SAINT-GOBAIN

Half year financial report

Consolidated financial accounts as at June 30, 2011

Operating performance

The second quarter of 2011 confirmed the underlying trends seen in the three months to March 31 (excluding the very positive impact of mild winter weather and the number of working days which boosted volumes in the first quarter). **Organic growth for the Group came in at 4.4%,** with contributions from all of the Group's business sectors and main geographic regions. This performance continued to be powered by vigorous momentum in emerging countries and brisk trading in industrial markets, and **confirms the gradual improvement in businesses linked to the residential construction sector in Europe.** High value-added solutions and especially businesses related to energy efficiency in the Habitat market (Insulation, Reinforced Thermal Insulation Glass, Industrial Mortars, etc.) continued to spearhead the Group's organic growth on residential construction markets in Europe, buoyed by new energy performance standards and particularly Thermal Regulation "RT 2012" in France. The growth push in these sectors continues to be driven by the Group's largest national markets (France, Germany and Scandinavia), with the exception of the UK where sales volumes slowed during the second quarter.
Businesses related to household consumption (Packaging sector: Verallia) continued to perform well.
Barring the renovation segment (Exterior Products), which saw growth pick up pace over the last few months due to severe storms, **construction markets in North America** remained in the doldrums.
With market conditions for the Group improving on the whole and raw material and energy costs soaring, **sales prices** remained a key focus for the Group throughout the first half, **climbing 2.4% over the period, including 2.8% in the second quarter alone** (after 2.0% in the three months to March 31).

Overall in the first six months of 2011, the Group posted 6.7% organic growth (positive volume and price impacts of 4.3% and 2.4%, respectively). However, trading levels were still well below their pre-crisis levels of first-half 2008 (12.6% lower in volume terms).
Bolstered by the cost savings achieved over the last few years, the **Group's operating margin rose sharply, up to 8.2%** from 7.4% in first-half 2010. Each key geographical area contributed to margin growth except North America, where profitability in the comparative first-half 2010 period had been boosted by stockpiling by building materials distributors who are Group customers.

1°) Performance of Group Business Sectors

All business sectors reported robust organic growth in the first half of 2011. Profitability improved in Innovative Materials and Building Distribution, but dipped slightly in Construction Products and Packaging (Verallia), squeezed by the hike in raw material and energy costs. For these two sectors, the acceleration in sales price increases throughout the first half failed to compensate fully for cost inflation.

Innovative Materials continued to enjoy the bullish trading observed in 2010 and once again delivered the Group's best organic growth performance, both in the first half (**up 8.5%**) and in the three months to June 30 (**up 5.5%**). The contribution from the sector's different divisions was roughly equal. Markets related to industrial output and capital spending remained upbeat across all regions, and particularly Asia and emerging countries. Innovative Materials also benefited from an upturn in residential construction markets across Europe during the first half. Combined with a significantly leaner cost base thanks to the

cost savings achieved in the past few years, this drove **further advances in the business sector's operating margin, which rose to 12.5%** from 10.4% in first-half 2010.

- **Flat Glass** reported **8.2% organic growth over the period, including 5.8% in the second quarter**, spurred chiefly by volume advances in Asia and emerging countries as well as Western Europe (France in particular). Volume growth in Western Europe reflects the gradual recovery in residential construction markets across the region. In an attempt to curb the impact of rising raw material and energy costs, sales prices continued to rise over the first half, with increases picking up pace between the first and second quarters. **The operating margin climbed sharply, up to 9.5% of sales** from 7.8% of sales in the same year-ago period.

- **High-Performance Materials (HPM)** delivered a **further 9.3% rise in like-for-like sales (up 5.5% in the second quarter)**. Industrial output and capital spending remained upbeat across all regions, and particularly Western Europe. To keep up with spiraling raw material and energy costs, sales prices were up significantly over the period, with price increases across the sector also picking up pace between the first and second quarters. Although HPM volumes are not as yet back to their pre-crisis levels of first-half 2008, very strong operating leverage sent the **operating margin** well above its record first-half 2008 showing (13.9%), at **16.4% of sales** versus 13.5% of sales in first-half 2010.

Construction Products (CP) like-for-like sales climbed 4.9% over the first half (3.7% in the second quarter), buoyed by the rebound in sales volumes across all divisions except Pipe and Interior Solutions in the US. The **business sector's operating margin edged down to 9.7%** from 10.1% in first-half 2010. This reflects narrower margins in Exterior Solutions, due chiefly to the hike in raw material and energy costs. The upward momentum in sales prices over the six months to June 30 (up 2.8% for the business sector as a whole and 2.7% for Exterior Solutions) failed to fully offset this cost inflation.

- After an excellent first quarter, **Interior Solutions** posted **robust 6.0% organic growth over the first half and more moderate 3.9% growth in the three months to June 30**. The sharp recovery in sales volumes over both periods in most Western European countries (particularly in Insulation), along with ongoing vibrant trading in Asia and emerging countries, more than offset the continuing slowdown in North America. Sales price increases (up 3.0% over the first half and 3.2% in the second quarter) – especially in the Insulation business, helped offset the spike in energy and raw material costs. Volume growth led to **further advances in the operating margin, up to 7.9% versus 6.8%** in first-half 2010.

- **Like-for-like Exterior Solutions sales climbed 4.1%** over the first half and 3.9% in the second quarter. This improvement reflects a very mixed performance from its different divisions. Industrial Mortars delivered double-digit organic growth in the six months to June 30, powered by bullish conditions in Asia and emerging countries, but Pipe volumes were down sharply, hit by austerity measures in most European countries and a decline in export sales. Exterior Products benefited from a sharp upturn in the US renovation market in the second quarter, on the back of severe storms over the past few months. Despite an acceleration in sales price increases in the three months to June 30 (up 3.4% after a 1.8% rise in the first quarter), the **operating margin narrowed to 11.1% from 13.0%** in first-half 2010, squeezed mainly by the sharp downturn in the Pipe business sector and soaring raw material and energy costs.

Building Distribution rebounded strongly over the first half, posting **7.3% organic growth (of which 4.5% in the second quarter)**, spurred by a strong rise in sales volumes in France, Germany, the Netherlands and Scandinavia during the first six months of the year. In contrast, trading was more uneven in the UK and Eastern Europe, and remains very tough in southern Europe. The overall trading upturn, combined with sharp cost reductions over the past few years, led to a **strong rise in the operating margin, up to 3.6% from 2.4%**.

Packaging (Verallia) reported **4.2% organic growth over the first half**, driven by improved conditions in Western Europe and buoyant trading in Latin America. Despite the negative currency impact due mainly to the fall in the US dollar against the euro, **EBITDA climbed to €347 million** from €344 million in the same period in 2010, **in line with Verallia's target for the full year**. This performance reflects Verallia's ability to pass on most of the steep rise in its costs (mainly energy and raw materials) to prices, which gained 2.6%. The EBITDA margin dipped to 19.1% from 19.5% one year earlier, reflecting the time lag before the full impact of the sales price rises kicks in.
Taking the opportunity of the release of Saint-Gobain's first-half results, Verallia's registration document (*document de base*) was updated with the French financial markets authority (AMF) on July 28, 2011.

2°) Analysis by geographic area

As in the first quarter, all of the Group's regions delivered strong organic growth over the six months to June 30, 2011. Profitability improved sharply in Western Europe, Asia and emerging countries, but edged down slightly in North America.

- In **France** and **other Western European countries**, **organic growth** for the first half came in at **6.2% and 6.3%**, respectively (**3.9% and 3.2%, respectively, in the second quarter**). During the second quarter, the rebound observed in businesses related to residential construction over the three months to March 31 continued apace, particularly in Building Distribution and Interior Solutions, despite a slowdown in the UK and persistent difficulties in southern Europe. Businesses related to industrial markets remained buoyant. As a result, the **operating margin climbed sharply** in both France and other Western European countries, **to 7.2% and 6.2%, respectively** (6.2% and 5.1%, respectively, in first-half 2010).

- **North America** reported **3.9% organic growth** over both the first half and the second quarter. This was essentially driven by fresh advances in High-Performance Materials and rising volumes in Exterior Products. The **operating margin** continued to perform very well, despite narrowing to 11.2% (compared to 12.0% in first-half 2010, which had benefited from stockpiling by building materials distributors).

- **Asia and emerging countries** once again delivered **the Group's strongest organic growth performance**, both in the first half and over the second quarter (up **12.4% and 9.7%**, respectively). This strong momentum was seen across all regions, and particularly Eastern Europe. The **operating margin** continued on an upward trend, at **10.1% of sales** versus 9.1% one year earlier.

Analysis of the interim consolidated financial statements for first-half 2011

The interim consolidated financial statements set out below were authorized for issue by the Board of Directors on July 28, 2011:

	H1 2010 €m	H1 2011 €m	% change
Sales and ancillary revenue	**19,529**	**20,875**	**+6.9%**
Operating income	**1,445**	**1,720**	**+19.0%**
EBITDA (op. inc. + operating depreciation/amortization)	**2,220**	**2,479**	**+11.7%**
Non-operating costs	(193)	(150)	-22.3%
Capital gains and losses on disposals, asset write-downs, corporate acquisition fees and earn-out payments	(51)	(114)	+123.5%
Business income	**1,201**	**1,456**	**+21.2%**
Net financial expense	(387)	(298)	-23.0%
Income tax	(279)	(352)	+26.2%
Share in net income of associates	3	4	+33.3%
Income before minority interests	**538**	**810**	**+50.6%**
Minority interests	(37)	(42)	+13.5%
Recurring[1] net income	**580**	**902**	**+55.5%**
Recurring[1] earnings per share[2] (in €)	**1.09**	**1.68**	**+54.1%**
Net income	**501**	**768**	**+53.3%**
Earnings per share[2] (in €)	**0.94**	**1.43**	**+52.1%**
Operating depreciation and amortization	775	759	-2.1%
Cash flow from operations[3]	1,431	1,721	+20.3%
Cash flow from operations excluding capital gains tax[4]	**1,419**	**1,697**	**+19.6%**
Capital expenditure	432	641	+48.4%
Free cash flow (excluding capital gains tax)[4]	**987**	**1,056**	**+7.0%**
Investments in securities	36	182	+405.6%
Net debt	**9,081**	**9,055**	**-0.3%**

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

2 Calculated based on the number of shares outstanding at June 30 (535,334,213 shares in 2011 versus 530,786,373 shares in 2010). Based on the weighted average number of shares outstanding (526,306,335 shares in first-half 2011 versus 509,735,208 shares in first-half 2010), recurring earnings per share comes out at €1.71 (versus €1.14 in first-half 2010), and earnings per share comes out at €1.46 (versus €0.98 in first-half 2010).

3 Excluding material non-recurring provisions.

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

Sales advanced 6.9%. **Exchange rate fluctuations** had a minimal 0.2% positive impact, with gains in Scandinavian currencies and most currencies of the Group's main emerging countries against the euro

almost fully offset by the decline in the US dollar. The impact of **changes in Group structure** was neutral over the period, with the sale of Advanced Ceramics at December 31, 2010 fully offsetting sales contributions from acquisitions over the past 12 months.
Sales therefore climbed 6.7% on both a constant exchange rate basis* and like-for-like (constant exchange rates and Group structure). **Volumes** were up **4.3%**, while **sales prices** gained **2.4%**.

Thanks to sweeping cost cuts over the last three years, **operating income** benefited fully from the growth in sales, surging **19.0%**, or **18.6%** at constant exchange rates*. The **operating margin** therefore improved significantly, **up to 8.2% of sales (11.3% excluding Building Distribution)**, versus 7.4% of sales (10.7% excluding Building Distribution) in first-half 2010.

EBITDA (operating income + operating depreciation and amortization) advanced 11.7%. The consolidated EBITDA margin came in at **11.9%** of sales (16.4% excluding Building Distribution), up from 11.4% (16.2% excluding Building Distribution) in the six months to June 30, 2010.

Non-operating costs declined 22.3% from €193 million in first-half 2010 to €150 million in first-half 2011 on the back of lower restructuring costs. This amount includes a €48.5 million accrual to the provision for asbestos litigation involving CertainTeed in the US (half of the 2010 accrual).

The net balance of capital gains and losses, asset write-downs and corporate acquisition fees was a negative €114 million. This amount comprises €21 million in net gains on asset disposals and €128 million in asset write-downs. Most write-downs relate to restructuring plans and plant closures in progress and chiefly concern certain Building Distribution businesses in Europe (mostly southern Europe) and Construction Products businesses in the US (write-down of property, plant and equipment at mothballed sites where production is no longer considered likely to resume in the short term).

Business income jumped 21.2% to €1,456 million after taking into account the items mentioned above (non-operating costs, capital gains/losses on disposals and asset write-downs).

Net financial expense fell €89 million, or 23.0%, to €298 million from €387 million in the same year-ago period, powered chiefly by the fall in average net debt over the period and the decrease in net interest costs on pensions (higher returns on plan assets). **The average cost of net debt in first-half 2011 came out at 5.6%,** as for full-year 2010.

Income tax was up 26.2%, from €279 million to €352 million, reflecting the rise in pre-tax income. The income tax rate on recurring net income came out at 28% versus 32% in the six months to June 30, 2010.

Recurring net income (excluding capital gains and losses, exceptional asset write-downs and material non-recurring provisions) amounted to **€902 million**, soaring **55.5% year-on-year.** Based on the number of shares outstanding at June 30, 2011 (535,334,213 shares versus 530,786,373 shares at June 30, 2010), **recurring earnings per share came out at €1.68, a rise of 54.1%** on first-half 2010 (€1.09).

Net income came in at **€768 million, up 53.3%** on first-half 2010. Based on the number of shares outstanding at June 30, 2011 (535,334,213 shares versus 530,786,373 shares at June 30, 2010), **earnings per share came out at €1.43, up 52.1%** on first half 2010 (€0.94).

Following the relaunch of the investment strategy announced at the start of 2011, **capital expenditure** jumped **48.4% to €641 million** (€432 million in first-half 2010), and accounted for **3.1% of sales** (2.2% in first-half 2010). Half of these investments relate to growth capex, focused chiefly on selective growth projects in Asia and emerging countries and activities related to energy efficiency (Flat Glass – including solar power – and Construction Products).

Cash flow from operations rose 20.3% year-on-year to **€1,721 million.** Before the tax impact of capital gains and losses on disposals and asset write-downs, free cash flow rose **19.6%** to €1,697 million, from €1,419 million in the six months to June 30, 2010.

* Based on average exchange rates for first-half 2010.

Despite the sharp rise in capital expenditure:

- **free cash flow (cash flow from operations less capital expenditure)** rose 8.0% to €1,079 million. Before the tax impact of capital gains and losses and asset write-downs, **free cash flow moved up 7.0% to €1,056 million, at 5.1% of sales** (as in first-half 2010). More than 80% of the Group's full-year €1.3 billion free cash flow target has therefore already been met in the first half.

- **the difference between EBITDA and capital expenditure** was up 2.8%, to €1,838 million in first-half 2011 (from €1,788 million in first-half 2010), representing 8.8% of sales (9.2% in the same year-ago period).

After eight years of continuous improvements, **operating working capital requirements** inched up 1.1 day to 46.6 days' sales at June 30, 2011, to stand in between operating WCR at June 30, 2010 (45.5 days) and at June 30, 2009 (47.2 days). This trend chiefly reflects the upturn in trading and increase in raw material inventories amid spiraling raw material costs over the first half of 2011.

Consistent with the relaunch of the Group's acquisitions strategy announced at the start of 2011, and in parallel with the rise in capital spending, **investments in securities** were up sharply at **€182 million**, a five-fold increase on first-half 2010 (€36 million). In all, 85% of these investments (€154 million) related to acquisitions in Asia and emerging countries.

Net debt remained stable year-on-year, at €9.1 billion, with all of the cash flow generated over the past 12 months (net of changes in operating WCR) used to relaunch capital spending and acquisitions projects and to pay dividends (2009 dividend paid in July 2010 on top of the 2010 dividend paid in June 2011 for a total of €746 million) and share buy-backs. Net debt came out at **50% of shareholders' equity**, versus 51% at June 30, 2010. **The net debt to EBITDA ratio came out at 1.8 versus 2.1 at end-June 2010**.

Update on asbestos claims in the US

Some 2,000 claims were filed against CertainTeed in the first six months of 2011, on a par with first-half 2010. A total of 4,000 claims were settled during the period (2,000 in first-half 2010), bringing the total number of outstanding claims to **54,000** at June 30, 2011, compared with 56,000 at December 31, 2010.
A total of US$ 96 million in indemnity payments were paid in the US over the year to June 30, 2011, compared with US$ 103 million in the year to December 31, 2010.

Main related-party transactions

Related parties mainly relate to equity consolidated companies, proportionately consolidated companies and certain subsidiaries of the Wendel group.
In accordance with Group policy, these transactions with these related-party entities are carried out as part of its usual business on an arm's length basis. There has not been any significant change in related-party transactions during the first semester 2011.

Main risk factors

Group activities are facing certain macroeconomic, business, operational, market, industrial, environmental and legal risk factors. The main risk factors that Group could face are described in the section "Risk factors" of the management report of the 2010 annual report filed with the AMF under the reference 2010 D.11-0189 on March 29 2011. There has not been any significant change in these risks during the first semester 2011.

Outlook and objectives for full-year 2011

After a very encouraging first half, the Group expects the conditions observed on its various markets since the beginning of the year to continue apace:

- growth should remain vigorous **in Asia and emerging countries**;

- industrial markets should remain upbeat **in North America**, while construction markets are likely to remain fairly sluggish;

- industrial markets should continue to perform well **in Western Europe**, while the residential sector (new-builds and renovations) is expected to continue on an upward trend. Trading is expected to remain upbeat in France, Scandinavia and Germany;

- **household consumption markets** should hold firm across all regions.

Against this backdrop, **all of the Group's business sectors** should continue to benefit from a **positive growth momentum**, despite a higher basis for comparison in the second half.

To drive growth in its different businesses, Saint-Gobain will therefore continue to:

- pursue its **resolute and tempered development strategy**, underpinned by strict financial discipline. It will step up capital spending and acquisitions, focusing on the Group's main growth drivers (emerging countries, energy efficiency and solar power – which should account for more than 80% of growth capex in 2011 as a whole – as well as consolidation in Building Distribution and Construction Products business sectors). Along these lines, early this week the Group announced its acquisition of Brossette and of the Build Center network in the UK;

- **leverage its price-focused policy** and endeavor to pass on the rise in raw material and energy costs through sales price increases, particularly amid rising inflation;

- maintain a tight rein on costs;

- keep a close watch on cash management and on maintaining a strong balance sheet;

- maintain R&D efforts.

Consequently, Saint-Gobain is <u>confident about its ability to achieve its full-year 2011 targets</u>:

- **robust organic growth**;

- **double-digit growth in operating income** (at constant exchange rates*), despite the rise in raw material and energy costs;

- **€1.3 billion in free cash flow**, after a €500 million increase in capital expenditure;

- **a persistently strong balance sheet**.

* average exchange rates for 2010.