being set up to coordinate and revitalize these individual policies. This determined approach on promoting responsible behavior in the Wooden Panels, Doors and Windows business concerns both purchasing and sales:

• Responsible purchasing behavior covers three main points: protection for endangered tree species; assurance on legal sourcing; and promotion for certified sourcing to FSC *(Forest Stewardship Council)* and PEFC *(Program for the Endorsement of Forest Certification schemes)* sustainable forestry standards.

• On the sales side, the initiative is promoted at sales outlets by training personnel and informing customers on ecological aspects of wood products and on traceability issues (species, countries of origin, certification, etc.).

The Building Distribution Sector is working to ensure that the wood products its sells and designs are consistent with this initiative, as illustrated by the innovative Woodprotect® scheme mentioned above and the Mobissimo program on promotion of timber-framed construction.

e) Optimized water management

Though hardly any of Saint-Gobain's manufacturing processes use water as a raw material, it is used in large volumes for cooling high-temperature processes. Water is increasingly recycled internally, which substantially reduces the demand on natural water resources. Liquid effluent is sometimes treated prior to discharge in the main drain system or the natural environment. In 2006, Saint-Gobain drew 102 million cubic meters of water, little change on the 100 million consumed in 2005, despite the change in scope with acquisition of Xuzhou Pipe, which drew around 10 million cubic meters in 2006.

On average, 2.12 cubic meters of water are needed to produce one tonne of **glass,** though consumption varies widely (from 1.1 to 11.7 cubic meters per tonne) with product and process. The Reinforcement business is a special case here: the sizing process consumes a great deal of water, since fibers are given their required properties by depositing chemical substances from a water medium.

The **Pipe Division** drew 18 cubic meters of cooling water per tonne of cast iron, which is slightly down on 2005, as a result of programs introduced to improve water management and reduce consumption through recycling. At the Barra Mansa site in Brazil, for example, water recycling systems have brought consumption down from 4.3 to 2.9 million cubic meters, a drop of 32%. Then the new *Archimède* cement deposition process, already used in Germany and Brazil, will, in addition to the raw materials savings already mentioned, also bring major reductions in the amount of water needed for applying inner pipe coatings, and in the amounts of wastewater produced.

Water consumption across the High Performance Materials Sector totaled 13.5 million cubic meters in 2006, confirming the steady downward trend observed since 2004.

(28) Source : Eurima.

IV) OUR PRODUCTS AND SERVICES CONTRIBUTING TO 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 four main areas:

- Environmental performance of buildings
- Renewable energies
- Environmental performance of vehicles
- Supply and treatment for water and air

Increasingly environment-conscious markets set fresh challenges for Saint-Gobain innovation, not only in terms of technology but also as regards new customer services.

1. LIMITING THE ENVIRONMENTAL IMPACT FOR BUILDINGS

1.1. APPROPRIATE, INNOVATIVE, HIGH-PERFORMANCE PRODUCTS

Buildings are responsible for 25% of CO_2 emissions in Europe. Saint-Gobain produces building materials that help cut down on overall energy consumption and overall greenhouse gas emissions: the energy saved by a building fitted with these materials far outweighs the energy that was consumed in making them. A properly insulated modern home consumes just 27% of the energy needed to heat a poorly insulated pre-1974 building[28]. The products in question also improve soundproofing (for homes, multiplex movie theaters, classrooms, community centers, etc.) and thereby contribute to overall quality of life. About 10% of Saint-Gobain net sales come from this sort of application, offered by the Flat Glass and Insulation businesses.

Saint-Gobain's **low-emission double glazing** is three times as efficient as conventional double glazing in terms of heat insulation, since the invisible metallic coating applied to one of the two sheets of glass acts as a heat barrier. The Saint-Gobain Flat Glass Sector is stepping up development of its SGG Planitherm line of advanced-insulation glazing. SGG Planitherm Ultra N glass has one of the lowest emissivities of any glass in the world, with a U coefficient of 1.1 W/(m2.K) in 4(16)4 configuration with 90% argon filling. Over the last twenty years, Saint-Gobain has achieved a six-fold increase in the energy performance of its glazing products, through a committed R&D strategy.

Along similar lines, to minimize the energy consumption of air conditioning, and improve interior comfort conditions, the Saint-Gobain Flat Glass Sector is also extending its SGG Planistar and Cool-Lite SKN lines of low-emissivity high-selectivity glass, offering high light transmittance with low solar factor.

According to the European Association of Flat Glass Manufacturers, the manufacture of architectural glass emits just 4.6 million tonnes of the 765 million tonnes of CO_2 emitted per year by the construction sector as a whole across the 25 European Union countries, while widespread use of advanced-insulation double glazing affords a potential reduction of 140 million tonnes of CO_2 per year. Replacing a single-glazed window by an advanced-insulation double-glazed window brings return on investment in three and a half months, instead of ten and a half months for a standard double-glazed window (i.e. without special coating or argon gas filling). When we consider that glazing has a useful life of about 30 years, user savings appear very substantial. With moves toward Kyoto Protocol measures, we should expect a boost for this type of glass in the future.

Similar efficacy is found with **mineral wool**, which can be combined with plasterboard systems (laminates with foam or polystyrene) having high insulation properties themselves. An energy balance shows that insulated buildings save a thousand times more energy (through reduced heating demand) than is consumed in making the insulation materials, and emit five hundred times less CO_2. Saint-Gobain files dozens of patents every year on increasingly efficient insulation products. Over the last ten years, thermal insulation efficiency has increased by 20%.

Products made by **other group businesses** also contribute to improving building insulation. These include building exterior insulation systems from Saint-Gobain Weber and Saint-Gobain Technical Fabrics, and Lapeyre window profiles, whose insulation performance is constantly increasing, especially as regards thermal bridge phenomena.

In addition to building insulation solutions, Saint-Gobain also makes other products that contribute to energy savings. These include **light-emitting diodes (LEDs)**, which are currently used in display and lighting applications, and look set to eventually replace traditional incandescent lamps, because they consume five times less energy, last ten times longer, and can illuminate in a spectrum close to that of natural daylight. The Crystals Division of Saint-Gobain's High-Performance Materials Sector is one of the leaders on the market for high-quality sapphire LED substrates, and in October 2006 one of the group's R&D centers signed a key partnership agreement in this field (see text box).

Saint-Gobain joins forces with BluGlass on co-development of light-emitting diodes (LEDs).

In October 2006, Saint-Gobain Research, one of the group's R&D centers, signed a partnership agreement with the Australian start-up BluGlass on the development of low-cost glass-substrate LEDs, a project that could accelerate wide-scale take-up of LEDs in general domestic lighting applications.

1.2. AWARENESS CAMPAIGNS

a) Community-level efforts

In response to the challenge of global warming, Saint-Gobain has adopted a proactive communications policy to raise public awareness on the dangers of CO_2 emissions from buildings.

In 2003, Saint-Gobain Insulation (SG Isover, SG Ecophon, SG Eurocoustic) and Flat Glass (SG Glass) founded the **"CO_2 Insulation for the Planet Earth"** organization in France, backed by a major press campaign. Saint-Gobain is now following up with direct involvement in the Effinergie label initiative on energy efficiency for buildings. This forward-looking program draws from other label schemes in which Saint-Gobain is involved in other countries (such as Minergie in Switzerland), to go far beyond the target of a four-fold reduction in CO_2 emissions by 2050. Saint-Gobain has managed to mobilize organizations in all relevant fields (leading construction industry companies, government administrations, local authorities, banks, etc.) to spur progress in two main areas:

- Regulatory developments on more energy-efficient buildings (new and renovated), through an energy performance diagnosis. The buildings being built and renovated today will doubtless still be standing when the target date for the four-fold reduction in CO_2 emissions is reached.
- Finance for progress along these lines, through involvement from the banking sector.

In 2005, the French collective organization saw sister associations appear in Belgium (Isoterra) and Holland **(Spaar het klimaat)**, at the initiative of local subsidiaries of Saint-Gobain Isover. Isover G+H has launched a similar program- **CO_2NTRA**- in Germany.

Saint-Gobain contribution to a handbook on sustainable urban planning for China

Three Saint-Gobain companies—Saint-Gobain Isover, Saint-Gobain Weber and Saint-Gobain Glass—provided input for "The Sustainable Design Handbook China", a 400-page work on available construction materials capable of reducing the environmental impact of buildings. The bilingual English-Chinese publication, commissioned by the Chinese Construction Ministry from CSTB (the French Construction Industry Technical Center) covers sustainable urban planning for Chinese towns, with content from research scientists, engineers, town planners and architects in France and China. The aim of the handbook is to develop transfer of French sustainable construction practice for application in China, with know-how and products sourced from France and other European countries.

b) The Mission of the Building Distribution Sector

Because the Saint-Gobain Building Distribution Sector primarily addresses the building trade, it can play a key role in educating tradespeople on environmental aspects of selecting and using building materials.

One educational initiative along these lines is the full feature on sustainable development in every issue of the quarterly magazine published for Point.P trade partners. Over the last few years, Point.P has also set up a pay-access waste disposal service that encourages trade awareness on environment issues while offering improved safety and convenience.

In summer 2006, Saint-Gobain opened its first renewable energies store - Greenworks in the UK (see text box), and expects others to follow across the country soon.

First Greenworks store

The first Greenworks® outlet, with its trade information area, showroom and product depot, offers tradespeople training on renewable-energy products that call for special know-how. The first products sold at Greenworks are solar collectors, photovoltaic panels and other solar power equipment, heat pumps, wind turbines, Unico heating and cooling systems, rainwater collection systems, and biomass boilers.

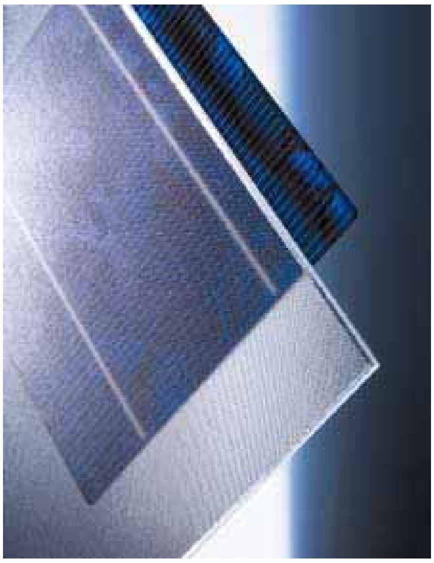
2. PROMOTING RENEWABLE ENERGIES

Through several of its product lines and R&D projects, Saint-Gobain promotes alternatives to fossil energies and makes an active contribution to the development of renewable energies.

2.1. SOLAR ENERGY

In 2006, Saint-Gobain announced a joint venture with the worldwide energy and petrochemicals group Shell on developments in **photovoltaic solar energy.** Under a technological co-development protocol signed in February 2006, the joint company Avancis will start making photovoltaic panels in 2008 at a production facility in Torgau (Saxony, Germany). The initial annual production capacity of 20 MW is expected to rise rapidly following an initial start-up phase. The photovoltaic panels made by Avancis will implement CIS technology, an innovative Shell-developed silicon-free technology that involves depositing a very thin copper-indium-selenium layer on a glass substrate. The new panels achieve high electrical efficiency at very competitive production costs. The Saint-Gobain Flat Glass Division will be contributing prime industrial know-how in thin-film deposition and glass transformation technologies. The new Avancis plant will be located in the immediate vicinity of Saint-Gobain Glass production lines at the Torgau site.

Saint-Gobain is a major supplier of products and solutions for the photovoltaic industry,



providing quartz crucibles for smelting and ceramic powders for cutting silicon slabs, and fluoropolymer films, in addition to its PV Lite and Albarino lines of high-efficiency glasses.

Instead of converting solar radiation into electricity, **solar collectors** use it for heating buildings or producing hot water. At the Interclima trade show in January 2006, Saint-Gobain Building Distribution exhibited a revolutionary prototype solar collector, with a heat absorber featuring two thermo-

Saint-Gobain joins forces with start-ups on clean technologies.

The Saint-Gobain High Performance Materials Sector has signed a strategic partnership agreement with the Californian venture fund NGEN II. In September 2006, NGEN finalized a second funding round of $180 million, with the purpose of selecting and supporting start-ups in clean technologies and sustainable development, with a special emphasis on new materials. Specific sectors addressed by the fund include new energies, pollution control and clean-up and sustainable housing.

Through this cooperative arrangement with NGEN, Saint-Gobain will gain earlier access to breakthrough technologies, with a view to initiating, supporting and accelerating major innovation projects. Partnerships with start-ups will provide valuable advanced-technology input on Saint-Gobain innovation initiatives while offering start-ups access to the industrial and distribution power of a major international group with leading market positions in its various businesses.

formed plates in Twintex (a fiberglass-polypropylene composite) instead of the copper pipes found in traditional flat collectors. A glass plate above the absorber amplifies the solar heating effect. This new-generation solar collector, 100% corrosion-proof, 100% recyclable, and lighter in weight despite a much larger capacity, marks a major technological step forward. The technology, co-developed with the start-up MIS *(Méditerranée Industries Solaires)*, was acquired by the Saint-Gobain Reinforcements & Composites business in March 2006. The new collector draws from know-how across several Saint-Gobain businesses: Reinforcement, Flat Glass, Construction Products, and (further down the supply chain) Building Distribution.

2.2. FUEL CELLS

Solid-oxide fuel-cells (SOFCs) use stacked functional-ceramic layers converting chemical energy directly into electrical and heat energy. By combining electricity generation and heat recovery (combined heat and power, or CHP) such systems can achieve energy efficiencies of around 80%, compared to 30% to 40% for classic organic fuel-cell technologies and present-day gas- and coal-fired power plants. To push ahead with marketability of this technology, the Northboro R&D center run by the Saint-Gobain High-Performance Materials Sector signed a partnership agreement with the German FZ Jülich laboratory in October 2006. With fifteen years' R&D experience in ceramic SOFC technology, this major national laboratory, based in Cologne (Germany), reports the best results so far achieved anywhere in the world for fuel-cell stack performance. The new partnership will harness FZ Jülich technology with Saint-Gobain expertise in materials and ceramics manufacture, through a joint development program on commercial release of a technology promising profitable, environmentally sound energy production.

2.3. WIND POWER

Saint-Gobain 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 sales in this fast-growing sector reached €53 million in 2006, up by 40% on 2005.

The Pipe Division supplies pipes for small-scale hydroelectric power plants in Norway, and the High-Performance Materials Sector takes part in various other energy production and recovery developments. Special tiles have been developed for the combustion chambers of high-power gas turbines, to support higher temperatures and enable record energy efficiency to be achieved, while optimized silicon carbide tiles have been developed for power-from-waste incineration plants.

3. DESIGNING CLEANER VEHICLES

3.1. HIGH-PERFORMANCE, LOW-WEIGHT AUTOMOTIVE GLAZING

Compared to a classic windshield, the heat-reflective solution from Saint-Gobain Sekurit brings a 20% reduction in air conditioning consumption and a 3% reduction in energy consumption. Heat-reflective windshields are made by inserting a heat-reflective metallic layer in the laminated glass. In a standard configuration, such a windshield reduces CO_2 emissions by 200 kg every 100,000 km.

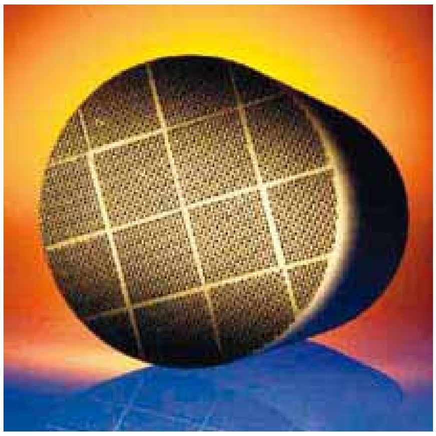
For other vehicle windows, tinted and reflective

glass use absorption or reflection properties to minimize heat transfer and thus achieve a significant reduction in air conditioning usage. Furthermore, 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.

Automotive glass can also help reduce fuel consumption by improving the vehicle's aerodynamic response, and this is another major research focus for Saint-Gobain.

Major R&D efforts have been made to optimize recycling of automotive glass, through the use of readily dismantlable modules or sub-modules, which make recycling more convenient and less costly.

3.2. PARTICULATE FILTERS



Saint-Gobain started up a production line making silicon carbide particulate filters for diesel engines at Rödental (Germany) in late 2005. The new filters are highly efficient in eliminating combustion residues; combined with advanced engine control technologies, they cut out 99.99% of the soot particulates, known to be a public health hazard, emitted by the engine. Sales release for the Saint-Gobain filters culminates a long-running Saint-Gobain R&D program that has produced many patents since 1998.

Particulate filters address a growing market: because of its high energy efficiency, the diesel engine appears to be one of the best medium- and long-term solutions for automotive power, provided pollution issues can be solved, specifically through filters. Successive regulations impose lower exhaust emission levels, which can only be met by fitting particulate filters: the recent European

Parliament decision on Euro5/6 regulations for 2009 and 2012, along with the US EPA standards for 2007 and 2010, and Japanese standards for 2009, all point to widespread use of particulate filters. Saint-Gobain enjoys a leading position on this market today, and holds a major advantage in that it makes the raw material for the ceramic filter-silicon carbine powder.

3.3. LIGHTWEIGHT BODIES

Glass strands form a key constituent of the composite materials widely used in structural, body and interior parts for modern vehicles. This kind of material meets performance, safety and ecology requirements, because of its light weight (which means lower fuel consumption and CO_2 emissions), strength and resistance to high temperatures. A bumper beam in thermoplastic composite, for example, is 20% lighter than an equivalent part in steel. Composite materials today account for around 5% of the car weight, and are replacing other materials at a rate of about 5% per year.

4. FACILITATING DRINKING WATER SUPPLY, WASTEWATER TREATMENT AND AIR PURIFICATION

4.1. WATER SUPPLY

Because of the very function they perform, Pipe Division products address a major sustainable development challenge, namely the supply of drinking water and the removal of waster water. The Division's first area of expertise was in the setting up of urban drinking water networks. Over the past twenty years, a new application has appeared. As the urban centers of developing countries expanded, their water supply had to be sought further and further afield. The Division produces large-diameter pipes, of up to two meters, which 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 about 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 for volumes up to 400,000 metric tons of piping (for the Shuweihat project in Abu Dhabi).

Saint-Gobain 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. They require very little maintenance and can be laid in all types of soils. In addition, Saint-Gobain pipes feature easy-fit couplings for reliable connection by non-specialist personnel. From an environmental viewpoint, progress in ductile cast-iron centrifuge processes has brought a 15% to 20% weight reduction in standard pipe products over the last 15 years, with an attendant drop in energy consumption, coke consumption and CO_2 emissions for the pipe manufacturing processes. In addition, a new active exterior coating has significantly increased the product service life.

In addition to pipe transport, the Pipe Division also offers local authorities services such as financial engineering, which includes approaches to banks, insurance companies and financial organizations in connection with project funding arrangements. This Division 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.

4.2. WATER AND AIR TREATMENT

In **domestic water treatment,** Saint-Gobain supplies components for ultra-violet treatment of wastewater, drinking water and swimming pool water. The transparent quartz tubes made by the High-Performance Materials Sector have the advantage of destroying bacteria without the need for environmentally dangerous chemical additives.

The latest in the line of PAM products—Ivoire®—is an innovative system for the management and control of underground water supply and drainage pipes, by means of no-energy RFID (radio frequency identification) chips. The product was launched in December 2006 at the Pollutec international trade show on environment equipment, technologies and services.

In **air treatment,** the High-Performance Materials Sector is developing a photocatalytic air purification filter using Quartzel™ silica fibers, in a derivative from Bioclean technology. This purification system, which destroys organic matter to remove smell, smoke, viruses, bacteria, etc., is complementary to existing treatment and filtration technologies, and proves highly effective in interior applications.

REPORTING METHODOLOGY

The data published in this section on sustainable development at Saint-Gobain comes from three different group-wide reporting systems: the long-running social information system, the social reporting system brought in with the 2002 financial year, and the Gaïa EHS (environment, health and safety) reporting system brought in with the 2003 financial year.

1. BASIC REPORTING PRINCIPLES

A. BASELINE

The baseline for Saint-Gobain social reporting and the Gaïa EHS system was developed consistent with the World Pact and with French law of 2001 on new economic regulations.

Social reporting

Stability was a primary consideration in determining social indicators, to provide the most reliable basis for comparison. There have been no major modifications to these indicators since they were introduced in 2002.

Gaïa EHS Reporting

To track developments in international standards such as GRI and respond to feedback from sites, working groups meet regularly. Working group proposals on upgrades to EHS indicators are submitted for validation by steering committee meetings held twice a year.

B. SCOPE

Social reporting

There are 750 social reporting units, split across the group business structure to cover virtually all consolidated companies. New companies joining the group are included in the reporting system as their financial data is consolidated, and companies leaving the group are not included in the figures for the year of departure.

SIS (social information system) reporting, on workforce data, is carried out on a monthly basis.

NRE reporting, on indicators compliant with the standards set by the 2001 legislation, is carried out on an annual basis.

Gaïa EHS reporting

There are about 1,200 EHS reporting units, covering all group sites (about 6,000 in all). Reporting includes all units belonging to consolidated companies in which Saint-Gobain holds a 50% or higher stake by the end of the reporting year. Wherever possible, this includes constructions and acquisitions and excludes closures and sales.

• Safety, Industrial Health & Hygiene, General and *Safety On-Line* (SOL) questionnaires seek to cover all group personnel at all sites. In addition, interim personnel are covered by the Safety and *Safety On-Line* questionnaires, and subcontractors by the *Safety On-Line* questionnaire.

Safety is monitored on a monthly basis, with reports coming in on all accidents occurring during the month, each with a seriousness rating. This reporting covers about 90% of working hours across the group.

There is also a case-by-case safety reporting system, with sites using the SOL system to systematically report all accidents involving time off work, along with an explanation of the circumstances giving rise to the accident.

• The annual environment questionnaire covers all "relevant" units, i.e. all sites requiring special authorizations, and all sites with environmental impact considered significant by those responsible for the operations and companies of these sites.

Because of the broad diversity across Saint-Gobain businesses, Gaïa includes a large number of environment indicators, only some of which will be relevant to any particular site. The indicators are therefore split up to form "environment sub-scopes", relevant to groups of units to which a particular set of *environmental impacts* and *ratios* (figures per production tonne) is considered applicable. Saint-Gobain's *main environment sub-scopes* are as follows:

- *"Glass" sub-scope*, covering the Flat Glass and Packaging Sectors, the Reinforcement Division (High-Performance Materials Sector) and the Insulation Division (Construction Products Sector) (excluding rockwool), wherever glass furnaces are used;
- *"Pipe" sub-scope;*
- *"HPM SiC" (silicon carbide) sub-scope*;
- *"HPM non-SiC & non-glass" sub-scope;*
- *"Others" sub-scope*, covering all other units (industrial mortars, Lapeyre plants, glass transformation subsidiaries, etc.).

In calculating ratios, Saint-Gobain refers to proportions per tonne of finished product, rather than per tonne of glass floated (for Flat Glass) or iron cast (for Pipe).

Though data from 2005 has not been adjusted for comparability with the consolidation span of 2006, the comments on 2006 figures do attempt to distinguish between consolidation-related factors and other causes of change, wherever relevant. Most published figures are in absolute rather than like-by-like terms.

2. DATA CONSOLIDATION

Social reporting

Saint-Gobain's social reporting process involves three stages:

- Data input from correspondents at companies;
- Validation by the head of the human resources department, either at company or at delegation level, depending on the country;
- Verification and consolidation by group Social Development management.

Gaïa EHS reporting

Saint-Gobain's EHS reporting process (monthly and yearly) involves four stages:

- Data input from EHS correspondents at reporting unit;
- Validation, usually by the site manager or by the company or business coordinator;
- Verification, by EHS directors for each sector;
- Consolidation, by group EHS Department.

3. DIFFICULTIES AND LIMITATIONS

Social reporting

The main difficulty in social reporting stems from differences between the countries in which Saint-Gobain plants are sited, and from the fact that the interpretation of indicators may be colored by the local context, as regards legislation or local practices. For example, certain French workforce categories, such as "managerial" and "under permanent employment contract", may not have matching definitions in other countries. This explains coverage variations in certain indicators for which information is not universally available. The main discrepancies concern countries whose national legislations diverge from French standards set by the 2001 legislation.

Another limitation in social reporting this year arises from rollout of the new computerized human resources management system. Also, there may be local instances of other temporary technical limitations. The 2006 reporting cycle coincided with upgrade to a new human resources management system at some sites, which is why some indicators have coverage of only 90%.

Gaïa EHS Reporting

As mentioned above, wherever possible Saint-Gobain's EHS reporting includes constructions and acquisitions, and excludes closures and sales. For 2006, the Gypsum Division is not included in environmental indicator figures (except for data on European CO_2 quotas), but it is included in safety data. Reporting for 2006 does include the Xuzhou Pipe site, acquired in 2005.

Difficulties can be experienced with consolidating data across businesses that use different units of measurement.

Problems can also arise from differences in the interpretation of technical terms across different countries and different businesses, on the notion of waste for example. With the release of group-wide reporting systems, reporting quality is steadily increasing, as feedback on reporting practice is processed and as specialist teams build up a thorough working familiarity with the new systems.

Consolidated financial statements

CONTENTS

Consolidated balance sheet

at December 31

ASSETS *(in € millions)*	Notes	Dec. 31, 2006	Dec. 31, 2005 restated (*)	Dec. 31, 2004 restated (*)
Goodwill	(4)	9,327	9,718	5,203
Other intangible assets	(5)	3,202	3,196	1,804
Property, plant and equipment	(6)	12,769	12,820	9,367
Investments in associates	(7)	238	139	64
Deferred tax assets	(15)	348	447	332
Other non-current assets	(8)	390	443	413
Non-current assets		**26,274**	**26,763**	**17,183**
Inventories	(9)	5,629	5,535	4,808
Trade accounts receivable	(10)	6,301	5,813	4,754
Current tax receivable		66	82	155
Other accounts receivable	(11)	1,390	939	912
Assets held for sale	(2)	548	0	0
Cash and cash equivalents	(19)	1,468	2,080	2,898
Current assets		**15,402**	**14,449**	**13,527**
TOTAL ASSETS		**41,676**	**41,212**	**30,710**

(*) Restatements of data for the years ended December 31, 2004 and 2005 are detailed in Note 3.

The accompanying notes are an integral part of the consolidated financial statements.

EQUITY AND LIABILITIES

(in € millions)	Notes	Dec. 31, 2006	Dec. 31, 2005 restated (*)	Dec. 31, 2004 restated (*)
Capital stock	(12)	1,474	1,381	1,364
Additional paid-in capital and legal reserve		3,315	2,261	2,123
Retained earnings and net income for the year		9,562	8,008	7,368
Cumulative translation adjustments		140	635	(80)
Fair value reserves		(20)	16	3
Treasury stock	(12)	(306)	(310)	(152)
Shareholders' equity		**14,165**	**11,991**	**10,626**
Minority interests		322	327	237
Total equity		**14,487**	**12,318**	**10,863**
Long-term debt	(19)	9,877	11,315	5,629
Provisions for pensions and other employee benefits	(14)	2,203	3,430	2,758
Deferred tax liabilities	(15)	1,222	1,149	581
Other non-current liabilities	(16)	936	875	533
Non-current liabilities		**14,238**	**16,769**	**9,501**
Current portion of long-term debt	(19)	993	922	1,338
Current portion of other liabilities	(16)	467	680	349
Trade accounts payable	(17)	5,519	4,779	3,954
Current tax liabilities		190	216	249
Other payables and accrued expenses	(17)	3,336	2,835	2,307
Liabilities held for sale	(2)	249	0	0
Short-term debt and bank overdrafts	(19)	2,197	2,693	2,149
Current liabilities		**12,951**	**12,125**	**10,346**
TOTAL EQUITY AND LIABILITIES		**41,676**	**41,212**	**30,710**

(*) Restatements of data for the years ended December 31, 2004 and 2005 are detailed in Note 3.

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated income statement

(in € millions)	Notes	2006	2005	2004
Net sales	(32)	41,596	35,110	32,172
Cost of sales	(21)	(31,180)	(26,449)	(24,094)
Selling, general and administrative expenses including research	(21)	(6,694)	(5,812)	(5,317)
Other operating income and expense	(21)	(8)	11	(18)
Operating income		**3,714**	**2,860**	**2,743**
Other business income	(21)	184	84	47
Other business expense	(21)	(576)	(390)	(372)
Business income		**3,322**	**2,554**	**2,418**
Borrowing costs, gross		(676)	(465)	(450)
Income from cash and cash equivalents		51	52	64
Borrowing costs, net		**(625)**	**(413)**	**(386)**
Other financial income and expense	(22)	(123)	(156)	(149)
Net financial expense		**(748)**	**(569)**	**(535)**
Share in net income of associates	(7)	7	10	8
Income taxes	(15)	(899)	(701)	(616)
Net income		**1,682**	**1,294**	**1,275**
Attributable to equity holders of the parent		**1,637**	**1,264**	**1,239**
Minority interests		45	30	36
Earnings per share (in €)				
Weighted average number of shares in issue		341,048,210	336,330,568	337,253,298
Basic earnings per share	(24)	4.80	3.76	3.67
Weighted average number of shares assuming full dilution		363,809,234	357,338,208	356,825,103
Diluted earnings per share	(24)	4.54	3.62	3.55

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated cash flow statement

(in € millions)	Notes	2006	2005	2004
Net income attributable to equity holders of the parent		**1,637**	**1,264**	**1,239**
Minority interests in net income	(*)	45	30	36
Share in net income of associates, net of dividends received	(7)	(2)	(5)	(6)
Depreciation, amortization and impairment of assets	(21)	1,717	1,420	1,374
Gains and losses on disposals of assets	(21)	(175)	(81)	(40)
Unrealized gains and losses arising from changes in fair value and share-based payments		125	107	36
Cash flows from operations		**3,347**	**2,735**	**2,639**
Changes in inventories	(9)	(295)	(77)	(136)
Changes in trade accounts receivable and payable, and other accounts receivable and payable	(10) (11) (17)	224	337	346
Changes in tax receivable and payable	(15)	(19)	(30)	50
Changes in deferred taxes and provisions for other liabilities and charges	(15) (16)	(609)	(197)	(171)
Net cash generated from operating activities		**2,648**	**2,768**	**2,728**
Purchases of property, plant and equipment [in 2006: (2,191), in 2005: (1,756), in 2004: (1,540)] and intangible assets	(5) (6)	(2,285)	(1,865)	(1,620)
Increase (decrease) in amounts due to suppliers of fixed assets		61	43	64
Acquisitions of shares in consolidated companies [in 2006: (571), in 2005: (6,868), in 2004: (623) , net of cash acquired	(2)	(501)	(6,436)	(551)
Acquisitions of other investments	(8)	(13)	(123)	(34)
Increase (decrease) in investment-related liabilities	(16)	(195)	376	0
Investments		**(2,933)**	**(8,005)**	**(2,141)**
Disposals of property, plant and equipment and intangible assets	(5) (6)	208	148	162
Disposals of shares in consolidated companies, net of cash divested	(2)	657	203	0
Disposals of other investments	(8)	6	19	133
Other divestments		16	11	(11)
Divestments		**887**	**381**	**284**
(Increase) decrease in loans and deposits	(8)	36	96	196
Net cash used in investing activities/divestments		**(2,010)**	**(7,528)**	**(1,661)**
Issues of capital stock	(*)	1,147	155	136
Minority interests' share in capital increases of subsidiaries	(*)	2	4	10
(Increase) decrease in treasury stock	(*)	29	(146)	(241)
Dividends paid	(*)	(459)	(430)	(387)
Dividends paid to minority shareholders of consolidated subsidiaries	(*)	(33)	(29)	(17)
Increase (decrease) in dividends payable		0	(9)	0
Increase (decrease) in bank overdrafts and other short-term borrowings		(462)	291	36
Increase (decrease) in long-term debt		(1,412)	4,017	(620)
Net cash generated from (used in) financing activities		**(1,188)**	**3,853**	**(1,083)**
Net increase (decrease) in cash and cash equivalents		**(550)**	**(907)**	**(16)**
Net effect of exchange rate changes on cash and cash equivalents		(47)	89	1
Cash and cash equivalents classified as assets held for sale	(2)	(15)	0	0
Cash and cash equivalents at beginning of year		**2,080**	**2,898**	**2,913**
Cash and cash equivalents at end of year		**1,468**	**2,080**	**2,898**

(*) References to the consolidated statement of changes in equity.

Amounts collected and disbursed in respect of interest and tax are not included in the consolidated cash flow statement. They are disclosed in Notes 15 and 22, in accordance with IAS 7.

The accompanying notes are an integral part of the consolidated financial statements.

Statement of recognized income and expense

Further to the Group's decision to record actuarial gains and losses in equity, and in accordance with paragraph 93B of IAS 19, the table below presents the corresponding income and expense recorded in equity for the year.

(in € millions)	**Notes**	**2006**	**2005**	**2004**
Net income attributable to equity holders of the parent		**1,637**	**1,264**	**1,239**
Actuarial gains and losses, net of tax	(3)	293	(227)	19
Translation adjustments		(495)	715	(80)
Changes in fair value recognized in equity		(36)	10	(28)
Other		0	(20)	(3)
Income and expense recognized directly in equity		**(238)**	**478**	**(92)**
Total recognized income and expense attributable to equity holders of the parent		**1,399**	**1,742**	**1,147**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

	(Number of shares)		(in € millions)								
	Issued	Outstanding, excluding treasury stock	Capital stock	Additional paid-in capital and legal reserve	Retained eamings and net income for the year	Cumulative translation adjustments	Fair value reserves	Treasury stock	Share-holders' 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**
Restatements of prior-period figures (see Note 3)					(66)				(66)		(66)
At January 1, 2004 (restated)	**347,824,967**	**336,185,581**	**1,391**	**2,381**	**6,449**	**0**	**31**	**(313)**	**9,939**	**209**	**10,148**
Translation adjustments						(80)			(80)	(2)	(82)
Changes in fair value recognized in equity							(28)		(28)		(28)
Actuarial gains and losses, net of tax					19				19		19
Changes in Group structure and other movements					(3)	0			(3)	1	(2)
Income and expense recognized directly in equity	0	0	0	0	16	(80)	(28)	0	(92)	(1)	(93)
Net income for the year					**1,239**				**1,239**	**36**	**1,275**
Total recognized income and expense for the year			*0*	*0*	*1,255*	*(80)*	*(28)*	*0*	*1,147*	*35*	*1,182*
Issues of capital stock											
- Group Savings Plan	4,099,192	4,099,192	16	112					128		128
- Stock option plans	345,700	345,700	2	6					8		8
- Other									0	10	10
Dividends paid (€1.15 per share)					(387)				(387)	(17)	(404)
Treasury stock purchased		(6,730,702)						(280)	(280)		(280)
Treasury stock retired	(11,281,859)		(45)	(376)				421			0
Treasury stock sold		1,227,819			19			20	39		39
Share-based payments					32				32		32
At December 31, 2004 (restated) (*)	**340,988,000**	**335,127,590**	**1,364**	**2,123**	**7,368**	**(80)**	**3**	**(152)**	**10,626**	**237**	**10,863**
Translation adjustments						715			715	37	752
Changes in fair value recognized in equity					(3)		13		10		10
Actuarial gains and losses, net of tax					(227)				(227)		(227)
Changes in Group structure and other movements					(20)				(20)	48	28
Income and expense recognized directly in equity	0	0	0	0	(250)	715	13	0	478	85	563
Net income for the year					1,264				1,264	30	1,294
Total recognized income and expense for the year			*0*	*0*	*1 014*	*715*	*13*	*0*	*1 742*	*115*	*1 857*
- Group Savings Plan	4,267,470	4,267,470	17	138					155		155
- Stock option plans	800	800							0		0
- Other									0	4	4
Dividends paid (€1.28 per share)					(430)				(430)	(29)	(459)
Treasury stock purchased		(4,423,117)						(210)	(210)		(210)
Treasury stock retired									0		0
Treasury stock sold		1,900,366			12			52	64		64
Share-based payments					44				44		44
At December 31, 2005 (restated) (*)	**345,256,270**	**336,873,109**	**1,381**	**2,261**	**8,008**	**635**	**16**	**(310)**	**11,991**	**327**	**12,318**

Consolidated statement of changes in equity

	(Number of shares)		*(in € millions)*								
	Issued	Outstanding, excluding treasury stock	Capital stock	Additional paid-in capital and legal reserve	Retained eamings and net income for the year	Cumulative translation adjustments	Fair value reserves	Treasury stock	Share-holders' equity	Minority interests	Total equity
Translation adjustments						(495)			(495)	(17)	(512)
Changes in fair value recognized in equity						(36)			(36)		(36)
Actuarial gains and losses, net of tax					293				293		293
Changes in Group structure and other movements									0	(2)	(2)
Income and expense recognized directly in equity			*0*	*0*	*293*	*(495)*	*(36)*	*0*	*(238)*	*(19)*	*(257)*
Net income for the year					**1,637**				**1,637**	**45**	**1,682**
Total recognized income and expense for the year			*0*	*0*	*1,930*	*(495)*	*(36)*	*0*	*1,399*	*26*	*1,425*
Issues of capital stock											
- Group Savings Plan	5,399,291	5,399,291	22	198					220		220
- Stock option plans	342,550	342,550	1	11					12		12
- Other	17,421,612	17,421,612	70	845					915	2	917
Dividends paid (€1.36 per share)					(459)				(459)	(33)	(492)
Treasury stock purchased		(1,976,708)						(110)	(110)		(110)
Treasury stock retired									0		0
Treasury stock sold		3,620,201			25			114	139		139
Share-based payments					58				58		58
At December 31, 2006	**368,419,723**	**361,680,055**	**1,474**	**3,315**	**9,562**	**140**	**(20)**	**(306)**	**14,165**	**322**	**14,487**

(*) Restatements to data for the years ended December 31, 2004 and 2005 are detailed in Note 3.

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

NOTE 1

ACCOUNTING PRINCIPLES AND POLICIES

BASIS OF PREPARATION

The 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, 2006.

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. 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 payments.

The accounting methods applied are the same as those applied to prepare the consolidated financial statements for the years ended December 31, 2004 and 2005, with the exception of the change in policy described below.

The Group has chosen to apply, as of January 1, 2006, the option available under IAS 19 (paragraphs 93A to 93D) dealing with the treatment of actuarial gains and losses arising on provisions for pensions and other post-employment benefits. Accordingly, actuarial gains and losses will no longer be amortized using the "corridor" method over the expected average remaining working lives of plan participants, but recognized in equity in the consolidated financial statements as and when they arise. The impact of this change in accounting policy on the consolidated financial statements is described in Note 3.

The standards, interpretations and amendments to the published standards which are effective in 2006 (see the table below) do not have a material impact on the Group's consolidated financial statements.

The Group has not early adopted new standards, interpretations and amendments to existing standards that are applicable for financial years beginning on or after January 1, 2007 (see table below).

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 results may differ from those obtained through the use of these assumptions and estimates.

The main estimates and assumptions described in these notes concern the measurement of employee benefit obligations and financial instruments, asset impairment tests and share-based payments. All such estimates are revised at the balance sheet date and tests are carried out to assess their sensitivity to changes in assumptions.

These consolidated financial statements were adopted by the Board of Directors on March 22, 2007 and will be submitted to the Shareholders' Meeting for approval. The consolidated financial statements are expressed in millions of euros.

SUMMARY OF NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS

Standards, interpretations and amendments to existing standards effective in 2006	
IAS 19	Limited review concerning actuarial gains and losses, multi-employer plans and disclosures
IAS 21	Amendment concerning net investments in a foreign operation
IAS 39	Revision of IAS 39 dealing with financial instruments
IFRS 6	Exploration for and Evaluation of Mineral Assets
IFRIC 4	Determining Whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

Standards, interpretations and amendments to existing standards effective for accounting periods beginning on or after January 1, 2007	
IFRS 7	Financial Instruments: Disclosures
IAS 1	Capital Disclosures amendment
IFRIC 7	Applying the Restatement Approach under IAS 29
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

Notes to the consolidated financial statements

CONSOLIDATION

Scope of consolidation

The Group's consolidated financial statements include the accounts of Compagnie de Saint-Gobain and of all its wholly 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 2006 are shown in Note 2 and a summary list of the principal consolidated companies at December 31, 2006 is provided in Note 33.

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 accounted for by the equity method.

Business combinations

The accounting policies applied in respect of business combinations comply with IFRS 3 and are described in the sections dealing with potential voting rights, share purchase commitments and goodwill.

Potential voting rights and share purchase commitments

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 companies that it controls, 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. Any subsequent changes in the fair value of the liability are recorded as a component 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. When the assets held for sale are consolidated companies, deferred tax is recognized on the difference between the book value of the shares sold and their tax basis, in accordance with IAS 12.

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

The consolidated financial statements are presented in euros, which is the functional and presentational currency of Compagnie de Saint-Gobain.

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, except when exchange rates have been particularly volatile.

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 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.

The acquisition cost is the amount of cash and cash equivalents paid to the seller plus any costs directly attributable to the acquisition, such as fees paid to investment banks, attorneys, auditors, independent valuers and other consultants.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities 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. They are measured at historical cost less accumulated amortization and impairment.

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.

Costs incurred to develop software in-house are included in intangible assets and relate primarily to configuration, programming and test-run expenses. Patents and purchased computer software are amortized over their estimated useful lives. Patents are amortized over a period not exceeding 20 years. Purchased software is amortized over a period of 3 to 5 years.

Research costs are expensed as incurred. Development costs meeting the recognition criteria under IAS 38 are included in intangible assets and amortized over their estimated useful lives (not to exceed 5 years) as of the date on which the products to which they relate are first marketed.

Greenhouse gas emissions allowances were not recognized under assets in the consolidated balance sheet, as IFRIC 3 has been withdrawn. A provision is recorded in the consolidated financial statements to cover any difference between the Group's emissions and the allowances granted. Details relating to the measurement of emissions allowances available at the balance sheet date are provided in Note 5.

Property, plant and equipment

Land, buildings and equipment are carried at historical cost less accumulated depreciation and impairment.

Cost may also include incidental expenses directly attributable to the acquisition such as transfers from equity of any gains/losses on qualifying cash flow hedges relating to purchases of property, plant and equipment.

Expenses incurred in exploring and evaluating mineral resources are included in property, plant and equipment when it is probable that associated future economic benefits will flow to the Group. These include mainly topographical or geological studies, drilling costs, sampling and all costs incurred in assessing the technical feasibility and commercial viability of extracting the mineral resource.

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 estimated useful lives, based on the quantity of gypsum extracted during the year compared with the extraction capacity.

Provisions for site restoration are recognized as components of assets in the event of a sudden decline in site conditions and whenever the Group has a 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 component is depreciated over the same useful life as that used for mines and quarries.

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 classified as "available for sale" are carried at fair value. Unrealized gains and losses on these investments are recognized in equity, except if the investments have suffered a prolonged decline in value, in which case an impairment loss in 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 to 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 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 (CGU) and where necessary more detailed tests are carried out. The Group's reporting segments are its five business sectors, which may each include several CGUs. A CGU is a reporting sub-segment, generally defined as a core business of the segment in a given geographical area. The CGU generally reflects the manner in which the Group organizes its businesses and analyzes its results for internal management purposes.

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 CGUs 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 annual 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. A discount rate of 7% plus a specific country risk of between 0 to 2.5 percentage points were applied in 2006.

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 the annual average growth rate for cash flows;
- +/-0.5% change in the discount rate applied to cash flows.

When the annual impairment tests reveals that an asset's fair value is lower than its carrying amount, an impairment loss is recorded if the fair value less costs to sell is also lower than the carrying amount. The impairment loss recorded reduces the carrying amount of the asset or goodwill concerned to its recoverable amount.

Impairment losses on goodwill can never be reversed through income. 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 foreign currency purchases of raw materials.

Net realizable value is the selling price in the ordinary course of business, less estimated costs to completion and costs to sell.

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 trade 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 with a corresponding liability recognized in short-term debt.

Net debt

■ *Long-term debt*

Long-term debt includes 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 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 convertible bonds are broken down into a liability component and an equity component until they are converted.

At the balance sheet date, bonds and private placement notes are measured at amortized cost, and premiums and issuance costs are amortized using the effective interest rate 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 the 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 portion of interest rate derivatives used by the Group to swap fixed rates for variable rates are designated and qualify as fair value hedges. These items are matched to fixed-rate debts exposed to a fair value risk. In accordance with hedge accounting principles, the portion of debt included in fair value hedging relationships defined by the Group is remeasured at fair value. The remeasurement of the hedged item at fair value limits exposure to the risk of changes in fair value on interest rate swaps to the ineffective portion of the hedge.

■ *Cash flow hedges*

Cash flow hedge accounting is applied by the Group mainly to derivatives used to fix the cost of future investments in financial assets or property, plant and equipment, as well as 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 these items in the year 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.

Notes to the consolidated financial statements

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, in France and other countries.

In France, employees receive indemnities on retirement based on past service and other terms in accordance with the respective collective bargaining agreements.

The Group's obligations with respect to pensions and retirement bonuses are calculated by independent actuaries at the balance sheet date, using a method taking into account projected end-of-career salaries and the specific economic conditions applicable in each country. These obligations may be financed by pension funds, with a provision recognized in the balance sheet for the outstanding liability.

The effect of any modifications to the plans (past service cost) is amortized on a straight-line basis over the residual vesting period, or immediately if the benefits are already vested.

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). They are recognized in equity immediately.

In the United States, Spain and Germany, retired employees receive benefits other than pensions, mainly concerning healthcare. The Group's obligations in this respect are determined using an actuarial method and are covered by a provision recorded in the balance sheet.

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 payments

The Saint-Gobain Group 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 equivalent to the implied yield on zero-coupon government issues.

The cost calculated using this method is recognized in the income statement over the vesting period of the options, ranging from 3 to 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, Saint-Gobain 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 repayable at maturity.

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.

Other current and non-current liabilities

■ *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 consolidated balance sheet.

Provisions for other material liabilities and charges whose timing can be estimated reliably are discounted to present value.

■ *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.

INCOME STATEMENT ITEMS

Revenue recognition

Revenue generated by the sale of goods or services is recognized net of rebates, discounts and sales taxes when (i) the risks and rewards of ownership have been transferred to the customer, or (ii) when the service has been rendered, or (iii) by reference to the stage of completion of the services to be provided.

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 business sectors and has been used by the Group as its key external and internal management indicator for many years. 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 risks, 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 the return on plan assets, and other financial income and expense.

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. As the Group decided not to renew this agreement, this taxation method was ended as from December 31, 2006 (see Note 15).

Current income tax is the estimated amount payable in respect of income for a given period, calculated by reference to the tax rates that have been enacted or substantively enacted at the balance sheet date, plus any adjustments to the current tax amount recorded in previous financial periods.

Notes to the consolidated financial statements

Deferred taxes are recorded using the balance sheet liability method for temporary differences between the carrying amount of assets and liabilities and their tax basis. Deferred tax assets and liabilities are measured at the tax rates expected to apply to the period when the asset is realized or the liability settled, based on the tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognized only if it is considered probable that there will be sufficient future taxable income against which the temporary difference can be utilized. They are reviewed at each balance sheet date and written down to the extent that it is no longer probable that there will be sufficient taxable profit against which the temporary difference 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 brands acquired in connection with a business combination.

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 24) 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 in the notes to the financial statements 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 flows from operations" as presented in the consolidated cash flow statement correspond 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.

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 2006:

2006	France	Outside France	Total
Fully consolidated companies			
At January 1	219	1,177	1,396
Newly consolidated companies	28	124	152
Merged companies	(25)	(51)	(76)
Deconsolidated companies		(12)	(12)
Change in consolidation method		2	2
At December 31	**222**	**1,240**	**1,462**
Proportionately consolidated companies			
At January 1	2	9	11
Newly consolidated companies		1	1
Change in consolidation method			0
At December 31	**2**	**10**	**12**
Companies accounted for by the equity method			
At January 1	8	67	75
Newly consolidated companies	1	36	37
Merged companies		(3)	(3)
Deconsolidated companies		(7)	(7)
Change in consolidation method		(2)	(2)
At December 31	**9**	**91**	**100**
TOTAL AT DECEMBER 31, 2006	**233**	**1,341**	**1,574**

SIGNIFICANT CHANGES IN GROUP STRUCTURE

2006

In 2005, the Group acquired the entire capital stock of China-based Xugang (Xuzhou General Iron and Steel Works) for €83 million, or €94 million including net debt assumed. As this acquisition was only authorized by the Chinese authorities in late December 2005, the company – which reported sales of €126 million in 2006 – has been consolidated since January 1, 2006.

In first-half 2006, the Group acquired the entire capital stock of Ireland-based JP Corry, which was consolidated as from June 1, 2006. Its estimated full-year sales amount to €151 million.

The Group also entered into an agreement to sell Saint-Gobain Calmar to the MeadWestvaco group. Saint-Gobain Calmar's assets and liabilities were classified as held for sale from January 26, 2006, the date the sale process was announced, through June 30, 2006, corresponding to the effective date of the sale. Consolidated six-month sales totaled €182 million in 2006.

2005

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.

In the second half of 2005, the Group acquired the entire capital stock 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 acquisitions carried out by Saint-Gobain in 2005 (excluding BPB) represented total full-year sales of €1,733 million.

The Group acquired BPB through a cash offer which closed on December 2, 2005 and fully controlled the company 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 and its contribution to consolidated sales was €237 million for that year. The negative impacts of the BPB acquisition on the consolidated income statement were charged against operating income (€8 million reflecting acquisition-related adjustments), business income (€57 million) and pre-tax income (€74 million). In 2006, the positive impacts of BPB's consolidation on the Group's income statement (including acquisition finance costs) were €3,895 million on net sales before eliminating intragroup transactions (€3,510 million after elimination of intragroup transactions), €649 million on operating income and business income, and €419 million on pre-tax income. A pro forma consolidated income statement for 2005 (unaudited) is presented in the annual report after the Group's consolidated financial statements and the related report of the Statutory Auditors.

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.

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. Its estimated full-year sales for 2004 amounted to €1,503 million.

Impacts on the consolidated balance sheet

At December 31, 2006, the effect on the balance sheet of changes in Group structure and in consolidation methods was as follows:

(in € millions)	Increases	Decreases	Total
Impact on assets			
Non-current assets	583	(646)	(63)
Inventories	123	(52)	71
Trade accounts receivable	153	(73)	80
Other current assets excluding cash and cash equivalents	55	(8)	47
	914	(779)	135
Impact on equity and liabilities			
Shareholders' equity and minority interests	73	(1)	72
Provisions for pensions and other employee benefits	20	(20)	0
Long-term liabilities	0	(25)	(25)
Trade accounts payable	129	(34)	95
Other payables and accrued expenses	88	(37)	51
	310	(117)	193
Acquisitions/disposals of shares in consolidated companies, including net debt acquired/divested (a)	604	(662)	(58)
Impact on consolidated net debt*			
Impact on cash and cash equivalents	70	(21)	49
Impact on net debt excluding cash and cash equivalents (b)	103	(5)	98
	33	16	49
Acquisitions/disposals of shares in consolidated companies net of cash acquired/divested (a) - (b)	501	(657)	(156)

* Representing debt, short-term credit facilities and cash and cash equivalents of companies acquired/divested.

Assets and liabilities held for sale

In 2006, the Group launched a process with a view to selling its Flasks business (Saint-Gobain Desjonquères and subsidiaries), which is expected to be completed during first-half 2007. Accordingly, the balance sheet items for this business are reported as assets and liabilities held for sale in the consolidated balance sheet at December 31, 2006, as follows:

(in € millions)	December 31, 2006
Intangible assets and goodwill	6
Property, plant and equipment, net	220
Other non-current assets	9
Inventories, trade accounts receivable and other accounts receivable	298
Cash and cash equivalents	15
TOTAL ASSETS HELD FOR SALE	**548**
Provisions for pensions and other employee benefits	18
Deferred tax liabilities and other non-current liabilities	29
Trade accounts payable, other payables and accrued expenses, and other current liabilities	158
Short-term debt and bank overdrafts	44
TOTAL LIABILITIES HELD FOR SALE	**249**

In 2006, a deferred tax liability was recognized relating to the cumulative reserves carried in respect of these companies for an amount of €10 million, in accordance with IAS 12.

NOTE 3

IMPACTS ON PRIOR-PERIOD DATA OF CHANGES IN ACCOUNTING METHODS AND ESTIMATES

The following adjustments were made to the consolidated balance sheets at December 31, 2004 and 2005, presented in the 2006 financial statements for comparative purposes:

2005 *(in € millions)*	Dec. 31, 2005 reported	IAS 19 option: actuarial gains and losses	Allocation of goodwill	Other impacts	Dec. 31, 2005 restated
		(a)	(b)	(c)	
Goodwill	10,541		(823)		9,718
Other non-current assets	15,786	(2)	1,166	95	17,045
Inventories, trade accounts receivable and other accounts receivable	12,391		25	(47)	12,369
Cash and cash equivalents	2,080				2,080
TOTAL ASSETS	**40,798**	**(2)**	**368**	**48**	**41,212**
Shareholders' equity	12,265	(208)		(66)	11,991
o/w net income attributable to equity holders of the parent	*1,264*				*1,264*
Minority interests	328		(1)		327
Long-term debt	11,315				11,315
Provisions for pensions and other employee benefits	3,029	343	11	47	3,430
Deferred tax liabilities	819	(137)	372	95	1,149
Other non-current liabilities	834		66	(25)	875
Trade accounts payable and other current liabilities	12,208		(80)	(3)	12,125
TOTAL EQUITY AND LIABILITIES	**40,798**	**(2)**	**368**	**48**	**41,212**

2004 *(in € millions)*	Dec. 31, 2004 reported	IAS 19 option: actuarial gains and losses	Allocation of goodwill	Other impacts	Dec. 31, 2004 restated
		(a)	(b)	(c)	
Goodwill	5,203				5,203
Other non-current assets	11,648			332	11,980
Inventories, trade accounts receivable and other accounts receivable	10,676			(47)	10,629
Cash and cash equivalents	2,898				2,898
TOTAL ASSETS	**30,425**	**0**	**0**	**285**	**30,710**
Shareholders' equity	10,673	19		(66)	10,626
o/w net income attributable to equity holders of the parent	*1,239*				*1,239*
Minority interests	237				237
Long-term debt	5,629				5,629
Provisions for pensions and other employee benefits	2,750	(30)		38	2,758
Deferred tax liabilities	238	11		332	581
Other non-current liabilities	548			(15)	533
Trade accounts payable and other current liabilities	10,350			(4)	10,346
TOTAL EQUITY AND LIABILITIES	**30,425**	**0**	**0**	**285**	**30,710**

(a) Impact of applying the option provided under IAS 19 (amended) relating to actuarial gains and losses

As explained in Note 1, the Group has elected to apply, as of January 1, 2006, the option provided in paragraphs 93A to 93D of the amended version of IAS 19 relating to the treatment of actuarial gains and losses arising on provisions for pensions and other employee benefits. Consequently, the Group now recognizes these gains and losses in equity as and when they arise.

The impact on the balance sheet at December 31, 2004 arising from this change in method was a €30 million pre-tax reduction in the provision for pensions and other employee benefits and a €19 million increase in equity (net of tax).

Applying this new method of accounting for actuarial gains and losses had a positive impact of approximately €1 million on 2005 net income. Provisions for pensions and other employee benefits were increased by a pre-tax amount of €375 million, with a corresponding reduction in equity.

At December 31, 2005, the total impact on provisions for pensions and other employee benefits represented a pre-tax amount of €345 million and a corresponding €208 million reduction in equity, after deferred taxes.

However, in 2006 the impact of this change in method reversed by €424 million before tax, or by €293 million net of the deferred tax effect, as a result of an increase in the applicable discount rate. The net positive impact on equity was €85 million at December 31, 2006.

(b) Allocation of goodwill arising on prior-year acquisitions

On November 30, 2006, the Group completed its calculation of the fair value of identifiable assets acquired and liabilities and contingent liabilities assumed as a result of the BPB acquisition on December 1, 2005.

The purchase price was allocated to (i) property, plant and equipment (gypsum quarries and industrial sites) for a pre-tax amount of €312 million, (ii) intangible assets (patents and brands) for a pre-tax amount of €850 million, and (iii) various assets and liabilities for an amount of €33 million net of taxes. The total amount allocated was €1,195 million, or €823 million net of the deferred tax effect. Based on this allocation, the depreciation/amortization expense on these assets for the month of December 2005 would have represented approximately €1 million net of tax.

(c) Other impacts

As a result of the adjustments described above, the Group reviewed its analysis of deferred taxes by country, which led to an additional reclassification between deferred tax assets and liabilities amounting to €332 million in 2004 and €95 million in 2005.

In 2004 and 2005, provisions for US employees' deferred compensation were classified under provisions for pensions and other employee benefits in an amount of €38 million and €47 million, respectively.

Finally, corrections of errors made in prior years led to a €66 million reduction in equity at January 1, 2004. These corrections were required as a result of fraud identified in two subsidiaries of the Reinforcements division operating outside France.

NOTE 4

GOODWILL

(in € millions)	2006	2005	2004
At January 1			
Gross value	9,756	5,248	4,755
Accumulated impairment	(38)	(45)	0
NET	**9,718**	**5,203**	**4,755**
MOVEMENTS DURING THE YEAR			
Changes in Group structure	28	4,253	600
Impairment	(125)	(36)	(47)
Translation adjustments	(289)	298	(105)
Reclassification to assets held for sale	(5)	0	0
TOTAL	**(391)**	**4,515**	**448**
At December 31			
Gross value	9,481	9,756	5,248
Accumulated impairment	(154)	(38)	(45)
NET	**9,327**	**9,718**	**5,203**

The increase in goodwill at December 31, 2006 reflects several acquisitions carried out by the Building Distribution sector, mainly in France, the United Kingdom and Scandinavia. This rise was partly offset by decreases stemming from divestments made in the year (see Note 2). Impairment for the year concerns mainly the North American Bottles and Jars business for €89 million.

The increase in goodwill at December 31, 2005 was due mainly to the following acquisitions: Sanitas Troesch (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: €4,054 million after allocation of the purchase price in 2006 in an amount of €823 million net of the deferred tax effect – see Note 3).

In 2004, "Changes in Group structure" mainly corresponded to goodwill recognized on the purchase of Saint-Gobain's interest in Dahl International AB (acquisition cost: €384 million, goodwill: €517 million prior to allocation of the purchase price).

NOTE 5

OTHER INTANGIBLE ASSETS

(in € millions)	Patents	Non-amortizable 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)	35	16		25	66
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	5	1,302	33	4	(17)	1,327
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	**5**	**1,318**	**24**	**29**	**16**	**1,392**
At December 31, 2005						
Gross value	145	2,822	584	35	291	3,877
Accumulated amortization and impairment	(119)		(407)	(6)	(149)	(681)
NET	**26**	**2,822**	**177**	**29**	**142**	**3,196**
MOVEMENTS DURING THE YEAR						
Changes in Group structure	(7)		50	1	(35)	9
Acquisitions		1	42	11	40	94
Disposals			(1)	(1)	(3)	(5)
Translation adjustments		20	(7)		(8)	5
Amortization and impairment	(3)		(76)	(7)	(10)	(96)
Reclassification to assets held for sale			(1)			(1)
TOTAL	**(10)**	**21**	**7**	**4**	**(16)**	**6**
At December 31, 2006						
Gross value	111	2,843	630	46	267	3,897
Accumulated amortization and impairment	(95)		(446)	(13)	(141)	(695)
NET	**16**	**2,843**	**184**	**33**	**126**	**3,202**

In 2005, "Changes in Group structure" concerning non-amortizable brands corresponded to the allocation of the main brands of BPB (€846 million), Dahl (€352 million) and Sanitas Troesch (€104 million).

Development costs relating to significant projects in the validation or manufacturing phase are recorded as assets in the consolidated balance sheets at December 31, 2006 and 2005. At December 31, 2004, the Group did not identify any significant projects whose development costs met the asset recognition criteria under IAS 38.

Other items recorded under this heading include amortizable manufacturing brands totaling €52 million at end-2006 (€66 million at end-2005 and €60 million at end-2004).

Greenhouse gas emissions allowances allocated to the Group's European companies together represent around 6.5 million metric tons of CO_2 for the period 2005 to 2007. The unit value of these allowances varies between €8 per metric ton of CO_2 (at January 1, 2005, the date the allowances were allocated) and approximately €6.48 per ton (at December 31, 2006 on the Powernext Carbon market), depending on the market concerned.

The aggregate allowances granted to the Group's companies in 2005 and 2006 exceed the amount of actual greenhouse gases emitted by the Group as a whole by some 0.7 million metric tons of CO_2. The Group did not sell any of its emissions allowances in 2005 or 2006.

NOTE 6

PROPERTY, PLANT AND EQUIPMENT

(in € millions)	Land and quarries	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 and reclassifications	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 and reclassifications	613	506	1,039	328	2,486
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	**658**	**735**	**1,625**	**435**	**3,453**
At December 31, 2005					
Gross value	2,026	6,739	18,603	1,389	28,757
Accumulated depreciation and impairment	(257)	(3,252)	(12,411)	(17)	(15,937)
NET	**1,769**	**3,487**	**6,192**	**1,372**	**12,820**
MOVEMENTS DURING THE YEAR					
Changes in Group structure and reclassifications	12	42	(98)	12	(32)
Acquisitions	57	94	501	1,556	2,208
Disposals	(62)	(42)	(50)	(22)	(176)
Translation adjustments	(27)	(64)	(193)	(42)	(326)
Depreciation and impairment	(32)	(288)	(1,180)	(5)	(1,505)
Reclassification to assets held for sale	(4)	(45)	(135)	(36)	(220)
Transfers	0	310	968	(1,278)	0
TOTAL	**(56)**	**7**	**(187)**	**185**	**(51)**
At December 31, 2006					
Gross value	1,961	6,859	18,040	1,579	28,439
Accumulated depreciation and impairment	(248)	(3,365)	(12,035)	(22)	(15,670)
NET	**1,713**	**3,494**	**6,005**	**1,557**	**12,769**

As an industrial group, Saint-Gobain does not have a significant non-operating property portfolio, except for its head office building.

During the year, acquisitions of property, plant and equipment included new finance leases in an amount of €17 million, which are not shown in the cash flow statement in accordance with IAS 7. At December 31, 2006, total property, plant and equipment acquired under finance leases amounted to €210 million (see Note 25).

In 2005, "Changes in Group structure" primarily corresponded to the €2,181 million impact of the acquisition of the BPB group, including €371 million relating to gypsum quarries.

The increase in acquisitions of property, plant and equipment in 2005 and 2006 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 in 2005 was primarily due to the stronger US dollar and Brazilian real.

NOTE 7

INVESTMENTS IN ASSOCIATES

(in € millions)	2006	2005	2004
At January 1			
Equity in associates	131	61	75
Goodwill	8	3	3
INVESTMENTS IN ASSOCIATES	**139**	**64**	**78**
MOVEMENTS DURING THE YEAR			
Changes in Group structure	107	65	(20)
Translation adjustments	(11)	3	0
Transfers, share issues and other movements	1	2	0
Dividends paid	(5)	(5)	(2)
Share in net income of associates	7	10	8
TOTAL	**99**	**75**	**(14)**
At December 31			
Equity in associates	224	131	61
Goodwill	14	8	3
INVESTMENTS IN ASSOCIATES	**238**	**139**	**64**

"Changes in Group structure" in 2006 chiefly reflect the first-time consolidation by the equity method of Izocam (Turkey) and Saint-Gobain Envases SA (Chile) for a total amount of €116 million. At December 31, 2006, the value on the Istanbul stock market of the Izocam shares held by Saint-Gobain approximates the Group's equity in its net earnings carried in the consolidated financial statements.

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 €1,004 million in 2006, and aggregate net income came to €54 million. Total assets and liabilities of these companies amounted to €917 million and €524 million, respectively, at December 31, 2006.

NOTE 8

OTHER NON-CURRENT ASSETS

(in € millions)	Available-for-sale and other securities	Capitalized loans and deposits	Prepaid pension costs	Total
At January 1, 2004				
Gross value	304	492	14	810
Provisions for impairment in value	(56)			(56)
NET	**248**	**492**	**14**	**754**
MOVEMENTS DURING THE YEAR				
Changes in Group structure	(82)	10	1	(71)
Increases/(decreases)	(72)	(196)		(268)
Provisions for impairment in value for the year	(2)	(5)		(7)
Translation adjustments	0	(7)		(7)
Transfers and other movements	0	12		12
TOTAL	**(156)**	**(186)**	**1**	**(341)**
At December 31, 2004				
Gross value	123	312	15	450
Provisions for impairment in value	(31)	(6)		(37)
NET	**92**	**306**	**15**	**413**
MOVEMENTS DURING THE YEAR				
Changes in Group structure	(44)	31	4	(9)
Increases/(decreases)	110	(96)	10	24
Provisions for impairment in value for the year	(1)	(2)		(3)
Translation adjustments	3	22	2	27
Transfers and other movements	1	(10)		(9)
TOTAL	**69**	**(55)**	**16**	**30**
At December 31, 2005				
Gross value	193	262	31	486
Provisions for impairment in value	(32)	(11)	0	(43)
NET	**161**	**251**	**31**	**443**
MOVEMENTS DURING THE YEAR				
Changes in Group structure	(119)			(119)
Increases/(decreases)	9	(37)	90	62
Provisions for impairment in value for the year		4		4
Translation adjustments		(9)	(1)	(10)
Transfers and other movements		10		10
TOTAL	**(110)**	**(32)**	**89**	**(53)**
At December 31, 2006				
Gross value	75	225	120	420
Provisions for impairment in value	(24)	(6)		(30)
NET	**51**	**219**	**120**	**390**

Changes in available-for-sale and other securities in 2006 mainly reflect the consolidation of Xugang, which was acquired by the Group at the end of 2005 (see Note 2).

Changes in capitalized loans and deposits reflect changes in the advances paid in relation to the claims and litigation explained in Note 26, as well as changes in the collection of receivables on asset disposals.

NOTE 9

INVENTORIES

(in € millions)	December 31, 2006	December 31, 2005	December 31, 2004
Gross value			
Raw materials	1,312	1,335	1,150
Work in progress	291	329	306
Finished goods	4,426	4,269	3,738
GROSS INVENTORIES	**6,029**	**5,933**	**5,194**
Provisions for impairment in value			
Raw materials	(98)	(92)	(95)
Work in progress	(10)	(15)	(12)
Finished goods	(292)	(291)	(279)
Provisions for impairment in value	(400)	(398)	(386)
NET	**5,629**	**5,535**	**4,808**

In 2006, "Cost of sales" came to €31,180 million, compared with €26,449 million in 2005 and €24,094 million in 2004.

Impairment of inventories recorded in the 2006 income statement amounted to €146 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 €80 million.

NOTE 10

TRADE ACCOUNTS RECEIVABLE

(in € millions)	December 31, 2006	December 31, 2005	December 31, 2004
Gross value	6,687	6,213	5,124
Provisions for impairment in value	(386)	(400)	(370)
NET	**6,301**	**5,813**	**4,754**

The net expense in respect of irrecoverable and doubtful receivables amounted to €83 million for 2006, compared with €74 million for 2005 and €80 million for 2004.

NOTE 11

OTHER ACCOUNTS RECEIVABLE

(in € millions)	December 31, 2006	December 31, 2005	December 31, 2004
Advances to suppliers	582	105	78
Prepaid payroll taxes	22	34	24
Other prepaid and recoverable taxes (other than income tax)	293	256	295
Accrued income	14	96	168
Other	485	454	353
- France	*116*	*114*	*131*
- Other western European Countries	*168*	*165*	*127*
- North America	*0*	*34*	*24*
- Emerging countries and Asia	*201*	*141*	*71*
Provisions for impairment in value	(6)	(6)	(6)
OTHER ACCOUNTS RECEIVABLE	**1,390**	**939**	**912**

The net expense in respect of irrecoverable and doubtful receivables amounted to €83 million for 2006, compared with €74 million for 2005 and €80 million for 2004.

NOTE 12

EQUITY

Number of shares making up the capital stock

At December 31, 2006, Compagnie de Saint-Gobain's capital stock comprised 368,419,723 shares with a par value of €4 each (345,256,270 shares at end-2005 and 340,988,000 shares at end-2004).

During the year, 5,399,291 shares were issued in respect of the Group Savings Plan, and 342,550 shares were awarded further to the exercise of 335,750 stock options granted on November 20, 2003, 5,600 options granted on November 18, 2004 and 1,200 options granted on November 17, 2005. Lastly, 17,421,612 shares were issued at the time of the capital increase on December 31, 2006 in connection with the conversion of Océane bonds into shares.

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 rise to 571,687,213.

The Board of Directors of Compagnie de Saint-Gobain used these authorizations to grant 3,922,250 stock options on November 17, 2005 (of which 1,200 were exercised at December 31, 2006). It also granted 30,000 stock options on February 27, 2006 and 3,995,800 stock options on November 16, 2006 under these authorizations, none of which had been exercised at December 31, 2006.

Furthermore, pursuant to the authorization granted by the Ordinary and Extraordinary Shareholders' Meeting of June 8, 2006, Compagnie de Saint-Gobain's Board of Directors may issue equity warrants in the event of a public offer for the Company's shares, in accordance with the French law of March 31, 2006 on public share offers (tenth resolution). The maximum number of equity warrants that may be issued under this authorization is equal to the number of shares making up the capital stock at the time of the issue, within the limit of 170 million shares.

Treasury stock

Saint-Gobain shares held by Compagnie de Saint-Gobain are shown as a separate deduction from shareholders' equity under "Treasury stock" at historical cost. Shares held in treasury stock totaled 6,739,668 at December 31, 2006, 8,383,161 at end-2005 and 5,860,410 at end-2004.

In 2006, the Group purchased 1,976,708 Compagnie de Saint-Gobain shares on the market (4,423,117 in 2005 and 6,730,702 in 2004) and sold 3,620,201 shares (1,900,366 in 2005 and 1,227,819 in 2004) in connection with stock option plans.

No shares were canceled in 2006 or 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 13

SHARE-BASED PAYMENTS

Compagnie de Saint-Gobain stock option plans

Compagnie de Saint-Gobain has stock option plans available to certain employees, and a Group Savings Plan ("PEG"), or employee stock purchase plan.

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. Since 1999, no discounts on the average price have been granted under these plans.

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 together with the Appointments Committee of the Board of Directors.

From 1999 to 2002, these plans involved purchase options on existing shares. Since 2003, the plans have involved subscription options for new shares.

Movements relating to stock options outstanding in 2004, 2005 and 2006 are listed below:

	€4 par value shares	Average exercise 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
Options granted	4,025,800	58.08
Options exercised	(3,974,551)	34.79
Options forfeited	(241,400)	40.26
Options outstanding at December 31, 2006	21,547,968	42.38

At December 31, 2006, 8,014,018 options were exercisable at an average exercise price of €34.01.

At December 31, 2006, 2,281,590 options were available for grant under the authorization given by the Shareholders' Meeting of June 9, 2005. This figure represents an overall ceiling for options and shares granted without consideration.

The expense relating to stock options recorded in the income statement amounted to €39 million in 2006 (2005: €32 million; 2004: €18 million). The fair value of the options granted in 2006 – calculated using a Black & Scholes-type option pricing model and applying the same assumptions as those used to measure the expense in accordance with IFRS 2 – totaled €53 million.

The following table summarizes information about stock options outstanding at December 31, 2006:

Grant date	Options exercisable			Options not exercisable		Total options outstanding	Type of options
	Exercise price *(in euros)*	Number of options	Average remaining contractual life (in months)	Exercise price *(in euros)*	Number of options	Number of options	
1999	40.63	641,854	35			641,854	Purchase
2000	37.71	1,382,047	47			1,382,047	Purchase
2001	40.22	2,213,477	59			2,213,477	Purchase
2002	23.53	2,420,890	71			2,420,890	Purchase
2003	35.67	1,355,750	83	35.67	1,951,700	3,307,450	Subscription
2004	43.56		95	43.56	3,795,400	3,795,400	Subscription
2005	45.71		107	45.71	3,761,050	3,761,050	Subscription
2006	58.08		119	58.08	4,025,800	4,025,800	Subscription
TOTAL		**8,014,018**			**13,533,950**	**21,547,968**	

Further to the four-for-one stock split of June 27, 2002, the number of options for 1999 to 2001 has been multiplied by four in order to permit meaningful year-on-year comparisons.

Group Savings Plan (PEG) of Compagnie de Saint-Gobain

The PEG employee stock purchase plan is open to all Group employees in France and in most other European countries who have completed a minimum of three months' service with the Group. The plan offers shares to eligible employees at a 20% discount from the average price quoted for the shares for the 20-day period preceding the date of the meeting of the Board of Directors at which the Plan is set.

Employees can invest for a five- or ten-year term. Over this period, employees may not sell their shares, barring exceptional circumstances.

Under the PEG, the Group issued 5,399,291, 4,267,470 and 4,099,192 new shares to employees in 2006, 2005 and 2004, respectively, at an average price per share of €40.84 in 2006, €36.48 in 2005 and €31.41 in 2004.

The expense relating to this plan recorded in the income statement amounted to €19 million in 2006 (2005: €11 million; 2004: €14 million). As explained in Note 1, 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 bank to an individual with an average risk profile for a general purpose five-year consumer loan repayable at maturity.

The forward sale price for the shares was determined using a valuation model based on market inputs.

The main assumptions used are as follows:

	2004	2005	**2006**
Grant date	February 2	January 28	January 27
Number of shares	4,099,192	4,267,470	**5,399,291**
Subscription price (in euros)	31.41	36,48	**40.84**
Share price at the grant date (in euros)	41.12	46,77	**53.90**
Discount in relation to the share price at the grant date (in euros)	9.71	10.29	**13.06**
Risk-free interest rate	3.47 %	2.88 %	**2.93 %**
Employee loan rate	6.65 %	6.30 %	**6.88 %**
Borrowing cost of the shares during the holding period (%)	15.58 %	16.29 %	**17,62 %**

NOTE 14

PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS

(in € millions)	**December 31, 2006**	**December 31, 2005**	**December 31, 2004**
Pension obligations	1,415	2,573	2,055
Retirement bonus obligations	236	255	225
Post-employment healthcare benefit obligations	363	406	326
TOTAL PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS	**2,014**	**3,234**	**2,606**
Healthcare benefits	51	61	49
Long-term incapacity benefits	45	38	25
Other long-term benefits	93	97	78
Provisions for pensions and other employee benefits	**2,203**	**3,430**	**2,758**

Changes in obligations relating to pensions and other post-employment benefits are as follows:

(in € millions)	Pension obligations	Fair value of plan assets	Other	Provisions for pensions and other post-employment benefit obligations
At January 1, 2004	**6,021**	**(3,615)**	**265**	**2,671**
Movements during the year				
Service cost	150			150
Interest cost/return on plan assets	323	(232)		91
Employer contributions		(236)		(236)
Employee contributions		(20)		(20)
Actuarial gains and losses	(6)	(24)		(30)
Exchange differences	(447)	496		49
Services provided	(310)	192		(118)
Past service cost				0
Changes in Group structure	150	(63)		87
Curtailments/settlements	(1)			(1)
Other			(37)	(37)
TOTAL	**(141)**	**113**	**(37)**	**(65)**
At December 31, 2004	**5,880**	**(3,502)**	**228**	**2,606**
Movements during the year				
Service cost	166			166
Interest cost/return on plan assets	356	(277)		79
Employer contributions		(331)		(331)
Employee contributions		(24)		(24)
Actuarial gains and losses	762	(387)		375
Exchange differences	394	(307)		87
Services provided	(333)	209		(124)
Past service cost				0
Changes in Group structure	1,528	(1,154)		374
Curtailments/settlements	(4)			(4)
Other	16		14	30
TOTAL	**2,885**	**(2,271)**	**14**	**628**
At December 31, 2005	**8,765**	**(5,773)**	**242**	**3,234**
Movements during the year				
Service cost	217			217
Interest cost/return on plan assets	417	(387)		30
Employer contributions		(855)		(855)
Employee contributions		(26)		(26)
Actuarial gains and losses	(225)	(182)	42	(365)
Exchange differences	(212)	132		(80)
Services provided	(446)	307		(139)
Past service cost				0
Changes in Group structure	36	(15)		21
Curtailments/settlements	(3)			(3)
Other	(5)		(15)	(20)
TOTAL	**(221)**	**(1,026)**	**27**	**(1,220)**
At December 31, 2006	**8,544**	**(6,799)**	**269**	**2,014**

The following tables set out the obligations and provisions for pensions and other post-employment benefits by geographic area:

(in € millions)	France	Other western European countries	North America	Rest of the world	Net total
December 31, 2006					
Projected benefit obligation - funded plans	328	5,366	1,958	123	7,775
Projected benefit obligation - unfunded plans	190	150	411	18	769
Fair value of plan assets	166	4,784	1,742	107	6,799
Deficit	352	732	627	34	1,745
Past service cost					0
Asset ceiling					21
Insured plans					142
Pensions and other post-employment benefit obligations					**1,908**
Prepaid pension costs classifed as assets held for sale					2
Provisions for pensions and other post-employment benefit obligations classified as liabilities held for sale					16
Prepaid pension costs (see Note 8)					**120**
TOTAL PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS					**2,014**
December 31, 2005					
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
Restatement of prior year presentation (see Note 3)					352
Pensions and other post-employment benefit obligations					**3,203**
Prepaid pension costs (see Note 8)					**31**
TOTAL PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS					**3,234**
December 31, 2004					
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
Restatement of prior year presentation (see Note 3)					(30)
Pensions and other post-employment benefit obligations					**2,591**
Prepaid pension costs (see Note 8)					**15**
TOTAL PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS					**2,606**

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 €189 million at December 31, 2006, compared with €196 million at December 31, 2005 and €152 million at end-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 post-employment benefits

Pensions and other post-employment benefits 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 post-employment benefit obligations amounted to €8,544 million at December 31, 2006, €8,765 million at December 31, 2005 and €5,880 million at end-2004.

The consolidation of the BPB group in 2005 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 €855 million in 2006, €331 million in 2005 and €236 million in 2004. The actual return on plan assets came to €569 million in 2006.

Contributions for 2006 comprised an exceptional payment of €672 million, including €516 million in connection with the transfer to an external fund of a substantial portion of pension obligations relating to German companies.

The fair value of plan assets – which came to €6,799 million at December 31, 2006 (end-2005: €5,773 million; end-2004: €3,502 million) – is deducted from the amount of the Group's obligation valued based on the projected unit credit method in order to calculate the related provision.

The consolidation of the BPB group in 2005 led to a €1,141 million increase in the value of plan assets.

Plan assets are mainly composed of shares (57.6%) and bonds (35.8%), with the remainder (6.6%) invested in other asset categories.

Expected contributions to plan assets in 2007 amount to €156 million.

Actuarial assumptions used for valuing pension obligations and plan assets

Assumptions as to mortality, employee turnover and salary projections take into account the economic conditions specific to each country and company. Interest rates used in 2006 to determine the present value of future obligations were generally between 4.75% and 6%, depending on the country concerned.

The rates used in the countries in which the Group's obligations are the most significant are as follows:

(in %)	France	Other European countries		United States
		Euro zone	United Kingdom	
Discount rate	4.75	4.75	5.10	6.00
Salary increases	2.40	2.25 to 3.50	3.35 to 3.60	3.00
Expected return on plan assets	5.00	3.50 to 6.50	6.50 to 6.90	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%. A rise of 1% in this rate would increase the obligation by an amount of €18 million.

Expected rates of return are estimated by country and pension plan, taking into account the different asset categories making up the plan assets and the outlook for the various markets.

Deferred variances

In 2006 the Group elected to apply the option available under IAS 19 providing for the recognition in equity of actuarial gains and losses (see Notes 1 and 3). Comparative information for financial years 2004 and 2005 has been restated to reflect this change. Deferred variances now consist only of the effects of plan modifications (past service cost). The impact recognized at December 31, 2006 amounted to €424 million (decrease in provisions), including €17 million relating to the asset ceiling, compared with cumulative deferred variances amounting to a negative €345 million at end-2005 (increase in provisions). The portion of deferred variances arising from experience adjustments is estimated at €23 million for obligations and €182 million for plan assets.

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 (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 €142 million at December 31, 2006, €166 million at December 31, 2005, and €189 million at December 31, 2004.

Prepaid pension costs and provisions for pensions and other post-employment benefits classified as assets and liabilities held for sale

In accordance with IFRS 5, certain prepaid pension costs and provisions for pensions and other post-employment benefits were classified as assets and liabilities held for sale at December 31, 2006, for an amount of €2 million and €18 million, respectively (see Note 2).

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)	2006	2005	2004
Vested rights	217	166	150
Interest cost	417	356	323
Return on plan assets	(387)	(277)	(232)
Amortization of variances	0	1	0
Curtailments and settlements	(3)	(4)	(1)
TOTAL	**244**	**242**	**240**
Employee contributions	(26)	(24)	(20)
TOTAL	**218**	**218**	**220**

Statutory training entitlement in French companies (DIF)

Employees have acquired rights to approximately three million hours of training, although the actual number of requests for training made in 2005 was only 62. Accordingly, pursuant to opinion no. 2004-F issued by the Emerging Issues Taskforce of the *Conseil National de la Comptabilité* (French National Accounting Board) on October 13, 2004, no provision has been accrued in the consolidated financial statements in connection with training entitlements vested by employees.

NOTE 15

CURRENT AND DEFERRED TAXES

Compagnie de Saint-Gobain is assessed for income tax purposes on its consolidated taxable income. The current fiscal agreement covers 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.

By way of a letter dated June 15, 2006, the Group informed the French tax authorities that Compagnie de Saint-Gobain would not be seeking a renewal of this agreement. Consequently, as from January 1, 2007 tax consolidation will only apply at a local level. The non-renewal of this agreement was taken into account in computing deferred taxes at December 31, 2006.

The net pre-tax income of companies included in the tax group is as follows:

(in € millions)	2006	2005	2004
Net income	1,682	1,294	1;275
less:			
Share in net income of associates	7	10	8
Income taxes	(899)	(701)	(616)
TOTAL	**2,574**	**1,985**	**1,883**

The income tax expense breaks down as follows:

(in € millions)	2006	2005	2004
Current taxes	(802)	(686)	(648)
France	(184)	(233)	(237)
Outside France	(618)	(453)	(411)
Deferred taxes	(97)	(15)	32
France	(63)	44	78
Outside France	(34)	(59)	(46)
TOTAL INCOME TAX EXPENSE	**(899)**	**(701)**	**(616)**

Taxes paid in 2006 amounted to €821 million (2005: €716 million).

In 2006 and 2005, 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 %)	2006	2005	2004
Current income tax rate	33	33	33
Surcharge on French income tax	0	1	1
Technical assistance fees and net capital gains taxed at lower rates	(1)	(1)	(1)
Other deferred and miscellaneous taxes	3	2	0
EFFECTIVE TAX RATE	**35**	**35**	**33**

In the balance sheet, changes in net deferred tax liabilities break down as follows:

(in € millions)	Net deferred tax liabilities
At January 1, 2004	**249**
Deferred tax expense/(benefit) for the year	(32)
Change in deferred taxes relating to actuarial gains and losses recognized in accordance with IAS 19 (see Note 14)	11
Translation adjustments	14
Effect of changes in Group structure and other	7
At December 31, 2004	**249**
Deferred tax expense/(benefit) for the year	15
Change in deferred taxes relating to actuarial gains and losses recognized in accordance with IAS 19 (see Note 14)	(148)
Translation adjustments	(28)
Equity impact	28
Effect of changes in Group structure and other	586
At December 31, 2005	**702**
Deferred tax expense/(benefit) for the year	97
Change in deferred taxes relating to actuarial gains and losses recognized in accordance with IAS 19 (see Note 14)	131
Translation adjustments	31
Effect of changes in Group structure and other	(87)
At December 31, 2006	**874**

The principal components of net deferred tax liabilities are as follows:

(in € millions)	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Deferred tax assets	348	447	332
Deferred tax liabilities	(1,222)	(1,149)	(581)
Net deferred tax liabilities	**(874)**	**(702)**	**(249)**
Pensions	641	822	641
Brands	(889)	(929)	(501)
Depreciation, amortization, excess tax depreciation and provisions recorded for tax purposes	(1,127)	(1,040)	(799)
Tax loss carryforwards	181	233	160
Other	320	212	250
TOTAL	**(874)**	**(702)**	**(249)**

Deferred taxes are classified in the balance sheet to reflect the net deferred tax position by country. This led to the recording of €348 million in assets, primarily relating to the United States (€242 million) and Germany (€54 million). The Group also recorded €1,222 million in liabilities relating to various countries including France (€516 million) and the United Kingdom (€372 million). Other countries accounted for significantly lower amounts.

Deferred tax assets whose recovery the Group does not deem probable are not recognized in the balance sheet. These unrecognized items represented €173 million at December 31, 2006 and primarily related to Germany, the United Kingdom, China and Brazil.

NOTE 16

OTHER CURRENT AND NON-CURRENT LIABILITIES

(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	Invest ment-related liabilities	Total
At January 1, 2004								
Current portion	148	9	58	14	71	64		364
Non-current portion	220	63	96	30	76	84		569
TOTAL PROVISIONS FOR OTHER LIABILITIES AND INVESTMENT-RELATED PAYABLES	**368**	**72**	**154**	**44**	**147**	**148**	**-**	**933**
MOVEMENTS DURING THE YEAR								
Additions	111	4	95	14	46	32		302
Reversals	(3)					(2)		(5)
Utilizations	(138)	(2)	(104)	(12)	(48)	(10)		(314)
Changes in Group structure		(4)	(1)	1	1	(5)		(8)
Other (reclassifications and translation adjustments)	(12)	4	(3)	(1)	(5)	(9)		(26)
TOTAL	**(42)**	**2**	**(13)**	**2**	**(6)**	**6**	**-**	**(51)**
At December 31, 2004								
Current portion	137	10	59	17	69	57		349
Non-current portion	189	64	82	29	72	97		533
TOTAL PROVISIONS FOR OTHER LIABILITIES AND INVESTMENT-RELATED PAYABLES	**326**	**74**	**141**	**46**	**141**	**154**	**-**	**882**
MOVEMENTS DURING THE YEAR								
Additions	104	5	117	19	58	32		335
Reversals	(1)	(11)	(11)	(5)	(19)	(19)		(66)
Utilizations	(88)	(8)	(77)	(10)	(41)	(22)		(246)
Changes in Group structure	0	83	22	2	9	71	(3)	184
Other (reclassifications and translation adjustments)	35	2	5	1	9	21	393	466
TOTAL	**50**	**71**	**56**	**7**	**16**	**83**	**390**	**673**
At December 31, 2005								
Current portion	131	23	98	21	74	73	260	680
Non-current portion	245	122	99	32	83	164	130	875
TOTAL PROVISIONS FOR OTHER LIABILITIES AND INVESTMENT-RELATED PAYABLES	**376**	**145**	**197**	**53**	**157**	**237**	**390**	**1,555**
MOVEMENTS DURING THE YEAR								
Additions	98	14	142	20	82	87		443
Reversals	(1)	(2)	(16)	(6)	(21)	(17)		(63)
Utilizations	(78)	(12)	(124)	(12)	(43)	(30)		(299)
Changes in Group structure			(2)			4	(7)	(5)
Other (reclassifications and translation adjustments)	(34)	(14)	4	1	(11)	15	(189)	(228)
TOTAL	**(15)**	**(14)**	**4**	**3**	**7**	**59**	**(196)**	**(152)**
At December 31, 2006								
Current portion	103	25	110	25	72	104	28	467
Non-current portion	258	106	91	31	92	192	166	936
TOTAL PROVISIONS FOR OTHER LIABILITIES AND INVESTMENT-RELATED PAYABLES	**361**	**131**	**201**	**56**	**164**	**296**	**194**	**1,403**

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 26.

Provision for environmental risks

This provision is intended to cover costs for environmental protection measures, as well as site restorations and clean-ups.

Provision for restructuring costs

The provision for restructuring costs came to €201 million at December 31, 2006 (including net additions of €126 million during the year), compared with €197 million at December 31, 2005 and €141 million at end-2004. The provision primarily concerns the United Kingdom (€51 million), Germany (€45 million), France (€43 million) and the Benelux countries (€27 million).

Provision for personnel costs

This provision mainly covers indemnities due to personnel unrelated to 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, 2006, provisions for other contingencies amounted to €296 million and related mainly to France (€48 million), Germany (€51 million), the United Kingdom (€23 million), Italy (€22 million), North America (€70 million) and Latin America (€27 million).

Investment-related liabilities

At December 31, 2006, investment-related liabilities include mainly additional purchase consideration and commitments to purchase minority interests in the Flat Glass and Packaging sectors.

In 2005 this item chiefly concerned BPB (€243 million in short-term payables). These payables were settled in 2006 further to the takeover of the BPB group in 2005.

NOTE 17

TRADE ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUED EXPENSES

(in € millions)	**Dec. 31, 2006**	**Dec. 31, 2005**	**Dec. 31, 2004**
TRADE ACCOUNTS PAYABLE	5,519	4,779	3,954
Customer deposits	591	152	105
Payable to suppliers of non-current assets	402	360	268
Grants received	53	53	25
Accrued personnel expenses	1 006	1 022	825
Accrued taxes other than on income	378	306	326
Other	906	942	758
- France	*139*	*136*	*153*
- Germany	*73*	*95*	*110*
- United Kingdom	*153*	*250*	*122*
- Other western European countries	*214*	*202*	*179*
- North America	*109*	*110*	*102*
- Emerging countries and Asia	*218*	*149*	*92*
TOTAL OTHER PAYABLES AND ACCRUED EXPENSES	**3,336**	**2,835**	**2,307**

NOTE 18

RISK FACTORS

MARKET RISKS (CREDIT, INTEREST RATE, FOREIGN EXCHANGE, EQUITY AND ENERGY RISKS)

Liquidity risk

Liquidity risk relating to the Group's total net debt is managed by the Treasury and Financing Department of Compagnie de Saint-Gobain. Except in 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, drawdowns on a syndicated line of credit arranged in 2005, 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 equivalents.

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 and Financing Department of Compagnie de Saint-Gobain, under the conditions described in the first paragraph of the section dealing with liquidity risk. Where subsidiaries use derivatives to hedge risk on debt, Compagnie de Saint-Gobain, the Group parent company, is the exclusive counterparty.

The main objective of managing overall interest rate risk on the Group's consolidated net debt is to fix the cost of the medium-term debt and to optimize annual borrowing costs. The Group's policy defines which derivative financial instruments can be used to hedge the debt. 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.

Foreign exchange risk

The Group's policy on currency risk consists of hedging commercial transactions carried out by Group entities in currencies other than their functional currencies. Compagnie de Saint-Gobain and its subsidiaries may use options and forward contracts to hedge exposure arising from commercial transactions. The subsidiaries set up option contracts exclusively through the Group parent company, Compagnie de Saint-Gobain, which then takes a reverse position on the market.

Most forward contracts are for periods of around three months. However, forward contracts taken out to hedge firm orders may have terms of up to two years. Subsidiaries are authorized to enter into forward 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 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.

Hedges of gas and fuel oil purchases are managed by a steering committee comprising members of the Group Finance Department and Group Purchasing Department (Saint-Gobain Achats – SGA). These hedges (excluding fixed-price purchases from suppliers directly negotiated by the Purchasing Department) are arranged by the Group Treasury and Financing Department in accordance with instructions received from the steering committee. The hedges are contracted for a maximum term of 18 months.

Occasionally, and following the same rules, the Group Treasury and Financing Department may enter into contracts to hedge purchases of other commodities.

Note 20 provides details of the Group's interest rate and energy 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 and interest rate (fixed or variable), as well as the interest rate revision schedule.

NOTE 19

NET DEBT

LONG- AND SHORT-TERM DEBT

Long-term and short-term debt consist of the following:

(in € millions)	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Bond issues	6,187	4,993	4,767
Medium Term Notes	36	42	77
Perpetual bonds and participating securities	203	203	203
Acquisition-related bank borrowings	2,989	5,341	0
Other long-term debt including finance leases	464	802	628
Fair value of interest rate hedges	(2)	(66)	(46)
Total long-term debt (excluding current portion)	9,877	11,315	5,629
Current portion of long-term debt	993	922	1,338
Short-term financing programs (US CP, euro CP and *Billets de trésorerie*)	221	782	415
Bank overdrafts and other short-term bank borrowings	1,331	1,273	1,162
Securitization	652	664	605
Fair value of derivatives relating to borrowings not qualified as hedges	(7)	(26)	(33)
Short-term debt and bank overdrafts	2,197	2,693	2,149
TOTAL DEBT – GROSS	**13,067**	**14,930**	**9,116**
Cash and cash equivalents	(1,468)	(2,080)	(2,898)
TOTAL NET DEBT INCLUDING ACCRUED INTEREST	**11,599**	**12,850**	**6,218**

The fair value of gross long-term debt (including the current portion) managed by Compagnie de Saint-Gobain amounted to €10.5 billion at December 31, 2006, for a carrying amount of €10.1 billion.

LONG-TERM DEBT REPAYMENT SCHEDULE

The repayment schedule for gross long-term debt at December 31, 2006 breaks down as follows:

(in € millions)	Currency	Within 1 year	1 to 5 years	Beyond 5 years	Total
Bond issues	EUR	5	3,894	1,179	5,078
	USD	378	0	0	378
	GBP	0	225	889	1,114
Medium Term Notes	EUR	0	0	0	0
	USD	38	0	0	38
	Other	0	36	0	36
Perpetual bonds and participating securities	EUR	0	0	203	203
Acquisition-related bank borrowings	EUR	0	2,989	0	2,989
	GBP	0	0	0	0
Other long-term debt	All currencies	364	365	99	828
Fair value of interest rate hedges	EUR	(1)	0	0	(1)
	USD	1			1
	GBP		(2)		(2)
TOTAL, EXCLUDING ACCRUED INTEREST		**785**	**7,507**	**2,370**	**10,662**

On March 7, 2006, the Group redeemed the USD 100 million and USD 500 million bonds that had reached maturity.

On March 31, 2006, Compagnie de Saint-Gobain replaced BPB as the issuer of €400 million worth of bonds maturing on March 17, 2010.

On May 31, 2006, Compagnie de Saint-Gobain issued €1.8 billion worth of bonds in two tranches: one representing €1.1 billion maturing on May 31, 2011, and one for €700 million maturing on May 31, 2016.

On June 5, 2006, BPB redeemed two private placements in advance, totaling USD 100 million each.

On October 31, 2006, the Group redeemed 1 billion worth of Medium Term Notes denominated in Czech koruna (CZK) that had reached maturity.

On November 15, 2006, Compagnie de Saint-Gobain issued £600 million worth of bonds in two £300 million tranches maturing on December 15, 2016 and November 15, 2024 respectively.

On November 15, 2006, Compagnie de Saint-Gobain issued CZK 1 billion worth of Medium Term Notes, maturing on November 15, 2010.

On November 27, 2006, the Group redeemed €7.7 million worth of Medium Term Notes which had reached maturity.

In 2006, Compagnie de Saint-Gobain reimbursed €2,410 million of its acquisition-related bank borrowings, breaking down as follows:

- on the three-year tranche: €1,060 million on June 15, 2006; €556.6 million on July 12, 2006; and €493.4 million on November 30, 2006;
- on the five-year tranche: €300 million on December 29, 2006.

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 for these bonds is 2.625% payable in arrears on January 1 each year.

In 2006, 4,355,403 Océane bonds were converted into Compagnie de Saint-Gobain shares on the basis of four shares per bond. As a result of the conversion of these bonds at the price provided for in the issue agreement, bond holders received a total of 17,421,612 shares, representing 4.73% of the capital stock of Compagnie de Saint-Gobain at December 31, 2006.

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, 2006, 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, 2006, 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 2006 came to €9.9 million, compared with €9.5 million in 2005.

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, 2006, these programs were as follows:

Programs *(in millions of currency)*	Currency	Drawdown period	Authorized ceiling at Dec. 31, 2006	Drawn down at Dec. 31, 2006	Drawn down at Dec. 31, 2005	Drawn down at Dec. 31, 2004
Medium Term Notes	EUR	1 to 30 years	5,000	968	85	110
US commercial paper	USD	up to 12 months	1,000 (*)	100	0	0
Euro commercial paper	USD	up to 12 months	1,000 (*)	0	0	0
Billets de trésorerie	EUR	up to 12 months	3,000	145	782	415

(*) equivalent to €759 million based on the exchange rate at December 31, 2006.

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.

In accordance with market practices, *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 and *Billets de Trésorerie* programs are backed by confirmed syndicated lines of credit totaling €2,000 million expiring in November 2011, as well as seven bilateral credit lines totaling €680 million at December 31, 2006.

The main covenants that would, if violated, result in these facilities becoming immediately repayable or being withdrawn, are as follows:

- failure to comply with either of the following ratios (assessed every year):

- ratio of net debt to operating income excluding depreciation and amortization of property, plant and equipment and intangible assets below 3.75;

- interest cover ratio (pre-tax profit over net interest expense) above 3;

This requirement covers three bilateral lines representing €290 million.

- default on bank borrowings in excess of certain ceilings.

No drawdowns were made against any of these credit facilities in 2006.

In January and February 2006, four bilateral credit lines of the BPB group were canceled, representing a total of €102 million.

The Saint-Gobain Group obtained a further €9 billion syndicated line of credit in 2005 to fund the acquisition of the BPB group, as well as to refinance certain debts of the BPB and Saint-Gobain groups. This line is composed of three tranches: a three-year loan, a five-year loan, and a five-year revolving credit. At December 31, 2006, only €3 billion had been drawn down on the five-year loan tranche and €600 million remained undrawn on the revolving credit line. The three-year loan tranche was repaid in full.

The main early-repayment scenarios for this €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 depreciation and amortization of property, plant and equipment and intangible assets below 3.75;
- interest cover ratio of above 3.5;
- default on bank borrowings in excess of €40 million.

Saint-Gobain complied with all of these covenants at December 31, 2006.

The aggregate commitment fees for all of these facilities amounted to €4.6 million in 2006 and €6.2 million in 2005.

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 through its US subsidiary, CertainTeed Receivables Corporation, and its subsidiary in the UK, Jewson Ltd.

The US program concerned an amount of €414 million at December 31, 2006 versus €431 million at December 31, 2005. The difference between the face value of the sold receivables and the proceeds received is treated as a financial expense. In 2006, the expense amounted to €24 million compared with €13.6 million in 2005.

The UK program concerned €238 million at December 31, 2006, compared with €233 million at December 31, 2005. The total amount recorded under financial expense in relation to this program came to €10.2 million in 2006 (2005: €10.4 million).

COLLATERAL

At December 31, 2006, €34 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 Dec. 31, 2006			Fair value at Dec. 31, 2005	Fair value at Dec. 31, 2004	Nominal value broken down by maturity at Dec. 31, 2006			
	Total	Derivatives (assets)	Derivatives (liabilities)	Total	Total	Within 1 year	1 to 5 years	Beyond 5 years	Total
Fair value hedges									
Interest rate swaps	1	2	(1)	67	46	420	223	0	643
Cash flow hedges									
Commodity swaps	(32)	0	(32)	24	(3)	129	15	0	144
Forward currency contracts	0	1	(1)	0	0	79	0	0	79
Currency options	0	0	0			2		0	2
Interest rate swaps	0	0	0			76	0	0	76
Derivatives not qualifying as hedges									
Interest rate swaps	0			(4)	(3)				0
Cross-currency swaps	10	10		21	37	0	49	0	49
Currency swaps	(2)	7	(9)	8	(6)	1,732	0	0	1,732
Commodity swaps	0			0	0			0	0
Forward currency contracts	0	1	(1)	(29)	3	85	0	0	85
Currency options purchased	0	0		0	1	2	0	0	2
Currency options sold	0			0	0	0	0	0	0
Interest rate conversion options	0			0	0	0	0	0	0
Commodity options purchased	0			1	0	0	0	0	0
Commodity options sold	0				0	0	0	0	0
TOTAL	**(23)**	**21**	**(44)**	**88**	**75**	**2,525**	**287**	**0**	**2,812**
of which derivatives linked to net debt	9			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, 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 are also used to convert variable-rate debt into debt at fixed rates.

■ 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.

■ Currency swaps

The Group uses currency 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 and United Kingdom. Commodity options enable Group companies to hedge the risk of changes in the purchase price of natural gas in the United States. Compagnie de Saint-Gobain has not entered into any such options since June 2006.

IMPACT OF FINANCIAL INSTRUMENTS ON EQUITY

The reserve recorded under equity relating to commodity swaps treated as cash flow hedges for accounting purposes amounted to a negative €32.1 million at December 31, 2006, compared with a positive €12.5 million at end-2005. At December 31, 2006, other reserves relating to forward currency contracts and interest rate and currency swaps total zero, unchanged from end-December 2005. These reserves are taken to the income statement when the hedged items affect net income.

Notes to the consolidated financial statements

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 €8 million at December 31, 2006, compared with €23 million at end-2005.

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, 2006, no embedded derivatives deemed to be material at Group level were identified.

GROUP DEBT STRUCTURE

The weighted average interest rate on total gross debt under IFRS and after hedging (cross-currency swaps, currency swaps and interest rate swaps) was 4.7% at December 31, 2006, compared with 4.4% at the end of 2005.

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 December 31 **(%)**

	2006	2005	2004
Bond issues	5.07	5.49	5.67
Medium Term Notes	5.16	4.94	4.30
Perpetual bonds and participating securities	5.55	5.09	5.47
Acquisition-related bank borrowings	4.10	4.14	-

The table below presents the breakdown by currency and by interest rate (fixed or variable) of the Group's net debt at December 31, 2006, after hedging by means of interest rate swaps, currency swaps and cross-currency swaps.

	After hedging		
(in € millions)	Variable rate	Fixed rate	Total
EUR	3,870	5,375	9,245
USD	284	168	452
GBP	211	907	1,118
SEK	321	5	326
Other currencies	81	194	275
TOTAL	**4,767**	**6,649**	**11,416**
	42%	**58%**	**100%**
Fair value of related derivatives			**(9)**
Accrued interest			**192**
TOTAL NET DEBT			**11,599**

REVISION SCHEDULE OF INTEREST RATES APPLICABLE TO FINANCIAL ASSETS AND DEBT

The schedule at December 31, 2006 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	1 to 5 years	Beyond 5 years
Gross debt	13,067	6,479	4,450	2,138
Impact of interest rate swaps	0	223	(223)	0
Cash and cash equivalents	(1,468)	(1,468)	0	0
NET DEBT AFTER HEDGING	**11,599**	**5,234**	**4,227**	**2,138**

NOTE 21

BUSINESS INCOME AND EXPENSE

(in € millions)	2006	2005	2004
Net sales	**41,596**	**35,110**	**32,172**
Personnel costs			
Salaries and payroll taxes	(7,745)	(7,038)	(6,681)
Share-based payment (a)	(58)	(41)	(32)
Pensions	(226)	(177)	(171)
Depreciation and amortization	(1,522)	(1,339)	(1,287)
Other (b)	(28,331)	(23,655)	(21,258)
Operating income	**3,714**	**2,860**	**2,743**
Gains on disposals of assets (c)	175	81	41
Recognition of negative goodwill in the income statement	9	3	6
Other business income	**184**	**84**	**47**
Restructuring costs (d)	(213)	(184)	(153)
Provisions and expenses relating to claims and litigation (e)	(95)	(106)	(112)
Impairment of assets (f)	(211)	(105)	(104)
Other	(57)	5	(3)
Other business expense	**(576)**	**(390)**	**(372)**
BUSINESS INCOME	**3,322**	**2,554**	**2,418**

(a) Details of share-based payments are provided in Note 13. Share-based payments under the Group Savings Plan ("PEG") amounted to €19 million in 2006, €11 million in 2005 and €14 million in 2004, and were expensed in full at the end of the offer period (April 14 for 2006).

(b) Mainly relating to the costs of goods sold by the Distribution sector (€13,684 million in 2006, €11,883 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 2006, research and development costs recorded under operating expenses amounted to €362 million (2005: €305 million; 2004: €312 million).

(c) Gains on disposals of assets totaled €175 million in 2006, compared with €81 million in 2005 and €41 million in 2004. The increase in this item primarily reflects the capital gain on the disposal of Saint-Gobain Calmar (see Note 2).

(d) Restructuring costs mainly consisted of employee termination benefits, representing €133 million in 2006, compared with €108 million in 2005 and €105 million in 2004.

(e) As in 2005 and 2004, provisions and expenses relating to claims and litigation in 2006 primarily included the asbestos-related litigation charge explained in Notes 16 and 26.

(f) Impairment losses taken on assets primarily included €125 million taken on goodwill (€36 million in 2005 and €47 million in 2004), €75 million on property, plant and equipment (€37 million in 2005 and €33 million in 2004), and €4 million on intangible assets (€11 million in 2005 and €13 million in 2004). The balance corresponds to impairment losses taken on financial and current assets.

NOTE 22

OTHER FINANCIAL INCOME AND EXPENSE

(in € millions)	2006	2005	2004
Interest cost relating to pensions	(428)	(367)	(327)
Return on plan assets	387	277	232
Interest cost relating to pensions - net	**(41)**	**(90)**	**(95)**
Other financial expense	(102)	(103)	(71)
Other financial income	20	37	17
OTHER FINANCIAL INCOME AND EXPENSE	**(123)**	**(156)**	**(149)**

Net borrowing costs amount to €625 million in 2006 (2005: €413 million) and total interest paid and received came to €462 million (2005: €383 million).

Net translation losses recognized in cost of sales came to €4 million in 2006, compared with net translation gains of €4 million in 2005 and €20 million in 2004.

NOTE 23

NET INCOME EXCLUDING CAPITAL GAINS

Net income excluding capital gains totaled €1,702 million in 2006, compared with €1,284 million in 2005 and €1,289 million in 2004. Based on the 368,419,723 shares outstanding at December 31, 2006 (end-2005: 345,256,270 shares; end-2004: 340,988,000 shares), earnings per share (EPS) excluding capital gains amounted to €4.62 in 2006, €3.72 in 2005, and €3.78 in 2004.

The difference between net income and net income excluding capital gains can be analyzed as follows:

(in € millions)	2006	2005	2004
Net income attributable to equity holders of the parent	**1,637**	**1,264**	**1,239**
Less:			
Gains on disposals of assets	175	81	41
Impairment of property, plant and equipment and intangible assets	(211)	(102)	(95)
Tax impact	(26)	5	4
Impact of minority interests	(3)	(4)	0
NET INCOME EXCLUDING CAPITAL GAINS	**1,702**	**1,284**	**1,289**

NOTE 24

EARNINGS PER SHARE

The weighted average number of shares in issue is calculated by deducting treasury stock (6,739,668 shares at December 31, 2006) 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 4,634,248 shares in 2006 – and Océane bonds, convertible into 17,523,812 shares.

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 €)
2006						
Weighted average number of shares in issue	1,637			**1,637**	341,048,210	**4.80**
Weighted average number of shares assuming full dilution	1,637	23	(8)	**1,652**	363,809,234	**4.54**
Number of shares in issue at December 31	1,637			**1,637**	368,419,723	**4.44**
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**

NOTE 25

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 2006, €110 million of minimum future lease payments due under finance leases corresponded to land and buildings. Capitalized finance leases represented a total carrying amount of €210 million at December 31, 2006, versus €213 million at end-2005.

(in € millions)	**Dec. 31, 2006**
Future minimum lease payments	
Within one year	51
Between one and five years	131
Beyond five years	46
Total	**228**
Less estimated executory costs included in capitalized finance leases	(3)
Total future minimum lease payments	**225**
Less interest costs	(26)
PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS	**199**

Obligations under operating leases

The Group leases equipment and office, manufacturing and warehouse space under various non-cancelable operating leases. Lease terms generally range from 1 to 9 years. Certain contracts contain renewal options for various periods of time and contain clauses for payment of real estate taxes and insurance. In most cases, management expects that in the normal course of business these leases will be renewed or replaced by other leases.

Net rental expense was €522 million in 2006, corresponding to rental expense of €540 million, including €332 million relating to land and buildings, less €18 million of subletting revenue.

Future minimum commitments under operating leases are as follows:

		Payments due			
(in € millions)	**Total 2006**	Within one year	Between one and five years	Beyond five years	**Total 2005 (*)**
Operating leases Rental expense	2,814	491	1,246	1,077	2,525
Subletting revenue	(77)	(15)	(27)	(35)	(61)
TOTAL	**2,737**	**476**	**1,219**	**1,042**	**2,464**

(*) Figures restated following an exhaustive analysis of operating leases.

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.

(in € millions)	Total 2006	Payments due			Total 2005
		Within one year	Between one and five years	Beyond five years	
Non-cancelable purchase commitments					
- Non-current assets	195	171	23	1	112
- Raw materials	679	232	317	130	187
- Services	125	61	59	5	133
- Other purchases	85	58	24	3	98
TOTAL	**1,084**	**522**	**423**	**139**	**530**

The increase in commitments to purchase raw materials mainly reflects the incorporation in 2006 of contracts relating to the Gypsum business, representing an amount of €420 million.

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 €42 million at December 31, 2006, versus €40 million at December 31, 2005.

COMMERCIAL COMMITMENTS

(in € millions)	Total 2006	Period			Total 2005
		Within one year	Between one and five years	Beyond five years	
Security for borrowings	9	3	5	1	5
Other commitments given	115	38	33	44	136
TOTAL	**124**	**41**	**38**	**45**	**141**

At December 31, 2006, pledged assets amounted to €237 million, versus €245 million at December 31, 2005. They mainly concerned non-current assets in India, South Korea and China.

Following the incorporation in 2006 of commitments relating to the Gypsum business (€12 million), receivables held by the Group and secured by guarantees amounted to €81 million at December 31, 2006 versus €48 million at end-2005.

NOTE 26

LITIGATION

In France, further lawsuits were filed in 2006 by former employees (or persons claiming through them) of Everite and Saint-Gobain PAM ("the employers") – which in the past had carried on fiber-cement operations – for asbestos-related occupational diseases, with the aim of obtaining supplementary compensation over and above the assumption of occupational diseases compensation by the French Social Security. A total of 597 such lawsuits have been issued against the two companies since 1997.

At the end of 2006, 424 of these 597 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 411 of these 424 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 173 lawsuits outstanding against Everite and Saint-Gobain

PAM at December 31, 2006, the merits of 73 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 100 remaining lawsuits, 4 have been dismissed following a claim made to the French Asbestos Victims Compensation Fund (FIVA). At December 31, 2006, the procedures relating to the merits of the other 96 cases were at different stages: 29 are involved in administrative proceedings with the French Social Security authorities, 47 are pending with the Social Security courts, appeals have been issued to the Court of Appeal in 7 cases, 5 have been referred to the Versailles Court of Appeal following a hearing by the Court of Cassation, and rulings have been issued in 8 cases by the Versailles Court of Appeal, with the Social Security authorities in the process of reimbursing Everite.

In addition, 93 suits based on inexcusable fault had been filed by current or former employees of 13 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, 2006, 15 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, the Asbestos Victims Compensation Fund had directly issued suits or taken over proceedings in 5 cases where it had already paid compensation to the employee or former employee concerned.

At that date, 49 lawsuits were settled, including 9 rulings which held the employer liable for "inexcusable fault". However, these did not have any financial impact on the companies concerned.

For the 24 suits outstanding at December 31, 2006, 3 were in the investigation stage by the French Social Security authorities, 12 were pending before the Social Security courts and 7 before the Courts of Appeal, and 2 cases had been appealed to the Court of Cassation.

ASBESTOS-RELATED LITIGATION IN THE UNITED STATES

In the United States, several 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 many 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 2006

After three years marked by a high number of lawsuits filed against CertainTeed (60,000 in 2001, 67,000 in 2002 and 62,000 in 2003, compared with 19,000 in 2000), new claims filed fell to 18,000 in 2004, and subsequently dropped to 17,000 in 2005 and to some 7,000 in 2006. This decline was felt over the last three years in most states, particularly in those which had seen the greatest number of claims in previous years. The decline reflects changes in local legislation in the different states to introduce stricter admissibility conditions for new claims. As an example, the number of new claims filed in Mississippi dropped from 29,000 in 2003 to 300 in 2005, and to some 100 in 2006.

Almost all of the claims against CertainTeed are settled out of court. Approximately 12,000 claims were settled out of court in 2006, compared with 54,000 in 2003 and 20,000 in 2004 and 2005). In addition, approximately 19,000 claims (around 10,000 in Ohio and some 9,000 in Texas) were transferred to "inactive dockets" further to court rulings in these two states. Taking into account the 100,000 outstanding cases at the end of 2005 and the new cases having arisen during the year, as well as claims settled or placed in inactive dockets, some 76,000 claims were outstanding at December 31, 2006.

The average individual cost of claims formally settled or in the process of a formal settlement over the last 12 months came to around USD 3,000 in 2006, compared to USD 2,100 in 2003, USD 2,900 in 2004 and USD 2,800 in 2005. This trend mainly reflects the lower proportion of settlements relating to mass actions which have decreased significantly since 2004, as described above.

IMPACT ON THE GROUP'S RESULTS

The Group recorded a €95 million charge in 2006 to cover future developments in relation to these claims. This amount is slightly lower than the €100 million recorded in 2005, the €108 million recorded in 2004, and the €100 million recorded in 2002 and 2003. At December 31, 2006, the Group's total cover for asbestos-related claims against CertainTeed in the United States was €342 million (USD 451 million), compared with €358 million at December 31, 2005 (USD 422 million). The coverage is achieved almost entirely through the balance sheet provision, as most available insurance had been used by 2004.

CASH FLOW IMPACT

Compensation paid in respect of these claims against CertainTeed (including claims settled prior to 2006 but only paid out in 2006, and those fully resolved and paid in 2006) and compensation paid (net of insurance) by the Group's other businesses in connection with asbestos-related litigation amounted to €67 million (USD 84 million), compared with €72 million (USD 89 million) in 2005.

OUTLOOK FOR 2007

If the fall in the number of new claims that has occurred in the past three years continues in 2007, the average individual cost of settlement may rise. This is because mass 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.

On the legislative front, the federal reform bill – which sought to phase out the current system with the creation of an asbestos trust fund – now appears unlikely to progress. However, numerous states continue to consider tort reform measures aimed at introducing stricter admissibility conditions, particularly on medical grounds, and reducing abuses of the system.

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, 2006 and they do not represent a material risk for the companies concerned.

NOTE 27

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 recognized in the income statement amounted to €178 million in 2006 (2005: €150 million and 2004: €154 million) and mainly concerned France (€62 million), Germany and Austria (€24 million), Spain and Portugal (€12 million), Eastern Europe (€11 million) and North America (€32 million). The year-on-year increase in this item in 2006 is mainly attributable to the acquisition of the BPB group on December 1, 2005, representing an amount of €17 million in 2006.

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. At December 31, 2006, capitalized environmental costs amounted to €108 million in the consolidated balance sheet (€75 million at end-2005 and €68 million at end-2004). 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, 2006, these provisions amounted to €131 million, compared with €145 million at December 31, 2005 (after allocation in 2006 of the BPB purchase price to environmental provisions for an amount of €38 million) and €74 million at December 31, 2004. In 2005, movements in this item are mainly due to changes in Group structure. The BPB group was acquired on December 1, 2005, and at that time owned 87 quarries for which it had set aside €45 million in provisions for site restoration.

The present value of these provisions is calculated on a case-by-case basis according to when the risk is expected to materialize. This is particularly the case for provisions covering the cost of dismantling and restoring sites and retiring assets. However, when the timing of the risk cannot be estimated reliably, the risk is considered a current liability and is not discounted.

Environment-related risks and industrial sites subject to specific regulations are monitored by the Environment, Health and Safety Department.

NOTE 28

RELATED-PARTY TRANSACTIONS

BALANCES AND TRANSACTIONS WITH ASSOCIATES

(in € millions)	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
ASSETS			
Financial receivables	11	4	0
Inventories	1	0	0
Short-term receivables	16	16	11
Cash and cash equivalents	1	2	6
Provisions for impairment in value		2	
LIABILITIES			
Short-term debt	7	1	1
Cash advances	4	1	3
EXPENSES			
Purchases	86	16	5
INCOME			
Sales	66	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 revenue arising from such transactions is not eliminated on consolidation. In 2006 this revenue amounted to €3 million, compared with €9 million in 2005 and €14 million in 2004.

NOTE 29

JOINT VENTURES

The amounts recorded in the 2006 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: €82 million.
- Non-current liabilities: €10 million.
- Current liabilities: €74 million.
- Net sales: €187 million.
- Operating expenses: €123 million.

NOTE 30

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)	2006
Attendance fees	0,8
Gross compensation and benefits in kind:	
- fixed portion	7,9
- variable portion	5,4
Estimated cost relating to pensions and other employee benefits (IAS 19)	1,2
Expense relating to stock options	9,9
Termination benefits	1,1
TOTAL	**26,3**

Employers' social security contributions relating to the above compensation represented an estimated €3.7 million.

NOTE 31

EMPLOYEES

The increase in the average number of employees in 2006 is due to the Group's acquisitions, the impact of which was smoothed over the twelve months of the year.

Average number of employees	2006	2005	2004
Fully consolidated companies			
Managers	22,648	21,943	16,927
Other non-manual employees	80,078	70,815	68,865
Other employees	103,095	92,514	88,455
TOTAL	**205,821**	**185,272**	**174,247**
Proportionately consolidated companies (*)			
Managers	52	57	32
Other non-manual employees	264	240	545
Other employees	702	697	936
SUB-TOTAL	**1,018**	**994**	**1,513**
TOTAL	**206 839**	**186,266**	**175,760**

(*) Proportion of headcount allocated to the Group.

At December 31, 2006, the total number of Group employees – including proportionately consolidated companies – came to 205,864.

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 (CP) sector
  - 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. Intragroup ("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.

(in € millions)

2006	Building Distribution	Ceramics & Plastics and Abrasives	Reinforcements	Items eliminated HPM	*Total*	Flat Glass	Packaging	Building Materials	Insulation	Gypsum	Pipe	Items eliminated CP	*Total*	Other *	*Total*
		High-Performance Materials						Construction Products							
External sales	17,579	3,529	1,280		4,809	5,051	4,074	2,554	2,354	3 510	1,661		10,079	4	41,596
Internal sales	2	60	85	(16)	129	32	6	140	188	385	122	(38)	797	(966)	0
Net sales	**17,581**	**3,589**	**1,365**	**(16)**	**4,938**	**5,083**	**4,080**	**2,694**	**2,542**	**3,895**	**1,783**	**(38)**	**10,876**	**(962)**	**41,596**
Operating income	1,001	468	32		500	480	376	208	379	649	140		1,376	(19)	3,714
Business income	980	411	4		415	455	379	170	341	648	70		1,229	(136)	3,322
Share in net income/(loss) of associates	2	2	1		3	(8)		1		10	(1)		10		7
Depreciation and amortization	268	145	103		248	322	239	85	121	163	62		431	14	1,522
Impairment of assets	3	12	15		27	25	93	8	8	(1)	20		35	12	195
Net goodwill	2,826	1,144	236		1,380	189	248	454	85	3,877	268		4,684		9,327
Non-amortizable brands	1,987									856			856		2,843
TOTAL SEGMENT ASSETS	12,819	3,609	1,575		5,184	4,905	3,367	1,846	1,585	8,219	1,618		13,268	251	39,794
TOTAL SEGMENT LIABILITIES	4,115	1,121	370		1,491	1,738	1,218	729	785	1,224	663		3,401	747	12,710
Investments during the year															
- capital expenditure	328	162	64		226	448	336	142	145	487	72		846	24	2,208
- securities (net of cash acquired)	331	(1)	2		1	13	58	92	2	17	(13)		98		501
Cash flows from operations	817	363	69		432	529	402	204	358	368	118		1,048	119	3,347

* "Other" corresponds to the elimination of intragroup transactions for internal sales, and to holding operations for the other captions.

Notes to the consolidated financial statements

(in € millions)

2005	Building Distribution	Ceramics & Plastics and Abrasives	Reinforcements	Items eliminated HPM	Total	Flat Glass	Packaging	Building Materials	Insulation	Gypsum	Pipe	Items eliminated CP	Total	Other *	Total
		High-Performance Materials						Construction Products							
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/(loss) 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	4,054	233		4,819	9	9,718
Non-amortizable brands	1,976									846			846		2,822
TOTAL SEGMENT ASSETS	11,316	3,904	1,707		5,611	4,888	3,832	1,740	1,503	7,948	1,508		12,699	257	38,603
TOTAL SEGMENT LIABILITIES	3,445	1,222	385		1,607	1,905	1,197	680	814	1,321	623		3,438	1,007	12,599
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			5,605		6,436
Cash flows from operations	667	342	104		446	528	432	212	287	(31)	91		559	103	2,735
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)	
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/(loss) 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
Non-amortizable brands	1,504														1,504
TOTAL SEGMENT ASSETS	9,964	3,593	1,524		5,117	4,236	3,379	1,714	1,314		1,297		4,325	304	27,325
TOTAL SEGMENT LIABILITIES	3,133	1,111	337		1,448	1,699	1,059	603	700		521		1,824	738	9,901
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 intragroup 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 countries and Asia	Internal sales	**TOTAL**
2006						
Net sales	12,528	18,448	6,790	5,933	(2,103)	41,596
TOTAL SEGMENT ASSETS	**10,990**	**16,219**	**5,981**	**6,604**		**39,794**
Capital expenditure	499	751	363	595		2,208

(in € millions)	France	Other western European countries	North America	Emerging countries and Asia	Internal sales	**TOTAL**
2005						
Net sales	11,467	15,060	6,029	4,474	(1,920)	35,110
TOTAL SEGMENT ASSETS	**10,494**	**14,756**	**7,223**	**6,130**		**38,603**
Capital expenditure	415	558	260	544		1,777

(in € millions)	France	Other western European countries	North America	Emerging countries 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**	**10,467**	**4,680**	**3,784**		**27,325**
Capital expenditure	388	486	273	421		1,568

The geographical breakdown of external sales for 2006, 2005 and 2004 is as follows:

(in € millions)	France	Other western European countries	North America	Emerging countries and Asia	**TOTAL**
2006					
Net sales	10,874	17,853	6,618	6,251	41,596
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

PRINCIPAL FULLY CONSOLIDATED COMPANIES

The table below shows the principal consolidated companies, notably those with net sales of over €100 million.

Principal fully consolidated companies at December 31, 2006		% interest (held directly and indirectly)
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%
SG Abrasives Canada Inc.	Canada	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%
Saint-Gobain Vertex SRO	Czech Republic	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%
Saint-Gobain Glass Polska Sp Zoo	Poland	99.90%
Cebrace Cristal Plano Ltda	Brazil	50.00%
Saint-Gobain Vidros	Brazil	100.00%
Saint-Gobain Cristaleria SA	Spain	99.67%
Solaglas Ltd	United Kingdom	99.96%
Saint-Gobain Glass Italia	Italy	100.00%

Principal fully consolidated companies at December 31, 2006		% interest (held directly and indirectly)
Saint-Gobain Sekurit Italia	Italy	100.00%
Hankuk Glass Industries	South Korea	80.47%
Hankuk Sekurit Ltd	South Korea	90.14%
Saint-Gobain Glass India	India	97.80%
PACKAGING SECTOR		
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 Vetri SpA	Italy	99.99%
CONSTRUCTION PRODUCTS SECTOR		
Building Materials		
Saint-Gobain Weber	France	99.99%
CertainTeed Corporation	United States	100.00%
Brasilit	Brazil	100.00%
Saint-Gobain Quartzolit Ltda	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	99.98%
Saint-Gobain Isover Yegorievsk Ooo	Russia	99.98%
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	99.75%
Rigips GmbH	Germany	100.00%
Thai Gypsum Products Plc	Thailand	99.66%
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%
Saint-Gobain Xuzhou Pipe Co Ltd	China	100.00%

NOTE 34

SUBSEQUENT EVENTS

On July 27, 2006 Saint-Gobain and Owens Corning announced that they were considering combining their respective Reinforcements and Composites businesses. An agreement was signed on February 20, 2007 to create a joint venture 60%-owned by Owens Corning and 40%-owned by Saint-Gobain. After a minimum period of four years, Saint-Gobain has an option to sell, and Owens Corning to purchase, the Group's interest in the joint venture.

This agreement should be finalized during 2007 subject to approval from the competent competition authorities. Meanwhile, the terms of the agreement will be defined, particularly as regards any sale commitments and their impact on the value assigned to each of the businesses transferred to the joint venture.

As explained in Note 2, in 2006 the Group launched a process with the aim of selling its Flasks business (Saint-Gobain Desjonquères and subsidiaries) which is expected to be completed in the first six months of 2007.

In February 2005, the European Commission launched an enquiry into the competitive practices of construction glass and automotive glass operations. The enquiry is still in progress, and a Statement of Objections was served on the construction glass business in March 2007.

Statutory Auditors' report on the consolidated financial statements

Year ended December 31, 2006

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, 2006.

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.

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 presentation of the financial statements. 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 as at December 31, 2006, and of the results of its operations for the year then ended in accordance with IFRSs as adopted by the EU.

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:

• Change in accounting policy

Note 1 to the consolidated financial statements (Basis of preparation) sets out the change in accounting policy that took place in 2006 following the application of the option available pursuant to the amendment to IAS 19 dealing with the transitional of actuarial gains and losses arising on provisions for pensions and other post-employment benefits. In accordance with the transitional provisions of the amendment to IAS 19 and in accordance with IAS 8, the comparative information for 2005 and 2004 presented in the consolidated financial statements has been restated retrospectively in consideration of this revised standard. Accordingly, the comparative information differs from the consolidated financial statements published in respect of 2005.

In the context of our assessment of the accounting principles applied by your Company, we examined the financial statements for the years ended December 31, 2005 and December 31, 2004 to ascertain whether they were correctly restated and whether the information given in this respect in Note 3 to the consolidated financial statements was also correct.

• Impairment of property, plant and equipment and intangible assets

The Group regularly carries out impairment tests on its property, plant and equipment, intangible assets and goodwill, and also assesses whether there is any indication of impairment of property, plant and equipment and amortizable intangible assets, based on the methods described in Note 1 to the consolidated financial statements (Impairment of assets). We examined the methods applied in implementing these tests 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 to the consolidated financial statements (Employee benefits – defined benefit plans). These benefit obligations were reviewed by external actuaries. Our work consisted of assessing the data and assumptions used; examining, on a test basis, the calculations performed; and verifying that the information disclosed in Notes 1 and 14 to the consolidated financial statements is appropriate.

• Provisions

As specified in Note 1 to the consolidated financial statements (Other current and non-current liabilities), the Group books provisions to cover risks. The types of provisions recorded under "Other liabilities" are described in Note 16 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 statements at December 31, 2006, 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 22, 2007

The Statutory Auditors

PricewaterhouseCoopers Audit

KPMG Audit
Département de KPMG S.A.

Pierre Coll

Rémi Didier

Jean Gatinaud

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking users. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and 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 should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Pro forma 2005 consolidated income statement

Of the Saint-Gobain Group (Unaudited)

The BPB group (Gypsum business) was acquired on December 2, 2005, and was fully consolidated within the Saint-Gobain Group's financial statements from December 1, 2005. As this acquisition had a material impact on Saint-Gobain's 2006 consolidated financial statements, the Group has prepared a pro forma consolidated income statement for 2005 permitting meaningful comparisons between the 2005 and 2006 financial information. The unaudited pro forma financial information has been prepared in accordance with the provisions of Annex II of the "Pro forma financial information building block" of European Commission Regulation no. 809/2004, and in conformity with the recommendations issued by the CESR in February 2005 concerning the preparation of pro forma financial information within the scope of the above-mentioned regulation on prospectuses.

The pro forma consolidated financial information has been prepared in millions of euros (€) and reflects the tie-up between Saint-Gobain and BPB using the purchase method of accounting. The pro forma 2005 consolidated income statement was prepared as though the acquisition of BPB had occurred on January 1, 2005.

The pro forma consolidated financial information is presented for illustrative purposes only and does not therefore represent the financial position or operating results that would have been achieved by the Saint-Gobain Group had the acquisition been effective January 1, 2005. Neither is the pro forma consolidated financial information indicative of the Saint-Gobain Group's future operating results or financial position.

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(in € millions)	2005 (reported)	Elimination of BPB group's December results	BPB group's full-year results	Notes	Adjustments	Elimination of intragroup transactions	*2005* (Pro forma)
Net sales	35,110	(237)	3,610	(a)	29	(344)	38,168
Cost of sales	(26,449)	211	(2,652)		(49)	344	(28,595)
Selling, general and administrative expenses including research	(5,812)	36	(411)		(3)		(6,190)
Other operating income and expense	11	(2)	(28)				(19)
Operating income	**2,860**	**8**	**519**	**(b)**	**(23)**		**3,364**
Other business income	84		31				115
Other business expense	(390)	49	(97)		38		(400)
Business income	**2,554**	**57**	**453**	**(c)**	**15**		**3,079**
Borrowing costs, gross	(465)	4	(33)		(208)		(702)
Income from cash and cash equivalents	52	(1)	8				59
Borrowing costs, net	(413)	3	(25)		(208)		(643)
Other financial income and expense	(156)	5	(13)				(164)
Net financial expense	**(569)**	**8**	**(38)**	**(d)**	**(208)**		**(807)**
Share in net income of associates	10	(1)	10		(3)		16
Income taxes	(701)	(17)	(142)	(e)	79		(781)
Net income	1,294	47	283		(117)		1,507
Attributable to equity holders of the parent	1,264	47	282		(117)		1,476
Minority interests	30		1				31
Earnings per share (in €)							
Weighted average number of shares in issue	336,330,568						336,330,568
Basic earnings per share	3.76						4.39
Weighted average number of shares assuming full dilution	357,338,208						357,338,208
Diluted earnings per share	3.62						4.21

NOTES

TO THE PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE SAINT-GOBAIN GROUP (UNAUDITED)

Only the purchase of the BPB group has been taken into account for the purposes of preparing this pro forma financial information. The Saint-Gobain Group completed several other acquisitions during 2005 but their respective impacts were far less material.

Assumptions

The pro forma consolidated financial information has been prepared based on Saint-Gobain's audited IFRS consolidated financial statements and should be read in conjunction with those historical financial statements.

The accounts of BPB were included within the Saint-Gobain Group's published financial statements from December 1, 2005. The pro forma restatements are therefore presented in two separate columns, reflecting: (i) the elimination of BPB's results for December 2005 that were included in the Saint-Gobain Group's published consolidated financial statements for 2005; and (ii) the inclusion of the full-year results of BPB for 2005.

Prior to its acquisition by Saint-Gobain, the BPB group's annual accounts closing was March 31. BPB's full-year income statement has therefore been prepared in accordance with IFRS by adding the first quarter of 2005 to its cumulative results for the nine-month period from April 1 to December 31, 2005.

Adjustments to the pro forma consolidated income statement have been calculated based on the assumption that the acquisition was carried out on the first day of the first accounting period presented, i.e., January 1, 2005. All pro forma adjustments relate directly to the acquisition, and only those likely to have a recurring impact on the Group's consolidated financial statements have been included.

Reclassifications

Due to the fact that certain income and expense items in the historical income statements of Saint-Gobain and BPB were classified differently, some of BPB's consolidated income statement items have been reclassified in the pro forma consolidated income statement prepared in accordance with IFRS, in order to bring the presentation into line with that used by the Saint-Gobain Group.

Intragroup transactions

Outstanding balances and transactions between Saint-Gobain and BPB relative to the period presented have been eliminated in the pro forma consolidated income statement. Accordingly, net sales of €344 million achieved by BPB group companies on transactions with Saint-Gobain's Building Distribution sector companies have been eliminated and are presented in a separate column of the pro forma consolidated income statement.

Taxation

The tax impact of pro forma adjustments has been calculated based on the statutory income tax rate applicable for the period presented.

Additional adjustments included to allow a meaningful comparison between the 2005 and 2006 financial information are described in the following notes.

NOTES

TO THE PRO FORMA ADJUSTMENTS

(a) Net sales

Subsidiaries jointly controlled by Saint-Gobain and BPB were proportionately consolidated in the accounts of Saint-Gobain, and were included in the accounts of BPB under the equity method. The full consolidation of these subsidiaries in the pro forma accounts from January 1, 2005 led to an increase in net sales of €29 million.

(b) Operating income

Following the allocation of the cost of the business combination and the related amortizable assets in 2006, an additional depreciation and amortization expense of €17 million was recorded in the 2005 pro forma consolidated income statement.

In addition, a €10 million expense corresponding to the elimination of the Gypsum division's internal margins included in the inventories of the Building Distribution sector, was recorded in 2005 to permit a meaningful comparison between operating income reported for 2005 and 2006.

However, the impact of remeasuring opening inventories in accordance with IFRS 3, which was transferred to cost of sales in December 2005, is not reflected in the pro forma accounts due to its non-recurring nature.

Lastly, the inclusion of BPB's share in the cost of sales reported by subsidiaries jointly controlled by Saint-Gobain and BPB led to an expense of €22 million.

The total impact of pro forma restatements on cost of sales therefore amounts to €49 million.

After taking account of BPB's €3 million share in selling, general and administrative expenses (including research) of the subsidiaries jointly controlled by Saint-Gobain and BPB, the total adjustment to operating income is a reduction of €23 million.

(c) Business income

Non-recurring expenses relating to anti-takeover defense expenditure incurred by BPB during the acquisition, which are included in the BPB group's full-year results in an amount of €38 million, have been eliminated from the pro forma adjustments. In total, and including the restatement of operating income, adjustments to business income amount to a positive €15 million.

(d) Net financial expense

The pro forma adjustments include the interest cost of financing the acquisition of BPB in an amount of €218 million, calculated using identical interest rates to those effectively in force in December 2005 (around 3.7%). After eliminating the financial expenses actually incurred by the Group in December 2005 (€10 million), net financial expense is increased by €208 million.

The impacts on the Saint-Gobain Group's 2006 income statement of the unwinding during the year of certain financial instruments contracted by BPB prior to the acquisition have not been restated in the pro forma accounts as they are not considered material.

(e) Income taxes

A tax effect was included in the pro forma adjustments, with the exception of restatements relating to non tax-deductible expenses such as the anti-takeover defense expenditure.

The tax credit shown in the pro forma accounts under acquisition-related financial expenses amounts to €75 million.

Statutory Auditors' report on the pro forma 2005 consolidated income statement

Year ended December 31, 2006

To the Board of Directors,

In our capacity as Statutory Auditors and in accordance with European Commission Regulation no. 809/2004, we report to you on Compagnie de Saint-Gobain's pro forma 2005 consolidated income statement, as included in its Registration Document of March 30, 2007.

This unaudited pro forma financial information was prepared with the sole purpose of illustrating the impact that the acquisition of BPB could have had on Compagnie de Saint-Gobain's consolidated income statement at December 31, 2005 if the transaction had taken effect on January 1, 2005. By its very nature, the information describes a hypothetical situation and is not necessarily representative of the financial situation or performances that may have been recorded if the transaction or event had taken place prior to the date on which it actually occurred.

This pro forma information was prepared under the responsibility of the Board of Directors, in accordance with the provisions of European Commission Regulation no. 809/2004 and with the recommendations of the CESR concerning pro forma financial information.

Our responsibility, based on our audit and under the requirements of Annex II point 7 of European Commission Regulation no. 809/2004, is to express an opinion on whether this pro forma financial information has been adequately prepared.

We performed our procedures in accordance with professional standards applicable in France. These procedures, which do not include examining the financial information underlying the preparation of the pro forma financial information, mainly consisted in verifying that the assumptions on which the pro forma information was based are in accordance with the source documents, examining the evidence supporting the pro forma restatements and meeting with the Compagnie de Saint-Gobain management responsible for pro forma financial information to gather the information and explanations that we deemed necessary.

In our opinion:

- The pro forma financial information was based on adequate assumptions;
- These assumptions are consistent with the accounting policies applied by the Issuer.

This report is issued solely for Registration Document-filing purposes or, where appropriate, for the purpose of a public offer in France or other European Union countries in which a prospectus including the Registration Document approved by the Autorité des Marchés Financiers would be required. This report may not be used in any other context.

Neuilly-sur-Seine and Paris La Défense, March 22, 2007

PricewaterhouseCoopers Audit

KPMG Audit
Département de KPMG S.A.

Pierre Coll

Rémi Didier

Jean Gatinaud

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

(1) As described in the notes to the pro forma financial statements.

Compagnie de Saint-Gobain
Parent company financial statements

CONTENTS

Statement of income

(in € thousands)		2006	2005	2004
Operating revenue				
Royalties		112,190	102,715	92,008
Other services		68,396	69,964	66,402
Net sales		**180,586**	**172,680**	**158,410**
Write-backs of depreciation, amortization, impairment and provisions		16,057		
Expense transfers		2,358	1,483	885
Other operating income		93	150	83
	TOTAL I	**199,094**	**174,313**	**159,378**
Operating expense				
Other purchases and external charges		(113,665)	(118,129)	(99,946)
Taxes other than on income		(5,046)	(4,906)	(4,278)
Wages and salaries		(36,648)	(37,799)	(34,820)
Payroll taxes		(17,046)	(17,377)	(16,680)
Depreciation, amortization, impairment and provisions		(10,140)	(4,919)	(3,864)
Other operating expense		(2,607)	(2,148)	(2,321)
	TOTAL II	**(185,152)**	**(185,278)**	**(161,909)**
OPERATING INCOME/(LOSS)		**13,942**	**(10,964)**	**(2,531)**
Share in profits/(losses) of joint ventures				
Gains	**TOTAL III**			**46**
Losses	**TOTAL IV**			**(1)**
Financial income				
Income from investments		457,288	579,639	720,263
Income from loans and other investments		532,540	301,036	315,577
Income from other non-current investment securities		46	43	73
Other interest income		114,187	140,284	127,238
Write-backs of impairment, provisions and expense transfers		81,639	24,328	16,394
Foreign exchange gains		138,458	97,679	118,096
Net income from sales of marketable securities			11,432	18,105
	TOTAL V	**1,324,158**	**1,154,441**	**1,315,746**
Financial expense				
Allowances for impairment in value of investments		(79,720)	(83,888)	(27,779)
Interest expense		(628,619)	(489,592)	(485,708)
Foreign exchange losses		(146,390)	(92,350)	(117,471)
Net expense from sales of marketable securities				
	TOTAL VI	**(854,729)**	**(665,830)**	**(630,958)**
Net financial income		**469,429**	**488,611**	**684,788**
INCOME BEFORE TAX AND EXCEPTIONAL ITEMS		**483,371**	**477,646**	**682,301**

(in € thousands)		**2006**	**2005**	**2004**
Exceptional income				
On revenue transactions		212	1,055	19,892
On capital transactions		3,105,209	3,034,334	162,214
Write-backs of depreciation, amortization, impairment and provisions		323,020	14,003	16,634
	TOTAL VII	**3,428,441**	**3,049,392**	**198,740**
Exceptional expense				
On revenue transactions		(7,717)	(41,746)	(20,114)
On capital transactions		(3,133,030)	(3,015,767)	(139,785)
Depreciation, amortization, impairment and provisions		(71,872)	(341)	(529)
	TOTAL VIII	**(3,212,619)**	**(3,057,854)**	**(160,428)**
Net exceptional income/(loss)		**215,822**	**(8,462)**	**38,312**
Income taxes	**TOTAL IX**	**149,994**	**55,945**	**45,403**
Total income		**5,101,687**	**4,434,091**	**1,719,313**
Total expense		**(4,252,500)**	**(3,908,961)**	**(953,296)**
NET INCOME		**849,187**	**525,130**	**766,017**

Balance sheet

at December 31

ASSETS *(in € thousands)*		2006 GROSS	2006 Depreciation, amortization, impairment and provisions	2006 NET	**2005**	**2004**
NON-CURRENT ASSETS						
INTANGIBLE ASSETS (note 5)						
Goodwill(1)		567	(522)	45	68	91
Other intangible assets		49,258	(38,413)	10,845	14,926	5,263
In progress		4,380		4,380	1,806	10,947
PROPERTY AND EQUIPMENT (note 6)						
Land		620		620	620	620
Buildings		487	(276)	211	221	231
Other		10,200	(8,083)	2,117	2,193	2,413
In progress		10,426		10,426	2,727	0
FINANCIAL INVESTMENTS(2) (note 7)						
Investments in subsidiaries and affiliates		7,720,610	(1,864)	7,718,746	7,718,834	7,718,765
Investment-related receivables		11,439,395		11,439,395	10,331,139	4,338,465
Other investment securities		318,072	(91,158)	226,914	306,071	222,019
Loans		**639,158**		**639,158**	**1,477,635**	**1,108,263**
Other financial investments		604		604	613	535
	TOTAL I	20,193,777	(140,316)	20,053,461	19,856,853	13,407,612
CURRENT ASSETS (note 8)						
Other receivables(3)		2,688,401		2,688,401	94,739	112,107
Marketable securities				0	0	1,211,659
Cash and cash equivalents		11,485		11,485	2,468,415	2,287,959
Accruals						
Prepayments(3)		**3,630**		**3,630**	**3,355**	**1,543**
	TOTAL II	**2,703,516**		**2,703,516**	**2,566,509**	**3,613,268**
Deferred charges	**TOTAL III**	**29,996**		**29,996**	**27,528**	**5,543**
Translation adjustments - Assets	**TOTAL IV**	**283**		**283**	**-**	**-**
TOTAL ASSETS		**22,927,572**	**(140,316)**	**22,787,256**	**22,450 890**	**17,026,423**
(1) Including leasehold rights		-	-	-	-	-
(2) Of which due within one year				2,185,787	3,800,976	3,979,151
(3) Of which due in over one year				11,044	8,550	4,827

LIABILITIES AND SHAREHOLDERS' EQUITY

(in € thousands)

		2006	2005	2004
SHAREHOLDERS' EQUITY (note 9)				
Capital stock		1,473,679	1,381,025	1,363,952
Additional paid-in capital		3,167,609	2,122,870	1,986,291
Reserve for revaluation of assets		56,242	56,262	56,262
Reserves:				
Legal reserve[(a)]		147,368	138,103	136,395
Untaxed reserves		2,617,757	2,617,757	2,831,482
Other reserves		301,428	301,428	106,415
Unappropriated retained earnings		1,278,081	1,276,093	921,176
Net income for the year		849,187	525,130	766,017
Untaxed provisions (note 11)		6,439	6,442	6,444
	TOTAL I	**9,897,790**	**8,425,109**	**8,174,434**
OTHER EQUITY (note 10)				
Non-voting participating securities	**TOTAL I BIS**	**170,035**	**170,035**	**170,035**
PROVISIONS (note 11)				
Provisions for contingencies		79,842	366,443	358,012
Provisions for charges		56,242	11,257	10,976
	TOTAL II	**136,084**	**377,700**	**368,988**
DEBT AND PAYABLES[(1)] (note 12)				
Other bonds		3,206,394	976,815	976,811
Bank borrowings[(2)]		3,529,223	5,928,156	700,790
Other borrowings		5,695,018	6,495,002	6,584,479
Taxes and social charges payable		88,192	63,018	36,091
Other payables and accrued expenses		63,853	14,250	14,795
Accruals				
Deferred income				
	TOTAL III	**12,582,680**	**13,477,241**	**8,312,966**
TRANSLATION ADJUSTMENTS - LIABILITIES	**TOTAL IV**	**667**	**804**	**-**
TOTAL		**22,787,256**	**22,450,890**	**17,026,423**
(a) Of which reserve for long-term capital gains		14,225	14,225	14,225
(1) Of which due in over one year		9,220,071	10,054,060	5,055,899
Of which due within one year		3,362,609	3,423,181	3,257,067
(2) Of which short-term bank loans and overdrafts		273,498	314,389	382,540

Statement of cash flows

(in € thousands)	**2006**	**2005**	**2004**
Net income	**849,187**	**525,130**	**766 017**
Depreciation and amortization	15,383	7,277	8,856
Changes in provisions	(274,529)	43,539	(9,713)
Gains and losses on sales of non-current assets, net	27,821	(18,567)	(35,287)
Cash flows from operations	**617,862**	**557,379**	**729,873**
(Increase) decrease in other receivables	12,238	(8,787)	(5,057)
(Increase) in receivables related to the reclassification of subsidiaries' current accounts[(1)]	(2 625,046)	-	-
Increase (decrease) in taxes and social charges payable	25,174	26,927	23,885
Increase (decrease) in other payables	56,332	(545)	(3,544)
Net change in working capital	**(2,531,302)**	**17,595**	**15,284**
Cash flows from operating activities	**(1,913,440)**	**574,974**	**745,157**
Acquisitions of intangible assets	(3,680)	(4,795)	(9,725)
Purchases of property and equipment	(8,169)	(3,122)	(530)
Disposals of property and equipment and intangible assets	63	54	100
Acquisition of investments in subsidiaries and affiliates and other investment securities	(2,968,279)	(2,932,008)	(15)
Purchases of treasury stock	(109,449)	(209,563)	(280,036)
Disposals of investments in subsidiaries and affiliates and other investment securities	3,105,146	3,034,280	162,113
(Increase) decrease in investment-related receivables	(1,108,256)	(5,992,674)	451,716
(Increase) decrease in long-term loans	838,477	(369,372)	541,243
(Increase) decrease in other financial investments	9	(78)	568
Cash flows from (used in) investing activities/divestments	**(254,138)**	**(6,477,278)**	**865,434**
Issues of capital stock	1,146,658	155,359	135,906
Dividends paid	(459,483)	(429,812)	(387,384)
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	(6,769)	6,857	(55)
Increase (decrease) in short- and long-term debt	(712,799)	4,449,146	(312,180)
Increase (decrease) in bank overdrafts and other short-term debt	(256,539)	688,747	(217,330)
Decrease (increase) in marketable securities	-	1,211,659	3,059
Increase (decrease) in translation differences	(420)	804	-
Cash flows from (used in) financing activities	**(289,352)**	**6,082,760**	**(1,003,971)**
Increase (decrease) in cash and cash equivalents	**(2,456,930)**	**180,456**	**606,620**
Cash and cash equivalents at beginning of year	2,468,415	2,287,959	1,681,339
Cash and cash equivalents at end of year[(1)]	11,485	2,468,415	2,287,959
Analysis of cash and cash equivalents at December 31			
Cash at banks	11,477	186,584	196,603
Cash on hand	8	12	4
Cash advances to subsidiaries[(1)]	0	2,281,819	2,091,352
Total	11,485	2,468,415	2,287,959

(1) Current accounts in debit of subsidiaries, which were previously included in cash and cash equivalents, are included in other receivables from December 31, 2006. At December 31, 2006 the amount reclassified in this respect came to €2,625,046,000.

Notes to the parent company financial statements

The financial statements cover the twelve-month period from January 1 to December 31, 2006.

The following notes form an integral part of the annual financial statements.

These financial statements were approved by the Board of Directors on March 22, 2007.

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.

In accordance with CNC Recommendation 03-R01, Compagnie de Saint-Gobain has decided to record the full amount of its pension and other post-employment benefit obligations for the first time in 2006. The effect of this change in accounting policy on opening shareholders' equity is €63,659 thousand and the positive effect on income for the year is €13,241 thousand, resulting in an additional obligation of €50,418 thousand at December 31, 2006. In light of the existing provision of €5,546 thousand, the total balance sheet provision comes to €55,964 thousand. As this provision is not tax deductible, there is no tax effect.

The Group's obligations with respect to pensions and other post-employment benefits are measured using the projected unit credit method based on end-of-career salaries and the rights vested at the measurement date.

The full amount of any actuarial gains and losses arising in the year in relation to defined benefit plans are recognized immediately in the income statement. This treatment replaces the "corridor" method and is designed to enhance the information provided to users of financial statements. As actuarial gains and losses are recorded in the period in which they arise, the provision recorded in liabilities approximates the present value of the obligation in respect of post-employment benefits.

The presentation of the financial statements has also been modified. From December 31, 2006 the current accounts in debit held with subsidiaries are recorded in "Other receivables" whereas they were previously recorded under cash and cash equivalents.

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), 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

Financial investments, investments in subsidiaries and affiliates and other investment securities

The gross value of these items represents cost excluding incidental expenses.

A provision for impairment in value is recorded when their fair value falls below gross value. Investment securities are carried at their economic value taking into account various criteria including the share of equity they represent and the consolidated contribution value. Specific procedures can be performed on a case-by-case basis to calculate the net present value of post-tax future cash flows excluding interest.

At December 31 2006, 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 or market. At December 31, 2006 and 2005, there were 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 real 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 risk exclusively concerns investments held for strategic purposes.

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 for accounting purposes are recognized in the income statement at market value.

To cover its subsidiaries' risk regarding raw materials, Compagnie de Saint-Gobain uses mainly commodity swaps (fuel and gas). Financial income and expenses related to commodity swaps are recognized on a symmetrical basis with the expenses and income on the hedged items.

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.

Compagnie de Saint-Gobain has not sought to renew the consolidated tax regime for the accounting period starting January 1, 2007. Accordingly, the integrated tax regime will be the only regime in force as from said date.

NOTE 2

NET FINANCIAL INCOME

Net financial income decreased by €19 million, due to the combined impact of:

– a €122.3 million fall in income from investments in subsidiaries and affiliates;
– a €231.5 million increase in income from loans and investments;
– a €165.1 million decrease in other interest income (net of interest expense);
– a €13.2 million rise in net foreign net exchange expenses;
– a €61.5 million rise in write-backs (net of additions) of depreciation, amortization and provisions for financial items; including €29 million relating to write-backs of provisions for impairment and provisions for contingencies and charges relating to treasury stock;
– a €11.4 million fall in net income from sales of marketable securities.

NOTE 3

EXCEPTIONAL ITEMS

The Company reported exceptional income of €216 million. This is mainly due to the following items:

- €251.9 million in write-backs (net of additions) of provisions for taxes;
- 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 successful tender offer:

Sale price of SG Aldwych shares:	€2,979.4 million
Net book value of shares:	€2,968.3 million
Net gain:	€11.1 million

- the capital loss on the sale of treasury shares upon the exercise of stock options in an amount of €39 million. This loss was covered by a write-back of the provision for impairment of securities recorded under net financial income;
- exceptional reorganization and restructuring expenses of €6.5 million;
- exceptional costs related to the acquisition of shares (€1.2 million).

NOTE 4

INCOME TAX

The net tax benefit amounted to €150 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 €181 million, breaking down as follows:
- a €170 million tax benefit for 2006;
- an €11 million tax benefit due to an adjustment to accrued income at December 31, 2006 in respect of fiscal year 2005;
- a €46 million expense related to tax assessments.

The tax benefit of our German branch came to €15.3 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	499	23		522
Other intangible assets	48,153	1,106	(1)	49,258	33,227	5,187	(1)	38,413
In progress	1,806	2,574		4,380	-			-
TOTAL	**50,526**	**3,680**	**(1)**	**54,205**	**33,726**	**5,210**	**(1)**	**38,935**

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	266	10		276
Other	10,050	470	(320)	10,200	7,857	489	(263)	8,083
In progress	2,727	7,697		10,424				-
Prepayments	-	2		2	-			-
TOTAL	**13,884**	**8,169**	**(320)**	**21,733**	**8,123**	**499**	**(263)**	**8,359**

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	7,720,595	2,968,279	(2,968,264)	7,720,610
Investment-related receivables	10,331,139	31,935,725	(30,827,469)	11,439,395
Other investment securities	373,333	109,449	(164,710)	318,072
Loans	1,477,635	22,092,280	(22,930,757)	639,158
Other financial investments	613	317	(326)	604
TOTAL	**19,903,315**	**57,106,050**	**(56,891,526)**	**20,117,839**

Changes in investments in subsidiaries and affiliates

(in € thousands)	Increase	Decrease
Subscription to capital increases of Saint-Gobain Aldwych	2,968,260	
Disposal of Saint-Gobain Aldwych shares to S.G.M.C.		(2,968,260)
Purchase of SG Isover G+H shares (German branch)	15	
Purchase of SG Vertex shares (German branch)	4	
Liquidation of Acilor		(4)
TOTAL	**2,968,279**	**(2,968,264)**

Other financial investments

(in € thousands)	Increase	Decrease
Purchases of treasury shares on the market	109,449	
Sales of treasury shares		(164,632)
Other sales of shares		(78)
TOTAL	**109,449**	**(164,710)**

Créances de l'actif immobilisé

! PAS DE TRADUCTION

(in € thousands)	Gross	Maturity: Within one year	Over one year
Investment-related receivables	11,439,395	1,550,174	9,889,221
Loans(1)	639,158	635,613	3,545
Other	604	-	604
TOTAL	**12,079,157**	**2,185,787**	**9,893,370**
(1) Loans granted during the year	22,092,280		
Loans repaid during the year	22,930,757		

Changes in treasury stock

	Number of shares held	Gross (in € thousands)	Net
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**
- Acquisitions in 2006	1,976,708	109,449	109,449
- Disposals in 2006	(3,620,201)	(164,632)	(125,582)
- Cancellations in 2006	-	-	-
- Adjustments to provision for impairment in value	-	-	(62,937)
At December 31, 2006	**6,739,668**	**317,674**	**226,579**

NOTE 8

CURRENT ASSETS

At December 31, 2006, current accounts in debit held with subsidiaries were reclassified under "Other receivables" for €2,625,046 thousand. They were previously included in cash and cash equivalents for €2,281,819 thousand at December 31, 2005 and €2,091,352 thousand at December 31, 2004.

Maturity of receivables

(in € thousands)	Gross	Maturity Within one year	Over one year
Other receivables	2,688,401	2,678,075	10,326
Prepayments	3,630	2,912	718
TOTAL	**2,692,031**	**2,680,987**	**11,044**

Analysis of "Other receivables"

(in € thousands)	2006	2005	2004
Current accounts held with subsidiaries	2,625,046		
Accounts receivable - Group	32,133	28,753	42,438
Income tax	14,260	47,166	34,529
Withholding tax	167	192	22,469
Dividends receivable - Group	10,361	8,153	4,248
Other	6,434	10,475	8,423
TOTAL	**2,688,401**	**94,739**	**112,107**

NOTE 9

SHAREHOLDERS' EQUITY

Changes in shareholders' equity

(in € thousands)	Amount
SHAREHOLDERS' EQUITY BEFORE APPROPRIATION OF NET INCOME FOR 2005	**8,425,109**
Payment in 2006 of the dividend relating to 2005	(459,483)
Share issue further to the conversion of Océane bonds	914,635
Employee share issue (capital and premiums after deduction of expenses)	232,023
Other changes - revaluation reserve and untaxed provisions	(22)
Net income for 2006	849,187
Cancellation of shares	None
Impact of the change in accounting policy regarding pensions and other post-employment benefit obligations on retained earnings	(63,659)
SHAREHOLDERS' EQUITY BEFORE APPROPRIATION OF NET INCOME FOR 2006	**9,897,790**

Movements in capital stock

Par value of shares at beginning of year: €4 Par value of shares at end of year: €4	Number of shares	Amounts *(in € thousands)*
CAPITAL STOCK AT BEGINNING OF YEAR	345,256,270	1,381,025
Shares issued under the Group Savings Plan	5,399,291	21,597
Shares issued in connection with the exercise of stock options	342,550	1,370
Conversion of Océane bonds	17,421,612	69,687
Cancellation of shares	-	-
CAPITAL STOCK AT YEAR-END	**368,419,723**	**1,473,679**

Capital stock increased by €92,654 thousand, the legal reserve by €9,265 thousand and the **share issue premium** by €1,044,739 thousand as a result of subscriptions to (i) 5,399,291 shares under the Group Savings Plan; (ii) 342,550 shares under stock option plans; and (iii) 17,421,612 shares in connection with the conversion of Océane bonds.

The following changes took place in **retained earnings** during the year:

- Balance at December 31, 2005: €1,276,093 thousand

Changes resulting from the third resolution of the AGM of June 8, 2006 (income appropriation):

- Net income for 2005: €525,130 thousand
- Final dividend taking into account the actual number of treasury shares held: €(459,483) thousand
- Impact of the change in accounting policy relating to pensions and other post-employment benefit obligations: €(63,659) thousand
  - Balance at December 31, 2006: €1,278,081 thousand

Stock purchase and stock subscription plans

Compagnie de Saint-Gobain has stock option plans available to certain 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 date of grant. Discounts of 10% and 5% on this average price were granted in 1997 and 1998, respectively. Such discounts were discontinued in 1999.

Options vest over a period of 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. Since 2003, the plans have 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 2004 and 2005 and 2006 are detailed below:

	€4 par value shares	Average exercise price (in €)
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**
Options granted	4,025,800	58.08
Options exercised	(3,974,551)	34.79
Options forfeited	(241,400)	40.26
Options outstanding at December 31, 2006	**21,547,968**	**42.38**

At December 31, 2006, 8,014,018 options were exercisable at an average exercise price of €34.01.

At December 31, 2006, 2,281,590 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, 2006:

	Options exercisable			Options not exercisable		Total options outstanding	Type of options
Grant date	Exercise price (in €)	Number of options	Weighted average remaining contractual life (in months)	Exercise price (in €)	Number of options	Number of options	
1999	40.63	641,854	35			641,854	Purchase
2000	37.71	1,382,047	47			1,382,047	Purchase
2001	40.22	2,213,477	59			2,213,477	Purchase
2002	23.53	2,420,890	71			2,420,890	Purchase
2003	35.67	1,355,750	83	35.67	1,951,700	3,307,450	Subscription
2004	43.56	0	95	43.56	3,795,400	3,795,400	Subscription
2005	45.71	0	107	45.71	3,761,050	3,761,050	Subscription
2006	58.08	0	119	58.08	4,025,800	4,025,800	Subscription
TOTAL	**-**	**8,014,018**	**-**	**-**	**13,533,950**	**21,547,968**	**-**

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 meeting of the Board of Directors at which the plan is approved.

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 5,399,291; 4,267,470; and 4,099,192 shares with a par value of €4 to employees in 2006, 2005 and 2004 respectively, at an average price per share of €40.84 in 2006, €36.48 in 2005 and €31.41 in 2004.

NOTE 10

OTHER EQUITY

Other equity (€170 million) corresponds to 684,399 non-voting participating securities in French francs and ecus issued between 1983 and 1988, which were converted into euros in 1999.

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 in 2004.

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	15		(3)			12
	6,442	**-**	**(3)**	**-**	**-**	**6,439**
PROVISIONS FOR CONTINGENCIES						
Tax liabilities	323,000	71,094		(323,000)	7,144	78,238
Stock options	16,048		(16,048)			-
Other	27,395	874	(19,808)	-	(6,857)	1,604
	366,443	**71,968**	**(35,856)**	**(323,000)**	**287**	**79,842**
PROVISIONS FOR CHARGES						
Pensions and post-employment benefit obligations	10,978	4,432	(16,049)		56,603	55,964
Other charges	279	7	(8)	-	-	278
	11,257	**4,439**	**(16,057)**	**-**	**56,603**	**56,242**
PROVISIONS FOR IMPAIRMENT IN VALUE						
On investments	1,761	87	(4)		20	1,864
On other securities	67,261	62,947	(39,050)			91,158
	69,022	**63,034**	**(39,054)**	**-**	**20**	**93,022**

Pensions and other post-employment benefit obligations were recorded in full for the first time in the parent company financial statements in 2006, in accordance with the rules and methods set out in Note 1. In previous years, these provisions were partially recognized for the German branch, with the balance disclosed in off-balance sheet commitments.

The discount rate used was 4.75% in 2006 versus 4.25% in 2005.

NOTE 12

DEBT AND PAYABLES

Total debt and payables decreased by €894 million to €12,583 million, mainly reflecting a decrease in debt (€969 million), an increase in taxes and social charges payable (€25 million) and an increase in other payables (€50 million).

Maturities of debt and payables

(in € thousands)	Gross	Maturity: Within one year	Maturity: Over one year
Bonds[1]	3,206,394	80,352	3,126,042
Bank borrowings[1][2]	3,529,223	514,223	3,015,000
Other short- and long-term debt[1][3]	5,695,018	2,615,989	3,079,029
Sub-total	12,430,635	3,210,564	9,220,071
Taxes and other social charges payable	88,192	88,192	-
Other payables[3]	63,853	63,853	-
Deferred income	-	-	-
TOTAL DEBT AND PAYABLES[4]	12,582,680	3,362,609	9,220,071
(1) Issued during the year	3,811,501		
Repaid during the year	4,780,839		
(2) Of which:			
- two years or less at inception	291,488		
- over two years at inception	3,237,735		
(3) Of which due to partners	NONE		
(4) Of which debt due in over 5 years	2,104,988		

Long-term and short-term debt:

(in € thousands)	2006	2005	2004
LONG-TERM AND SHORT-TERM DEBT			
Long-term portion of debt			
Due between January 1 and December 31:			
2006		-	447,551
2007	-	1,606,332	1,544,251
2008	598,401	2,672,119	587,896
2009	986,250	986,250	974,190
2010	4,426,793	4,277,219	1,467,756
2011	1,100,000	477,346	
2012 and beyond	2,070,869		
Unspecified	34,120	34,185	34,255
Total long-term portion of debt	**9,216,433**	**10,053,451**	**5,055,899**
Current portion of long-term debt	**843,719**	**719,500**	**1,267,905**
TOTAL LONG-TERM DEBT (INCLUDING CURRENT PORTION)	**10,060,152**	**10,772,951**	**6,323,804**
OTHER SHORT-TERM DEBT			
Billets de trésorerie (in euros)	100,000	242,000	-
Billets de trésorerie (in US dollars)			-
Euro Commercial Paper (in euros)	45,000	540,000	415,000
Euro Commercial Paper (in pounds sterling)		-	-
Euro Commercial Paper (in US dollars)		-	-
US Commercial Paper (in US dollars)	75,930	-	-
Borrowings from Group entities	1,866,891	1,521,458	1,131,904
Bank overdrafts and other short-term borrowings	273,498	314,389	382,540
Other	9,164	9,175	8,832
TOTAL OTHER SHORT-TERM DEBT	**2,370,483**	**2,627,022**	**1,938,276**
TOTAL LONG-TERM AND SHORT-TERM DEBT	**12,430,635**	**13,399,973**	**8,262,080**

Long-term and short-term debt can be analyzed as follows by currency:

(in € thousands)	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Euro	**8,468,068**	6,825,848	4,544,367
US dollars	**426,850**	1,010,007	827,805
Pounds sterling	**1,128,673**	2,902,365	880,238
Czech koruna	**36,561**	34,731	65,893
Norwegian krone	-	-	5,501
TOTAL	**10,060,152**	**10,772,951**	**6,323,804**

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.

Under the related agreements, the bonds could be redeemed in full on January 1, 2007 in cash at nominal value, i.e. €210 per bond, or they could be repurchased before maturity by Compagnie de Saint-Gobain on the market or in connection with a public buyback offer. The Company could also decide to redeem all outstanding Océane bonds ahead of term, subject to certain conditions including share price thresholds.

Bondholders were entitled to convert and/or exchange each of their bonds for four Compagnie de Saint-Gobain shares up to December 20, 2006.

In this respect, 4,355,403 bonds were converted, leading to the creation of 17,421,612 new shares. The share issue that was carried out on December 31, 2006 resulted in an increase of €914.6 million in shareholders' equity.

Following this capital increase, an additional request to convert 21,100 bonds was submitted within the specified period. This will lead to the creation of 84,400 new shares, to be taken into account during the next share issue. As a result, shareholders' equity will be increased by an additional €4.4 million.

In total, 4,450 bonds were redeemed, representing an amount of €0.9 million.

NOTE 13

INFORMATION CONCERNING RELATED COMPANIES AND INVESTMENTS

	Net amount concerning			Net amount in the balance sheet
(in € thousands)	Related companies	Companies in which Compagnie de Saint-Gobain has a direct holding	Other	
Investments in subsidiaries and affiliates	7,716,912	1,834		7,718,746
Investment-related receivables	11,439,109		286	11,439,395
Other investment securities	226,580	334		226,914
Loans	618,779		20,379	639,158
Other receivables	2,667,530		20,871	2,688,401
Marketable securities				-
Cash and cash equivalents			11,485	11,485
Bonds			3,206,394	3,206,394
Bank borrowings			3,529,223	3,529,223
Other borrowings	5,392,212		302,806	5,695,018
Other payables	12,696		51,157	63,853
Income from investments in subsidiaries and affiliates	457,333	(45)		457,288
Income from loans and other investments	532,053		487	532,540
Other interest income	20,117		94,070	114,187
Interest expense	(240,053)		(388,566)	(628,619)

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	226,580	1.83	6,739,668
Saint-Gobain Cristaleria	Spain	211,220	23.91	3,659,866
Raab Karcher Gmbh	Germany	194,609	100.00	100,000,000
Saint-Gobain Glass Benelux SA	Belgium	160,880	88.69	1,667,698
Saint-Gobain Isover G+H AB	Germany	153,776	99.90	3,196,892
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	120,000,000
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
Saint-Gobain SFM	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		805		
Various non-French companies		3,014		
		7,945,660		
ANALYSIS:				
Investments in subsidiaries and affiliates		7,718,746		
Other investment securities		226,914		
		7,945,660		

NOTE 15

INFORMATION ON DIRECT HOLDINGS OF THE PARENT COMPANY WHERE BOOK VALUE EXCEEDS 1% OF 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	2006 sales	2006 net income/ (loss)	Dividends received by the Company in 2006 (€)
1 - SUBSIDIARIES										(1)
50% or more of the capital held by the Company										
Spafi										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	1,860,637	1,432,274	100.00	2,726,540	2,726,540			1,738	78,558	67,448
Partidis										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	1,193,509	541,552	100.00	2,065,919	2,065,919	1,552,197		13,274	139,049	3,913
S.G. Matériaux de Construction										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	325,221	108,952	100.00	738,712	738,712	6,485,411		8,935	232,649	-
Vertec										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	128,144	358,767	100.00	491,039	491,039			-	195,520	203,268
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			1,358,675	(3,050)	(3,050)
S. G. Glass Benelux SA										
Rue des Glaces Nationales, 169	EUR	EUR						EUR	EUR	
B-5060 Sambreville	70,900	96,798	88.69	160,880	160,880			156,371	(7,257)	-
S. G. Isover G+H AG										
1 Burgermeister-Grünzweig Strasse	EUR	EUR						EUR	EUR	
D-67059 Ludwigshafen	82,000	11,291	99.90	153,776	153,776			360,617	30,845	30,845
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			35,013	(20,618)	(20,618)
International Saint-Gobain										
10, rue Saint-Pierre	CHF	CHF						CHF	CHF	
CH-1700 Fribourg	230,000	113,239	96.50	153,409	153,409			-	140,588	90,084
S.G. Vidros SA										
482, avenida Santa Marina										
Agua Branca	BRL	BRL						BRL	BRL	
05036-903 São Paulo-SP (Brazil)	420,000	452,557	54.46	118,068	118,068			1,126,147	131,549	18,070
São Lourenço Administradora										
482, avenida Santa Marina										
Agua Branca	BRL	BRL						BRL	BRL	
05036-903 São Paulo-SP (Brazil)	175,654	215,187	99.91	109,559	109,559			-	58,624	14,754
S. G. Glass Deutschland GmbH										
Viktoria - Allee 3-5	EUR	EUR						EUR	EUR	
D-52066 Aachen	102,258	82,899	60.00	87,197	86,660			418,668	16,592	3,893

(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.

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	2006 sales	2006 net income/ (loss)	Dividends received by the Company in 2006 (euros)
Saint-Gobain Autoglas GmbH										
Viktoria - Allee 3-5	EUR	EUR						EUR	EUR	
D-52066 Aachen	102,258	19,130	60.00	72,833	72,833			-	(13,763)	(15,604)
Saint-Gobain Schleifmittel-Beteiligungen GmbH										
Viktoria - Allee 3-5	EUR	EUR						EUR	EUR	
D-52066 Aachen	10,226	50,925	100.00	61,151	61,151			-	(2,801)	(2,801)
Saint-Gobain SFM										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	45,750	1,520	100.00	45,735	45,735			-	820	825
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	400,226	23.91	211,220	211,220	65,328		581,329	119,852	24,342
Saint-Gobain Emballage										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	42,069	420,148	20.52	61,553	61,553	46,264		647,444	126,722	29,774
SEPR										
18, avenue d'Alsace	EUR	EUR						EUR	EUR	
92400 Courbevoie	63,361	5,781	25.73	53,310	53,310	104,182		247,796	45,811	4,671
OTHER										
Subsidiaries over 50% owned										
• Total French companies				3,899	3,899	237,784	-			1,853
• Total non-French companies				26,030	24,797	459,179	3,468,467			3,946
Holdings of between 10% and 50%										
• Total French companies				-	-	-	-			-
• Total non-French companies				648	648	-	-			-
Other shares				31,252	31,094	202,173				1,685
Treasury shares				317,674	226,580					
TOTAL				**8,038,682**	**7,945,660**	**9,152,518**	**3,468,467**			**457,298**

(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
Amount	
Guarantees[1]:	3,890,736
Pensions and other post-employment benefits[2]:	-
Other commitments given:	-
Concerning joint ventures	9,036
TOTAL	**3,899,772**
Including:	
(1) Consolidated companies	3,886,083

(2) Pension and post-employment benefit obligations were recorded in full for the first time in the parent company financial statements in 2006. In previous years, these provisions were partially recorded for the German branch, with the balance disclosed in off-balance sheet commitments.

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	563,419
Options purchased	EUR	4,581
Options sold	EUR	4,581
Currency swaps	EUR	1,738,233

Commitments relating to financial instruments concerning **interest rate** risks are as follows:

Interest rate risks:	Amount
(Equivalent amounts in € thousands)	
Swaps - borrowers at fixed rates/variable rate	75,930
Swaps - lenders at fixed rates/variable rate	879,257
Swaps - variable rate/variable rate	-
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	37,965
Caps purchased/(sold), net	-
Commodity swaps - borrowers	37,977
Commodity swaps - lenders	37,977

The face value amount of commitments given and received in the form of early repayment options came to €38 million.

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	13,055
- Charge for the year	1,464
TOTAL	**14,519**
Installments paid:	
- Accumulated at beginning of year	81,293
- Charge during the year	9,336
TOTAL	**90,629**
Installments to be paid:	
- within one year	8,976
- between one and five years	9,748
- beyond five years	-
TOTAL	**18,724**
Residual value:	
- within one year	-
- between one and five years	12,120
- beyond five years	-
TOTAL	**12,120**

NOTE 18

EMPLOYEES

Weighted monthly average number of employees

Excluding the German branch	2006	2005	2004
Managers	170	169	164
Supervisors	59	62	66
Other	7	7	7
TOTAL	**236**	**238**	**237**
Of which fixed-term contracts	5	4	7

Individual right to training

As regards the individual training 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 9,170 hours at December 31, 2006, representing an estimated amount of €174 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 €13.3 million in 2006, €20.4 million in 2005 and €13.8 million in 2004. The gross variable portion included in these remuneration amounts came to €5.4 million in 2006 and 2005, and €5.1 million in 2004.

Accrued liabilities of €1.1 million were recorded at December 31, 2006 in respect of termination indemnities to be paid in 2007.

Attendance fees paid to Directors for 2006 amounted to €0.8 million (2005 and 2004: €0.5 million).

NOTE 19

LITIGATION

There are no material disputes concerning Compagnie de Saint-Gobain. However, we describe below the main disputes involving the Group's subsidiaries:

In France, further lawsuits were filed in 2006 by former employees (or persons claiming through them) of Everite and Saint-Gobain PAM ("the employers") – which in the past had carried on fiber-cement operations – for asbestos-related occupational diseases, with the aim of obtaining supplementary compensation over and above the assumption of occupational diseases compensation by the French Social Security. A total of 597 such lawsuits have been issued against the two companies since 1997.

At the end of 2006, 424 of these 597 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 411 of these 424 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 173 lawsuits outstanding against Everite and Saint-Gobain PAM at December 31, 2006, the merits of 73 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 100 remaining lawsuits, 4 have been dismissed following a claim made to the French Asbestos Victims Compensation Fund (FIVA). At December 31, 2006 the procedures relating to the merits of the other 96 cases were at different stages: 29 are involved in administrative proceedings with the French Social Security authorities, 47 are pending with the Social Security courts, appeals have been issued to the Court of Appeal in 7 cases, 5 have been referred to the Versailles Court of Appeal following a hearing by the Court of Cassation, and rulings have been issued in 8 cases by the Versailles Court of Appeal, with the Social Security authorities in the process of reimbursing Everite.

In addition, 93 suits based on inexcusable fault had been filed by current or former employees of 13 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, 2006, 15 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, the Asbestos Victims Compensation Fund had directly issued suits or taken over proceedings in 5 cases where it had already paid compensation to the employee or former employee concerned.

At that date, 49 lawsuits were settled, including 9 rulings which held the employer liable for "inexcusable fault". However, these did not have any financial impact on the companies concerned.

For the 24 suits outstanding at the end of 2006, 3 were in the investigation stage by the French Social Security authorities, 12 were pending before the Social Security courts and 7 before the Courts of Appeal, and 2 cases had been appealed to the Court of Cassation.

Asbestos-related litigation in the United States

In the United States, several 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 2006

After three years marked by a high number of lawsuits filed against CertainTeed (60,000 in 2001, 67,000 in 2002 and 62,000 in 2003, compared with 19,000 in 2000), new claims filed fell to 18,000 in 2004, and subsequently dropped to 17,000 in 2005 and to some 7,000 in 2006. This decline was felt over the last three years in most states, particularly in those which had seen the greatest number of claims in previous years. The decline reflects changes in local legislation in the different states to introduce stricter admissibility conditions for new claims. As an example, the number of new claims filed in Mississippi dropped from 29,000 in 2003 to 300 in 2005 and some 100 in 2006.

Almost all of the claims against CertainTeed are settled out of court. Approximately 12,000 claims were settled out of court in 2006 (compared with 54,000 in 2003 and 20,000 in 2004 and 2005). In addition, approximately 19,000 claims (around 10,000 in Ohio and some 9,000 in Texas) were transferred to "inactive dockets" further to court rulings in these two states. Taking into account the 100,000 outstanding cases at the end of 2005 and the new cases having arisen during the year, as well as claims settled or placed in inactive dockets, some 76,000 claims were outstanding at December 31, 2006.

The average individual cost of claims formally settled or in the process of a formal settlement over the last 12 months came to around USD 3,000 in 2006, compared to USD 2,100 in 2003, USD 2,900 in 2004 and USD 2,800 in 2005. This trend mainly reflects the lower proportion of settlements relating to mass actions which have decreased significantly since 2004, as described above.

Impact on the Group's results

The Group recorded a €95 million charge in 2006 to cover future developments in relation to these claims. This amount is slightly lower than the €100 million recorded in 2005, the €108 million recorded in 2004, and the €100 million recorded in 2002 and 2003. At December 31, 2006, the Group's total cover for asbestos-related claims against CertainTeed in the United Stated was €342 million (USD 451 million), compared with €358 million at December 31, 2005 (USD 422 million). The coverage is achieved almost entirely through the balance sheet provision, as most available insurance had been used by 2004.

Cash flow impact

Compensation paid in respect of these claims against CertainTeed, (including claims settled prior to 2006 but only paid out in 2006, and those fully resolved and paid in 2006), and compensation paid (net of insurance) by the Group's other businesses in the United States in connection with asbestos-related litigation amounted to €67 million (USD 84 million), compared with €72 million (USD 89 million) in 2005.

Outlook for 2007

If the fall in the number of new claims that has occurred in the past three years continues in 2007, the average individual cost of settlement may rise. This is because mass 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.

On the legislative front, the federal reform bill – which sought to phase out the current system with the creation of an asbestos trust fund – now appears unlikely to progress. However, numerous states continue to consider tort reform measures aimed at introducing stricter admissibility conditions, particularly on medical grounds, and reducing abuses of the system.

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, 2006 and they do not represent a material risk for the companies concerned.

NOTE 20

SUBSEQUENT EVENTS

On July 27, 2006 Saint-Gobain and Owens Corning announced that they were considering combining their respective Reinforcements and Composites businesses. An agreement was signed on February 20, 2007 to create a joint venture 60%-owned by Owens Corning and 40%-owned by Saint-Gobain. After a minimum period of four years, Saint-Gobain has an option to sell, and Owens Corning to purchase, the Group's interest in the joint venture.

This agreement should be finalized during 2007 subject to approval from the competent competition authorities. Meanwhile, the terms of the agreement will be defined, particularly as regards any sale commitments and their impact on the value assigned to each of the businesses transferred to the joint venture.

In 2006, the Group launched a process with the aim of selling its Flasks business (Saint-Gobain Desjonquères and subsidiaries) which is expected to be completed in the first six months of 2007.

In February 2005, the European Commission launched an enquiry into the competitive practices of construction glass and automotive glass operations. The enquiry is still in progress, and a Statement of Objections was served on the construction glass business in March 2007.

Statutory Auditors' report
on the financial statements

Year ended December 31, 2006

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, 2006, 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 law.

These 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.

I - OPINION ON THE 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 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 the management, as well as evaluating the overall financial statements 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, 2006, and of the results of its operations for the year then ended, in accordance with the accounting rules and principles applicable in France.

Without qualifying the opinion expressed above and in accordance with the provisions of Article L. 232-6 of the French Commercial Code *(Code de commerce)*, we wish to draw your attention to the matter set out in Note 1 to the financial statements regarding the change in accounting policy that took place in 2006 with respect to the treatment of provisions for pensions and other post-employment benefits in the financial statements.

II - JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L. 823-9 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:

• Change in accounting policy

In the context of our assessment of the accounting principles applied by your Company, we ensured that the above-mentioned change in accounting policy and the presentation thereof in the financial statements were appropriate.

• 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 ensured that the estimates made by the Company at December 31, 2006 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 law in accordance with professional standards applicable in France.

We have no matters to report regarding:

- 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;
- the fair presentation of the information provided in the management report of the Board of Directors in respect of remuneration granted to certain company officers and any other commitments made in their favor in connection with, or subsequent to, their appointment, termination or change in function.

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 22, 2007

The Statutory Auditors

PricewaterhouseCoopers Audit		KPMG Audit *Département de KPMG S.A.*
Pierre Coll	Rémi Didier	Jean Gatinaud

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking users. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and 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 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)	2006	2005	2004	2003	2002
1 - CAPITAL STOCK AT YEAR-END					
Capital stock	**1,473,679**	1,381,025	1,363,952	1,391,300	1,364,043
Number of common shares outstanding	**368,419,723**	345,256,270	340,988,000	347,824,967	341,010,680
2 - OPERATIONS AND RESULTS FOR THE YEAR					
Sales excluding taxes	**180,586**	172,680	158,410	163,379	156,150
Earnings before tax, depreciation, amortization and provisions	**440,209**	520,002	719,758	430,896	507,093
Income tax	**149,994**	55,945	45,403	69,888	30,396
Net income after tax, depreciation, amortization and provisions	**849,187**	525,130	766,017	513,574	595,916
Dividend distribution	(1) **617,262**	(2) 459,483	(3) 429,812	(4) 387,384	(5) 379,141
3 - EARNINGS PER SHARE (€)					
Earnings per share before tax, depreciation, amortization and provisions	**1.19**	1.51	2.11	1.24	1.49
Earnings per share after tax, depreciation, amortization and provisions	**2.30**	1.52	2.25	1.48	1.75
Net dividend per share	**1.70**	1.36	1.28	1.15	1.13
4 - PERSONNEL[6]					
Average number of employees during the year	**236**	238	237	235	240
Total payroll cost for the year[7]	**26,663**	27,782	25,140	24,991	25,094
Total benefits for the year	**15,339**	15,306	14,274	13,863	13,850

(1) On the basis of 368,419,723 shares (capital stock at December 31, 2006) plus 96,200 shares issued and delivered in January 2007 carrying dividend rights as from January 1, 2006, less 5,420,689 treasury shares held at February 28, 2007, representing 363,095,234 shares.
(2) Reflects a €146 thousand adjustment, due to transactions involving treasury shares between March 1, 2006 and June 21, 2006, when payment of the dividend began (acquisition of 1,105,000 shares and disposal of 997,310 shares).
(3) Reflects a €366 thousand adjustment, due to 285,934 treasury shares sold between March 1, 2005 and June 23, 2005, when payment of the dividend began.
(4) 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.
(5) Reflects a €370 thousand adjustment, due to the 336,000 treasury shares acquired and the 8,300 treasury shares sold between March 20, 2003, the date of the Board meeting approving the financial statements, and June 23, 2003, when payment of the dividend began.
(6) Personnel figures exclude the German branch.
(7) As from 2005, total payroll includes employee profit-sharing (€1,493 thousand in 2005 and €1,852 thousand in 2006).

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: €284.8 million. Employees: 1,005. 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: 3,267.
- Eurokera (50%). Employees: 131. Keraglass (50%). Employees: 97. Production and sale of glass ceramic cooktops.
- Saint-Gobain Sovis: tempered glass for home appliances, industrial and scientific optics, radiation-proof glass. Employees: 148.
- Verrerie de Saint-Just: decorative glass. Employees: 58.
- Saint-Gobain Sully: flat glass for trains and the aeronautics industry. Employees: 461.
- Saint-Gobain Glass Logistics: transport.
- Saint-Gobain Recherche: glass and building materials research center. Employees: 328.

Saint-Gobain Sekurit France: processing for the automobile industry. Sales: €288.7 million.
Employees: 975. 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.

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: €223.9 million. Employees: 954. Holds:

- Savoie Réfractaires: manufactures special refractories. Sales: €49.8 million. Employees: 200.
- Saint-Gobain Cristaux & Détecteurs: manufactures optical crystals and synthetic monocrystals for chemical analysis. Sales: €28.4 million. Employees: 155.
- 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: €18.2 million. Employees: 145.
- Saint-Gobain Matériaux Céramiques: produces seeded gel.
- Saint-Gobain Centre de Recherche et d'Etudes Européennes: ceramics research center. Employees: 217.
- Valoref SA: recycling.
- SG Solcera: manufactures fine ceramics for industrial uses. Sales: €12.5 million. Employees: 109.

Saint-Gobain Performance Plastics Europe: holding company. Holds: SG Performance Plastics Asti, SG Performance Plastics España, SG Performance Plastics Gessil, SG Performance Plastics Verneret, SG Performance Plastics Bampas Sarl: manufactures and sells high-performance plastics. Employees: 421

Saint-Gobain Abrasifs (France): manufactures bonded abrasives, grinding wheels and superabrasives. Sales: €149.2 million. Employees: 881.

Saint-Gobain Vetrotex France: manufactures and sells fiberglass for reinforcements. Sales: €81.5 million. Employees: 360. 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.

Saint-Gobain Matériaux de Construction: holding company. Holds: Saint-Gobain Weber: produces industrial mortars in 26 countries. Sales (including subsidiaries except in Brazil and Turkey): €873.7 million. Employees (including subsidiaries except in Brazil): 3,297.

Saint-Gobain Isover: production and processing of glass wool and rock wool insulation products. Sales: €303.7 million. Employees: 862. Holds:

- Saint-Gobain Eurocoustic: production of rock wool insulation products. Sales: €51 million. Employees: 167.
- Saint-Gobain Ecophon SA: acoustic ceilings. Employees: 26.

Main subsidiaries, by country and delegation

■ Plafométal: metal ceilings. Sales: €37.3 million. Employees: 124.

BPB Placo Ops. Cos.: manufactures and sells plaster, plasterboard, insulation products and ceiling tiles. Sales: €644.6 million. Employees: 1,751.

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: €876.4 million. Employees: 2,827. Holds: Saint-Gobain Seva: industrial equipment, glass molds, fiberglass plates for insulation, door fittings. Sales: €51.9 million. Employees: 361.

Partidis: distribution of building materials. Sales: €8.55 billion. Employees: 36,795. Holds:

■ Point.P: France, Spain, Belgium, Poland. 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 (36 retail outlets in France and 17 in Spain), SG Point.P España. La Plateforme, España. - 1,765 retail outlets (over 1,660 in France, 84 in Spain, 4 in Belgium, 3 in Portugal and 14 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 Emballage: manufactures glass containers (industrial bottles and jars). Sales: €635.2 million. Employees: 1,939. Holds:

■ VOA Verrerie d'Albi: glass containers (bottles). Sales: €79.2 million. Employees: 303.

■ Samin: operates quarries. Employees: 146.

■ Saga Decor (51%): decoration of bottles and jars. Employees: 197.

Saint-Gobain Desjonquères: manufactures small glass bottles used primarily in the perfume and pharmaceutical industries. Sales: €396.3 million. Employees: 1,829. Holds:

■ Saint-Gobain VG Emballage: distribution of glass and plastic containers and fittings. Employees: 72.

■ Verreries de l'Orne: decoration of glass containers. Employees: 341. Holds Verreries de la Somme. Employees: 385.

Spafi: holding company. Holds: SGPPI: holding company.

Vertec: holding company.

GERMANY AND CENTRAL EUROPE

GERMANY

Saint-Gobain Glass Deutschland GmbH: manufacturing and processing of flat glass. Sales: €424.5 million. Employees: 1,053.

Saint-Gobain Deutsche Glas GmbH: a holding company controlling various subsidiaries which distribute and process flat glass for the building industry. Sales (including subsidiaries): €236.9 million. Employees (including subsidiaries) 1,677.

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: €279.7 million. Employees: 1,585. These figures include those of Faba Autoglas Technik Kg: extrusion of laminated and coated flat glass.

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: €364.9 million. Employees: 1,298. Holds: Superglass Dammstoffe GmbH: distribution of insulating materials.

Saint-Gobain Vetrotex Deutschland GmbH: manufactures and sells fiberglass for reinforcements. Sales: €35.6 million. Employees: 227.

Saint-Gobain Vetrotex Reinforcement GmbH: distribution company.

Halbergerhütte GmbH: holding company. Holds: Saint-Gobain Gussrohr KG: ductile cast-iron pipes. Sales: €148.9 million. Employees: 424.

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: €60.9 million. Employees: 336. Norton HTK Vervaltungs and Saint-Gobain Advanced Ceramics Lauf GmbH: manufactures and sells advanced ceramics. Sales: €19.3 million. Employees: 178.

■ Saint-Gobain IndustrieKeramik Düsseldorf: produces refractory products. Sales: €21.5 million. Employees: 98.

■ Saint-Gobain Advanced Ceramics Mönchengladbach: manufactures and sells advanced ceramics. Sales: €13.4 million. Employees: 79.
■ Saint-Gobain IndustrieKeramik Roedental: produces high-performance refractory products. Sales: €61.1 million. Employees: 682.
■ Saint-Gobain Performance Plastics Cologne. Employees: 36.

Saint-Gobain Schleifmittel - Beteiligungen GmbH: Holds:
■ Saint-Gobain Diamond Products GmbH: produces superabrasive tools for the mechanical and stone-cutting industries. Total sales: €15.1 million. Employees: 26.
■ Saint-Gobain Diamantwerkzeuge KG: manufactures and sells industrial superabrasives. Sales: €56.9 million. Employees: 501.
■ Saint-Gobain Abrasives GmbH: manufactures and sells grinding wheels and superabrasives. Sales: €87.6 million. Employees: 413.

Raab Karcher GmbH: distributes building materials in Germany and in eastern Europe. Sales: €2.09 billion (including subsidiaries). Employees: 7,309 (including subsidiaries).

Rigips GmbH: manufactures and sells plaster, plasterboard, insulation products and ceiling tiles. Sales: €245.3 million. Employees: 808.

SG HES GmbH: sale of piping systems for the building industry. Sales: €38.3 million. Employees: 43.

Saint-Gobain Oberland AG (96.7%): company listed on the Frankfurt, Munich and Stuttgart Stock Exchanges. Manufactures glass containers (bottles, industrial jars). Sales: €325.7 million. Employees: 1,476. 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: €25.4 million. Employees: 72.

Saint-Gobain Kipfenberg GmbH: small glass bottles. Sales: €62.7 million. Employees: 206.

AUSTRIA

Eckelt Glas GmbH: flat glass processing. Sales: €58.7 million. Employees: 314.

Saint-Gobain Isover Austria AG: manufactures and sells insulating materials. Sales: €56.8 million. Employees: 220.

Saint-Gobain Hornstein Glastextil GmbH: production of woven glass fabric. Sales: €21.9 million. Employees: 114.

Rigips Austria GmbH: manufactures and sells plaster, plaster board, insulation products and ceiling tiles. Sales: €73.8 million. Employees: 286.

CZECH REPUBLIC

€1 = CZK 28.338

Saint-Gobain Sekurit CR Spol S.R.O.: produces laminated glass for the auto industry. Sales: CZK 1.59 billion. Employees: 535.

Izolas S.R.O.: distribution and processing of flat glass for the building industry. Sales: CZK 392.9 million. Employees: 125.

Saint-Gobain Slevarna S.R.O.: foundry. Sales: CZK 385.1 million. Employees: 170.

Saint-Gobain Trubni Systemy. Sales: CZK 302.5 million. Employees: 25.

Saint-Gobain Orsil: manufactures rock wool insulating materials. Sales: CZK 1.6 billion. Employees: 319.

SG Vertex A/S. Sales: CZK 5.2 billion. Employees: 1,484.

Vetrotex Reinforcement Bohemia: distribution company.

Saint-Gobain Advanced Ceramics S.R.O. Sales: CZK 331.7 million. Employees: 209.

W.A.W. Spol. S.R.O.: distribution of tiles and bathroom fittings. Sales: CZK 547.4 million. Employees: 174.

Riggips CZ: manufactures and sells plaster, plaster board, insulation products and ceiling tiles. Sales: CZK 1.45 billion. Employees: 211.

SLOVAKIA

€1 = SKK 37.21

Nitrasklo A/S and Venisklo Spol S.R.O. : processing and distribution of flat glass for the building industry. Sales: SKK 651.9 million. Employees: 181.

W.A.W. - Spol. S.R.O.: distribution of tiles and bathroom fittings. Sales: SKK 541.1 million. Employees: 137.

Rigips Slovakia: manufactures and sells plaster, plaster board, insulation products and ceiling tiles. Sales: SKK 751 million. Employees: 70.

BENELUX

BELGIUM

Saint-Gobain Glass Benelux SA: manufacturing and processing of flat glass. Sales: €156.8 million. Employes: 530. 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. Employees of subsidiaries: 530.

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: €111.8 million. Employees: 392. Holds: Saint-Gobain Autover Distribution SA. Employees: 109.

Saint-Gobain Abrasives NV. Employees: 27.

Main subsidiaries, by country and delegation

Saint-Gobain Matériaux Céramiques Benelux SA: processing of silicon carbide and corundum for the refractory and abrasives industries. Sales: €22.5 million. Employees: 34.

SG Performance Plastics Gembloux SA, SG Performance Plastics Chaineux SA, SG Performance Plastics Kontich NV: manufactures and sells high-performance plastics. Employees: 201.

BPB Belgium NV: manufactures plaster and plasterboard. Sales: €95.2 million. Employees: 220.

Saint-Gobain Pipe Systems Belgium. Sales: €38.1 million. Employees: 28.

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: €48.1 million. Employees: 134.

NETHERLANDS

Glasfabriek Sas Van Gent BV: manufactures reflecting glass, enameled glass and tempered glass. Sales: €21.1 million. Employees: 128.

Koninklijke Saint-Gobain Glass NV: sale and processing of glass products for the building industry. Sales: €110.8 million. Employees: 434.

Saint-Gobain Autover International BV: distribution of replacement automobile flat glass. Sales: €30.7 million. Employees: 34.

Saint-Gobain Abrasives Nederland: holding company. Holds: Saint-Gobain Abrasives BV: manufactures thin grinding wheels and bonded abrasives. Sales: €110.3 million. Employees: 364.

Saint-Gobain Isover Benelux: production and sale of insulating products. Sales: €81.2 million. Employees: 336. These figures include those of SG Isover Benelux - Belgium.

Saint-Gobain Ecophon BV: production and sale of acoustic ceilings. Employees: 23.

Saint-Gobain Cultilène BV: processes and sells glass wool and rock wool products for hydroponic (soil-less) cultivation. Sales: €24.6 million. Employees: 54.

Raab Karcher Holland: distribution of building materials in the Netherlands. Sales: €498.1 million. Employees: 1,393.

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: €549.8 million. Employees: 1,812. Holds:

- Saint-Gobain Autover: distribution of replacement automobile flat glass.
- Saint-Gobain Wanner: thermal and acoustic insulation. Sales: €63.9 million. Employees: 287.
- Industrias del Cuarzo (Incusa): sand quarry. Employees: 52.
- Procustic SA: processing and distribution of acoustic insulation products.
- Portaglas SL. Sales: €16.2 million. Employees: 74. Holds: Saint-Gobain Glass Solarcontrol SL. Sales: €27.9 million. Employees: 99.

La Veneciana: sale, processing and installation of flat glass products and mirrors. Sales (including subsidiaries): €102.3 million. Employees (including subsidiaries): 554. 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: €67 million. Employees: 331.

Saint-Gobain Abrasivos: produces abrasive grinding wheels. Sales: €47.7 million. Employees: 236.

Saint-Gobain Ceramicas Industriales: manufactures technical ceramics and distributes high-performance plastics. Employees: 75.

Iberplaco: manufactures plasterboard. Sales: €291.2 million. Employees: 857.

Saint-Gobain Canalizacion: ductile cast-iron pipes. Sales: €176.4 million. Employees: 296. Holds: Saniplast: distribution of pipes and accessories. Sales: €54.3 million. Employees: 114.

Saint-Gobain Vicasa SA: manufactures glass containers (bottles, industrial jars and flasks). Sales: €279.1 million. Employees: 1,189. 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: €70.3 million. Employees: 349.
- Vidrieras Canarias (41%). Glass containers. Sales: €21.2 million. Employees: 112.

PORTUGAL

Saint-Gobain Glass Portugal: manufactures and processes flat glass for buildings and home appliances. Sales: €71.5 million. Employees: 138. Holds: Covipor - CIA Vidreira do Norte, Covilis and EVI-Pruducao de Energia: processing of glass products for the building industry. Sales: €41.5 million. Employees: 152.

SGSP Vidro Automovel: flat glass processing for the auto industry. Sales: €61.2 million. Employees: 290. Holds: Autover Lusa (60%): distribution of replacement flat glass parts for the auto industry.

Saint-Gobain Abrasivos Lda: distributes abrasive products. Employees: 35.

Saint-Gobain Mondego: manufactures glass containers (industrial bottles and jars). Sales: €66.3 million. Employees: 241.

UNITED KINGDOM, REPUBLIC OF IRELAND AND SOUTH AFRICA

UNITED KINGDOM

€1 = £0.682

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: £132.5 million. Employees: 1,580. 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. Holds: Vetrotech Saint-Gobain UK.

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: 60.
- 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: £15.4 million. Employees: 170:

Abrasives Plc: holds: Unicorn Abrasives Ltd. and Saint-Gobain Abrasives Ltd. Sales: £58.3 million Employees: 434. Through various subsidiaries, manufactures bonded and coated abrasives as well as superabrasives.

British Plaster Board (Bpb Plc): production of plasterboard, building plaster and other special types of plaster. Sales: £429.3 billion. Employees: 1,639.

Saint-Gobain Plc: holding company. Holds:

- Orchardflint: holding company.
- Saint-Gobain Glass UK Ltd: production and processing of flat glass. Sales: £60.4 million. Employees: 190.
- Saint-Gobain Technical Fabrics UK Ltd.
- Saint-Gobain Insulation UK. Holds: British Gypsum Isover: production and sale of insulation products. Sales: £42.3 million. Employees: 155.

Saint-Gobain Building Distribution Ltd: Distribution of building materials. Sales: £2.28 billion. Employees: 13,828.

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: £133.9 million. Employees: 802. Holds: Stanton Bonna Concrete Ltd (20%): concrete pipes.

REPUBLIC OF IRELAND

Chemfab Holding: processing of coated fabrics (PTFE, silicone) and adhesive tapes. Holds: Chemfab Ireland and SG PPL Ireland. Sales: €19.1 million. Employees: 88.

Glasuld Ireland: production and distribution of insulating products.

Moy-Isover Ltd: production and sale of insulation products. Sales: €21.2 million. Employees: 74.

Gypsum Industries Ltd: produces plaster, plasterboard and ceiling tiles. Sales: €134.8 million. Employees: 254.

JP Corry: distributes building materials.

SOUTH AFRICA

€1 = ZAR 8.520

Saint-Gobain Abrasives Pty: manufactures coated abrasives, superabrasives and grinding wheels. Sales: ZAR 93.8 million. Employees: 175.

Saint-Gobain Pipelines South Africa: manufactures cast-iron parts. Sales: ZAR 165.4 million. Employees: 403.

Tylon: produces industrial mortars.

BPB Gypsum (Pty) Ltd: produces plaster, plasterboard and ceiling tiles. Sales: ZAR 811.1 million. Employees: 387.

Donn Products Pty: produces plasterboard and ceiling tiles. Sales: ZAR 247.2 million. Employees: 95.

ITALY AND GREECE

ITALY

Saint-Gobain Glass Italia: manufacturing and processing of flat glass. Sales: €153.7 million. Employees: 313. Holds:

- Flovetro (50%): manufactures and processes flat glass (float). Sales: €17 million. Employees: 53.
- SGGI Logistica Servizi: road transport.
- Gruppo Fontana: processing and sale of glass. Sales: €56.1 million. Employees: 50.

Main subsidiaries, by country and delegation

- Vetreira Industriale Saint-Gobain (V.I.S.) SRL. Employees: 35.

Saint-Gobain Sekurit Italia: flat glass processing for the auto industry. Sales: €64.4 million. Employees: 237. Holds: SG Autover Italia SRL, SG Sicurglass SRL and Vetro Sud SRL (50%). Overall sales: €56.6 million. Employees: 328.

Saint-Gobain Euroveder Italia: tempered glass for home appliances. Sales: €37 million. Employees: 278.

Saint-Gobain Isover Italia: manufactures insulating materials and sealing products (roofing materials, bonded fiberglass sidings). Sales: €66.6 million. Employees: 180.

Saint-Gobain Vetrotex Italia: manufactures and sells fiberglass for reinforcements. Sales: €154.8 million. Employees: 488.

Saint-Gobain Condotte SpA: ductile cast-iron pipes. Sales: €86.5 million. Employees: 121.

Saint-Gobain Abrasivi SpA: manufactures abrasives grinding wheels. Sales: €98.7 million. Employees: 450.

SEPR Italia: manufactures fused-cast refractory products. Sales: €35.5 million. Employees: 203.

BPB Italia SpA: produces plaster, plasterboard and ceiling tiles. Sales: €152.1 million. Employees: 385.

Saint-Gobain Vetri: manufactures glass containers (industrial bottles and jars). Sales: €438.2 million. Employees: 1,191. These figures include those of Ecoglass: collection and processing of cullet.

POLAND, RUSSIA AND UKRAINE

POLAND

€1 = PLZ 3.895

Saint-Gobain Glass Polska Sp ZOO: manufactures and processes flat glass. Sales: PLZ 433 million. Employees: 279. Holds: Glaspol Sp ZOO: processing and distribution of flat glass for the building industry. Sales: PLZ 202 million. Employees: 523. Hsj Jaroszowiec. Sales: PLZ 84 million. Employees: 281. Aurys Lustra Sp ZOO. Sales: PLZ 25.5 million. Employees: 155. SG Euroveder Polska Sp ZOO. Sales: PLZ 26 million. Employees: 200.

Saint-Gobain Sekurit Hanglas Polska: produces automobile glass. Sales: PLZ 313.3 million. Employees: 1,299.

Saint-Gobain Velimat Polska Sp ZOO: production and distribution of bonded fiberglass. Sales: PLZ 34 million. Employees: 76.

Saint-Gobain Abrasives Sp ZOO: production and distribution of abrasive grinding wheels. Sales: PLZ 207 million. Employees: 910.

Saint-Gobain Isover Polska Sp ZOO: production and distribution of insulating products. Sales: PLZ 281 million. Employees: 291.

SG Dystrybucja Budowlana Sp ZOO: building materials distribution. Sales: PLZ 413 million. Employees: 721.

Cortina: ceramic tile distribution.

Rigips Polska - Stawiany Sp ZOO: produces plaster, plasterboard, insulation products and ceiling tiles. Sales: PLZ 218 million. Employees: 223.

RUSSIA

€1 = RUR 34.109

Kavminsteklo Zao (91.7%): produces glass packaging. Sales: RUR 1.28 billion. Employees: 1,113.

Sitall (98.5%): produces glass packaging. Sales: RUR 1.02 billion. Employees: 1,297.

SG Isover Yegorievsk (99.9%): production and distribution of insulating products. Sales: RUR 3.49 billion. Employees: 375.

Saint-Gobain Vetrotex Steklovolokno (85%) Sales: RUR 775.3 million. Employees: 622.

UKRAINE

€1 = HRN 6.324

Consumers Sklo Zorya (79.7%): production of glass packaging. Sales: HRN 251.1 million. Employees: 803.

SG Isover Zat: distribution of insulating materials. Sales: HRN 93.6 million. Employees: 26.

ROMANIA, BULGARIA AND TURKEY

ROMANIA

€1 = RON 3.524

Saint-Gobain Glass Romania SRL: produces flat glass. Sales: RON 33.8 million. Employees: 214.

Saint-Gobain Isover Romania SRL: produces rock wool products. Sales: RON 28.3 million. Employees: 180.

Rigips Romania SRL: produces plaster and plaster board. Sales: RON 142.1 million. Employees: 246.

TURKEY

€1 = TRY 1.806

Weber Markem: produces industrial mortars. Sales: TYR 44.4 million. Employees: 147.

Izocam (30.6%): produces glass wool and rock wool.

BPB Gypsum Prod & trading Ltd: manufactures and sells plasterboard. Sales: TRY 142.1 million. Employees: 246.

NORDIC COUNTRIES AND BALTIC STATES

DENMARK

€1 = DKK 7.459

Saint-Gobain Glass Nordic A/S: Sales: DKK 24 million. Holds: Scanglas A/S: produces insulating and tempered glass. Sales: DKK 372.8 million. Employees: 337.

Saint-Gobain Isover A/S: production and sale of insulating products. Sales: DKK 492.1 million. Employees: 228.

Saint-Gobain Ecophon Production A/S: manufactures acoustic products.

FINLAND

SG Sekurit Finland Oy: processing of automobile glass. Sales: €12.6 million. Employees: 107.

SG Autover Finland Oy: replacement flat glass. Employees: 11.

Finnglass Oy and Verinvest Oy: processing and distribution of flat glass for the building industry. Employees: 69.

Saint-Gobain Isover Oy: production and distribution of insulating products. Sales: €108 million. Employees: 320.

NORWAY

€1 = NOK 8.047

Brodrene Böckmann A/S: produces insulating glass. Sales: NOK 354 million. Employees: 258.

Scandi-Glass A/S: produces insulating glass. Sales: NOK 69.5 million. Employees: 37.

SI-Glass A/S: produces laminated and tempered glass. Sales: NOK 66.1 million. Employees: 62.

SG Autover Bilglas A/S: distribution of replacement flat glass. Sales: NOK 81.1 million. Employees: 53.

Saint-Gobain Ceramic Materials A/S: manufactures and sells silicon carbide products. Sales: NOK 478.1 million. Employees: 251.

Optimera Gruppen A/S: distribution of building materials in Norway and Sweden. Sales: NOK 4.58 billion. Employees: 1,314.

SWEDEN

€1 = SEK 9.253

Emmaboda Glas AB: produces insulating and tempered glass. Sales: SEK 397.3 million. Employees: 231.

Saint-Gobain Sekurit Scandinavia AB: manufactures tempered and laminated glass for the automobile industry. Sales: SEK 474.7 million. Employees: 200.

Saint-Gobain Abrasives AB: abrasives. Sales: SEK 187.5 million. Employees: 38.

Saint-Gobain Isover AB: production and sale of insulating products. Sales: SEK 920.3 million. Employees: 442.

Saint-Gobain Ecophon AB: production and sale of acoustic ceilings. Sales: SEK 939.5 million. Employees: 382. These figures include those of SG Ecophon Product. A/S - Denmark.

Dahl International AB: distributes bathroom and heating products in Sweden, Norway, Denmark, Finland, Poland, Romania and Estonia. Sales: SEK 17.55 billion. Employees: 4,028.

Optimera Svenska AB: distribution of building materials. Sales: SEK 1.63 billion. Employees: 601.

ESTONIA

Saint-Gobain Sekurit Eesti A/S: manufactures replacement windscreens. Sales: €20.3 million. Employees: 204.

Saint-Gobain Isover Eesti A/S: distribution of insulating materials.Sales: €18.4 million. Employees: 29.

AS Baltiklaas: processing and distribution of flat glass for the building industry. Sales: €12.2 million. Employees: 119.

LATVIA

SIA Saint-Gobain Isover: distribution of insulating materials. Employees: 17.

LITHUANIA

UAB Saint-Gobain Isover: distribution of insulating materials. Employees: 15.

OTHER EUROPEAN COUNTRIES

SWITZERLAND

€1 = CHF 1.573

Vetrotech International AG: production and sale of glass ceramic cooktops. Sales: CHF 48.4 million. Employees: 81.

Temperit AG: distribution and processing of flat glass products for the building industry. Sales: CHF 42.1 million. Employees: 150.

Saint-Gobain Isover SA: production and sale of insulating products. Distribution of fiber reinforcements. Sales: CHF 64.4 million. Employees: 177.

Sanitas Troesch: bathroom and kitchen distribution. Sales: CHF 538.6 million. Employees: 877.

Riggips AG: produces plaster, plasterboard, insulation products and ceiling tiles. Sales: CHF 72 million. Employees: 153.

International Saint-Gobain: holding company.

Main subsidiaries, by country and delegation

UNITED STATES AND CANADA

UNITED STATES

€1 = USD 1.255

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 3.16 billion. Employees: 7,341. 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 767.7 million. Employees: 3,637. 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 1.42 billion. Employees: 5,392. These figures include those of the consolidated subsidiaries.

Saint-Gobain Glass Corporation: holding company. Holds: SG Sekurit USA Inc., HCS Corporation, Sovis North America Inc., Vetrotech Saint-Gobain North America Inc. Total sales: USD 41.8 million. Employees: 144.

Eurokera North America (50%): produces and distributes glass ceramic cooktops. Sales: USD 48.7 million. Employees: 72.

Meyer International Inc. Sales: USD 85.4 million. Employees: 237. These figures include: Meyer Laminates Inc.

BPB USA Inc.: produces and sells plaster, plasterboard and ceiling tiles. Sales: USD 981.5 million. Employees: 1,330.

Saint-Gobain Containers, Inc.: manufactures glass containers (bottles and jars). Sales: USD 1.44 billion. Employees: 4,415.

SGD Manufacturing, Inc.: perfume flasks. Sales: USD 81.8 million. Employees: 390.

CANADA

€1 = CAD 1.424

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 51.9 million. Employees: 191.

Decoustics: acoustic products. Sales: CAD 23.1 million. Employees: 121.

CertainTeed Gypsum Canada, Inc.: produces plasterboard. Sales: CAD 353 million. Employees: 687.

MEXICO, COLOMBIA AND VENEZUELA

COLOMBIA

€1 = COP 2,963.75

Saint-Gobain de Colombia: manufactures flat glass for the automobile and building industries. Sales: COP 83.4 billion. Employees: 238.

PAM Colombia SA: manufactures water supply pipes. Sales: COP 40.1 billion. Employees: 14.

Pabsa: manufactures coated abrasives and grinding wheels. Sales: COP 34.6 billion. Employees: 94.

MEXICO

€1 = MXN 13.690

Saint-Gobain Glass Mexico: manufacture and processing of flat glass. Sales: MXN 1.15 billion. Employees: 295.

Saint-Gobain Sekurit Mexico: manufactures flat glass products for the auto industry. Sales: MXN 955.4 million. Employees: 924.

Saint-Gobain Vetrotex America (Mexico): manufactures and sells fiberglass reinforcements. Sales: MXN 706.8 million. Employees: 387.

Saint-Gobain Technical Fabrics SA de Mexico: produces insect screens. Sales: MXN 171.1 million. Employees: 147.

VENEZUELA

€1 =VEB 2,696.319

Saint-Gobain Abrasivos: manufactures coated abrasives and grinding wheels. Sales: VEB 19.7 billion. Employees: 91.

Saint-Gobain Materiales Ceramicos: produces silicon carbide. Sales: VEB 51.1 billion. Employees: 44.

BRAZIL AND ARGENTINA

ARGENTINA

€1 = ARS 3.881

Vidrieria Argentina (VASA) (49%): manufactures flat glass for the building industry. Sales: ARS 135.5 million. Employees: 142.

Saint-Gobain Isover Argentina: produces fiberglass for insulation and reinforcements. Sales: ARS 65.5 million. Employees: 136.

Saint-Gobain Abrasivos Argentina: production and distribution of bonded abrasives. Sales: ARS 25.8 million. Employees: 31.

Barugel Azulay: distribution de sanitaire carrelage cuisine. Sales: ARS 66.8 million. Employees: 243.

Rayen Cura Saic (60%): manufactures glass containers (bottles). Sales: ARS 169.7 million. Employees: 294.

BRAZIL

€1 = BRL 2.730

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 1.13 billion. Employees: 3,372

Cebrace (50%): manufacturing and processing of flat glass. Sales: BRL 685.2 million. Employees: 717.

Brasilit: manufactures sheets and moldings. Sales: BRL 194.3 million. Employees: 853. Holds:

- Santa Veronica. Holds: Mineraçao Jundu (50%): operates quarries. Employees: 152. Carborundum Holding which holds Saint-Gobain Cerâmicas & Plásticos: manufactures and sells high-temperature insulation fibers and refractory products. Sales: BRL 165.7 million. Employees: 435.
- Saint-Gobain Materiais Cerâmicos: produces silicon carbide. Sales: BRL 149.4 million. Employees: 342.
- Saint-Gobain Weber (Quartzolit): produces tile glues. Sales: BRL 299.1 million. Employees: 636.

Saint-Gobain Canalização: manufactures ductile cast-iron pipes and connectors. Sales: BRL 295.3 million. Employees: 1,232.

Saint-Gobain Abrasivos Ltda: manufactures bonded and coated abrasives. Sales: BRL 392.9 million. Employees: 1,287.

CHILE

€1= CLP 665.990

Inversiones Float Chile Ltda (49%): manufactures and processes flat glass.

Vidrios Lirquen (51%): manufactures and processes flat glass. Sales: CLP 15.8 billion. Employees: 122.

BO Glass Containers SA (51%): manufactures and sells glass containers (bottles).

ASIA-PACIFIC

SOUTH KOREA

€1 = KRW 1,198.05

Hankuk Glass Industries Inc. (80.47%). Company listed on the Seoul Stock Exchange. Production of flat glass. Sales: KRW 253.3 billion. Employees: 776. Holds:

- Hankuk Sekurit Limited: flat glass processing for the auto industry. Sales: KRW 174 billion. Employees: 689.
- Hankuk Processed Glass Inc., Hankuk Lighting Glass, Hankuk Haniso, Hankuk Specialty Glass Product and 60% of Hankuk Specialty Glass. Total sales: KRW 92.2 billion. Employees: 443.

Saint-Gobain Vetrotex Korea Ltd: manufactures and sells fiberglass for reinforcements. Sales KRW 86.3 billion. Employees: 241.

INDONESIA

SG Norton Hamplas (50%). Employees: 198.

SG Winter Diamas (75%). Employees: 236.

JAPAN

€1 = JPY 146.071

Saint-Gobain K.K.: produces superabrasives, technical ceramics, high-performance plastics. Sales: JPY 9.2 billion. Employees: 203.

NSG Vetrotex K.K. (60%): manufactures and sells fiberglass for reinforcements. Sales: JPY 9.7 billion. Employees: 171. Holds: GRP Co., Ltd.: distributes products for the reinforced plastics industry. Sales: JPY 5 billion. Employees: 16.

Saint-Gobain TM K.K. (60%): manufactures high-performance refractory products. Sales: JPY 9.1 billion. Employees: 209.

Saint-Gobain Ceramics Materials KK: (90%) produces ceramic powders and grains. Sales: JPY 4.1 billion. Employees: 35.

SINGAPORE

€1 = SGD 1.994

Saint-Gobain Quartz Pte: manufactures tubes for the semi-conductor industry.

Saint-Gobain Abrasives Singapour: Sales: SGD 36.9 million. Employees: 49.

Main subsidiaries, by country and delegation

THAILAND

€1 = THB 47.570

Saint-Gobain Sekurit Thailand (95%): processing for the automobile industry. Sales: THB 2.30 billion. Employees: 778.

Saint-Gobain Vetrotex Thailand. Sales: THB 480.6 million. Employees: 228.

Saint-Gobain Abrasives Thailand LTD (83.3%). Employees: 107.

Thai Gypsum Products Plc (99.7%): Produces plaster and plasterboard. Sales: THB 2.83 billion. Employees: 436.

AUSTRALIA

€1 = AUD 1.667

Saint-Gobain Abrasives Australia Pty: Sales: AUD 87.5 million. Employees: 248.

CHINA

€1 = CNY 10.007

Beijing SEPR Refractories (87.8%): manufactures fused-cast refractory products. Sales: CNY 305.3 million. Employees: 263.

SG Ceramic Materials China (Lianyungang). Sales: CNY 89.9 million. Employees: 27.

SG Ceramic Materials Mudanjiang Co. Ltd: Sales: CNY 158.4 million. Employees: 284.

Shanghai SEPR Zirconium Products Co. (86%) Sales: CNY 90.4 million. Employees: 29.

SG Abrasives Shangai: produces abrasive grinding wheels. Sales: CNY 380.4 million. Employees: 578.

Hangzhou SG Vetrotex. Sales: CNY 306.8 million. Employees: 348.

Beijing SG Vetrotex Glass Fiber (80%): fiberglass for reinforcements. Sales: CNY 172.8 million. Employees: 211.

SGTF Hongfa Co. Ltd. (80%). Sales: CNY 199.4 million. Employees: 295.

SG Hanglas Safety Shanghai: processing for the automobile industry. Sales: CNY 599 million. Employees: 786.

SG Sekurit Shanghai Co. Ltd: processing for the automobile industry. Sales: CNY 139.5 million. Employees: 127.

Nanjing SG Hanglas (73.5%). Sales: CNY 251.8 million. Employees: 572.

Qingdao SG Hanglas Clfg Co. Ltd (91.2%). Sales: CNY 249.6 million. Employees: 333.

Kunshan Yongxin Glassware Co. Ltd. Sales: CNY 179.6 million. Employees: 354.

Eurokera Guangzhou Co. Ltd (50%): glass ceramic cooktops.

SG Pipelines Co. Ltd: ductile cast iron pipes. Sales: CNY 441.3 million. Employees: 724.

SG Xuzhou Pipelines Co. Ltd (75%). Sales: CNY 728 million. Employees: 449.

SG Foundry Co. Ltd. Employees: 307.

SG Xugang Pipe Cie. Ltd (Xuzhou General Iron And Steel Works): liquid cast iron production. Holds: Ductile Iron Pipe Co. (D.I.P.). Sales: CNY 1.23 billion. Employees: 3,340.

Zhanjiang Saint-Hua-Glass (70%): manufactures glass containers (bottles). Sales: CNY 121.2 million. Employees: 282.

La Maîson (Sgdb China): distribution of a full range of household equipment products. Sales: CNY 106.8 million. Employees: 389.

INDIA

€1 = INR 56.785

Saint-Gobain Glass India Ltd. Sales: INR 7.12 billion. Employees: 689.

Saint-Gobain Sekurit India (85.8%). Company listed on the Mumbai Stock Exchange. Processing for the automobile industry. Sales: INR 694.5 million. Employees: 187.

Grindwell Norton Ltd (India) (51.3%). Company listed on the Mumbai Stock Exchange. Manufactures and sells abrasives and ceramics. Sales: INR 3.74 billion. Employees: 1,389.

Saint-Gobain Vetrotex India Pty Ltd. Sales: INR 1.05 billion. Employees: 312.

SEPR Refractories India Ltd: manufactures fused-cast refractory products. Sales: INR 229.8 million. Employees: 175.

India Gypsum Ltd: produces plaster and plasterboard. Sales: INR 2.03 billion. Employees: 426.

OTHER COUNTRIES

SADIP - Saudi Arabia (20%): produces ductile cast-iron pipes.

Placogips SAE - Egypt: plaster production. Employees: 328.

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 Registration document 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 audit engagement in which they confirm having verified the information regarding the financial position and the accounts contained here within, and having examined the entire Registration Document.

Courbevoie,

March 29, 2006

Jean-Louis Beffa

Chairman and Chief Executive Officer

Table of concordance

In order to make it easier to read the Registration document, the following table of concordance lists the main headings required by Annex 1 of Commission Regulation no. 809/2004 pursuant to the "Prospectus" Directive.

Pursuant to Article 28 of regulation 809-2004 on prospectuses, the following items are included by reference:

- the consolidated financial statements and the parent company financial statements for the year ended December 31, 2005 and the Statutory Auditors' reports on the consolidated financial statements and the parent company financial statements for the same period, and the Group management report, which are contained in the Registration document no. D.06-0184 filed with the Autorité des Marchés Financiers on March 30, 2006.
- the consolidated financial statements and the parent company financial statements for the year ended December 31, 2004 and the Statutory Auditors' reports on the consolidated financial statements and the parent company financial statements for the same period, and the Group management report, which are contained in the Registration document no. D05-0378 filed with the Autorité des Marchés Financiers on April 8, 2005.

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