SAINT-GOBAIN

Half year financial report

Consolidated financial accounts as at June 30, 2012

Operating performance

Overall, after a broadly satisfactory first quarter in line with the economic scenario anticipated by the Group early in the year, the **second quarter** was hit by a deterioration in the economic climate in Western Europe. This was particularly pronounced from May onwards, and was exacerbated by fewer working days than in 2011 (one day less; three days less in France in May), and by very average weather conditions. **Sales were down 2.3% on a like-for-like basis** (**down 4.2% in terms of volumes and up 1.9% in terms of prices**). With the exception of High-Performance Materials (HPM) and Packaging (Verallia), all of the Group's Business Sectors and Divisions suffered from a slowdown in the residential new-build and automotive markets in Western Europe. In addition, Asia and emerging countries showed no tangible signs of recovery in this second quarter. Flat Glass – which generates almost all of its sales in Western Europe and in Asia and emerging countries – was particularly hard hit by these adverse market conditions.
On a more positive note, the gradual recovery in residential construction across North America continued apace, while industrial output and capital spending performed well.

Amid a tougher economic environment than at the beginning of 2012, and in view of the hike in raw material and energy costs in this first half, **sales prices** remained a clear priority for the Group throughout the six months to June 30, and **gained 2.2% (2.6% excluding Flat Glass)**.

Overall, like-for-like **sales for the Group slipped 0.8%** in the first six months of 2012, with **volumes down 3.0% and prices up 2.2%**.

Despite profitability gains in North America, **the Group's operating margin narrowed to 7.0% for first-half 2012 compared to 8.2% for the same period in 2011**, due mainly to sluggish sales volumes (chiefly in Western Europe) and to a sharply negative price/cost spread in Flat Glass.

1°) Performance of Group Business Sectors

Along the lines of the first quarter, **Innovative Materials** sales fell 3.1% on a like-for-like basis over the first half, reflecting challenging market conditions in Flat Glass. High-Performance Materials delivered timid growth gains amid robust trading on most industrial markets worldwide – except automotive in Western Europe and solar power. Hit by slack profitability in Flat Glass, the operating margin for the Business Sector narrowed to 8.4% from 12.5% one year earlier.

- **Flat Glass sales retreated 6.5% on a like-for-like basis** over the first half owing to the combined adverse impact of several factors: a contraction in automotive production in Western Europe, the collapse of the solar market, a fall in prices (especially float glass) and a steep rise in raw material and energy costs. As a result, the **operating margin** for the business narrowed sharply, to **2.1% of sales** from 9.5% in first-half 2011.

- **HPM** delivered **timid 1.4% organic growth** over the first half – after an acceleration in the second quarter (up 2.6%) – thanks to the upward momentum in its sales prices. The **operating margin** – up against a record-high of 16.4% in the six months to June 30, 2011 – advanced compared to second-half 2011 (14.9%), at **15.6%.**

Construction Products (CP) sales inched down **0.3% on a like-for-like basis**, hit by the slowdown in sales volumes in Western Europe and in Asia, particularly in the second quarter. As a result, the **operating margin fell to 8.8%** from 9.7% in first-half 2011.

- **Interior Solutions** saw **organic growth creep up 0.7% over the first half**, on the back of vigorous sales price momentum (especially in the US), which helped offset the earnings impact of rising energy and raw material costs. Volumes were upbeat in North – and especially South – America, but retreated in both Western and Eastern Europe, and to a lesser extent in Asia. The **operating margin improved**, up to **8.7%** of sales from 7.9% in first-half 2011.

- **Exterior Solutions** saw **sales slip 1.2% on a like-for-like basis**, hit by the steep decline in Pipe sales – which could not be offset by growth in other Exterior Solutions businesses. Exterior Products continued to benefit from the upturn in the US housing market, reporting a robust rise in sales, owing chiefly to moves by building merchants in the first quarter to build up inventories. Industrial Mortars sales were once again driven by Asia and emerging countries, where the business delivered double-digit organic growth over the first half. For the Division as a whole, sales prices remained upbeat over the six months to June 30, 2012, but failed to fully offset the hike in raw material and energy costs affecting the Pipe business. As a result, the **operating margin narrowed, to 8.9%** of sales versus 11.1% in the same year-ago period.

Building Distribution reported **a slight 0.6% decrease in like-for-like sales as organic growth retreated in the second quarter (down 2.5%)**, with sales growth in Germany, Scandinavia and the US more than offset by sluggish trading in France and the UK along with persistent difficulties in Southern Europe and Benelux. The **operating margin for the Business Sector improved, up to 3.9%** from 3.6% in first-half 2011.

Packaging (Verallia) delivered **3.0% organic growth** over the first half, spurred by bullish trends in sales prices in its main markets. Trading remained robust in the US, France and Germany, but slackened in Southern and Eastern Europe. The **operating margin fell to 10.8% of sales** versus 12.4% in first-half 2011, mainly reflecting difficulties in Southern Europe and the time needed to feel the full benefit of efforts to pass costs on to prices.

2°) Analysis by geographic area

Along the lines of the first quarter, **stark contrasts persisted and deepened between Western Europe, where trading slowed, and North America, which delivered buoyant organic growth** over the first half. Trading in Asia and emerging countries was up slightly, concealing widely contrasting performances from one country to the next. Profitability improved in North America but retreated in Western Europe and in Asia and emerging countries.

- **France** and **other Western European countries** reported **a decline in like-for-like sales, of 2.9% and 3.2%, respectively**, due mainly to a double-digit fall in Flat Glass and Pipe sales. Other Construction Products divisions were also impacted overall in the second

quarter by the souring economic environment in Western Europe, exacerbated by very average weather conditions and by fewer working days than in first-half 2011. In contrast, HPM, Building Distribution and Packaging (Verallia) sales held firm. The **operating margin slipped** both in France and in other Western European countries, down to **5.7% and 6.0%, respectively** (versus 7.2% and 6.2%, respectively, in first-half 2011).

- **North America** delivered **4.7% organic growth.** This reflects a positive contribution from all Business Sectors and particularly Construction Products (CP), lifted by the gradual recovery of the residential construction market. This upturn was especially strong in the first quarter, as builders' merchants built up their inventories. Sales prices advanced sharply over the first half, on the back of further price rises implemented since the beginning of the year. The **operating margin continued to recover, up to 11.6%** (from 11.2% in first-half 2011).

- **Sales for Asia and emerging countries** inched up **1.2%** on a like-for-like basis, as the downturn in our Asian operations – particularly Flat Glass and Pipe – was offset by a resilient performance from Latin America and by a timid recovery in Eastern Europe. The **operating margin** fell sharply, due mainly to challenging market conditions in Flat Glass, to stand at **6.1% of sales** compared to 10.1% one year earlier.

Analysis of the interim consolidated financial statements for first-half 2012

The interim consolidated financial statements set out below were authorized for issue by the Board of Directors on July 26, 2012:

	H1 2011 €m	H1 2012 €m	% change
Sales and ancillary revenue	**20,875**	**21,590**	**+3.4%**
Operating income	**1,720**	**1,512**	**-12.1%**
EBITDA (op. inc. + operating depreciation/amortization)	**2,479**	**2,284**	**-7.9%**
Non-operating costs	(150)	(224)	+49.3%
Capital gains and losses on disposals, asset write-downs, corporate acquisition fees and earn-out payments	(114)	(135)	+18.4%
Business income	**1,456**	**1,153**	**-20.8%**
Net financial expense	(298)	(356)	+19.5%
Income tax	(352)	(285)	-19.0%
Share in net income of associates	4	4	+0.0%
Income before minority interests	**810**	**516**	**-36.3%**
Minority interests	(42)	(10)	-76.2%
Recurring[1] net income	**902**	**651**	**-27.8%**
Recurring[1] earnings per share[2] (in €)	**1.68**	**1.23**	**-26.8%**
Net income	**768**	**506**	**-34.1%**
Earnings per share[2] (in €)	**1.43**	**0.95**	**-33.6%**
Operating depreciation and amortization	759	772	+1.7%
Cash flow from operations[3]	1,721	1,462	-15.0%
Cash flow from operations excluding capital gains tax[4]	**1,697**	**1,424**	**-16.1%**
Capital expenditure	641	754	+17.6%
Free cash flow (excluding capital gains tax)[4]	**1,056**	**670**	**-36.6%**
Investments in securities	182	277	+52.2%
Net debt	**9,055**	**9,828**	**+8.5%**

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 (531,052,614 shares in 2012 versus 535,334,213 in 2011). Based on the weighted average number of shares outstanding (526,833,258 shares in first-half 2012 versus 526,306,335 shares in first-half 2011), recurring earnings per share comes out at €1.24 (versus €1.71 in first-half 2011), and earnings per share comes out at €0.96 (versus €1.46 in first-half 2011).

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 3.4% to €21,590 million, compared to €20,875 million in first-half 2011. **Exchange rate fluctuations** had a **positive 1.6% impact**, mainly resulting from gains in the US dollar and pound sterling against the euro. **Changes in Group structure** also had a **positive 2.6% impact**, chiefly reflecting the consolidation of Build Center and Brossette with effect from November 1, 2011 and April 1, 2012, respectively, and the acquisition of Solar Gard in October 2011.
On a like-for-like basis (constant Group structure and exchange rates), sales **edged down 0.8%**, with the 2.2% rise in sales prices failing to fully offset the 3.0% decline in volumes.

Operating income was down 12.1%, hurt by lower sales volumes and a sharply negative price/cost spread in Flat Glass. As a result, the **operating margin** narrowed, **to 7.0% of sales (9.1% excluding Building Distribution)**, versus 8.2% (11.3% excluding Building Distribution) in first-half 2011.

EBITDA (operating income + operating depreciation and amortization) **retreated 7.9%.** The **consolidated EBITDA margin** came in at **10.6%** of sales (14.1**%** excluding Building Distribution), versus 11.9% (16.4% excluding Building Distribution) in the first six months of 2011.

Non-operating costs rose almost 50%, driven by the rise in restructuring costs, up to €224 million from €150 million in first-half 2011. This amount includes a €45 million accrual to the provision for asbestos-related litigation at CertainTeed in the US (i.e., 50% of the 2011 accrual).

The net balance of capital gains and losses on disposals, asset write-downs, and corporate acquisition fees was a negative €135 million. This amount includes €66 million in gains on asset disposals and €193 million in asset write-downs. Most of these write-downs result from the restructuring plans and site closures implemented during the period, and chiefly concern Flat Glass (for €116 million) as well as certain Building Distribution and Construction Products businesses in Spain.

Business income fell 20.8% to €1,153 million after taking into account the items mentioned above (non-operating costs, capital gains and losses on disposals and asset write-downs).

Net financial expense increased 19.5% or €58 million to €356 million, up from €298 million in first-half 2011, due chiefly to the increase in average net debt over the period. **The average cost of gross debt remained stable year-on-year, at 4.9%.**

In line with pre-tax income trends, **income tax** was down 19.0%, from €352 million to €285 million. The tax rate applicable to recurring net income was 32.7%, versus 28% in first-half 2011.

Recurring net income (excluding capital gains and losses, asset write-downs and material non-recurring provisions) **fell 27.8%** on first-half 2011 to €651 million. Based on the number of shares outstanding at June 30, 2012 (531,052,614 shares versus 535,334,213 shares at June 30, 2011), **recurring earnings per share** came out at €1.23, **down 26.8%** on the same year-ago period (€1.68).

Net income totaled €506 million, **a decline of 34.1%** on first-half 2011. Based on the number of shares outstanding at June 30, 2012 (531,052,614 shares versus 535,334,213 shares at June 30, 2011), **earnings per share** came out at €0.95, **down 33.6%** on first-half 2011 (€1.43).

Capital expenditure climbed **17.6%** to €754 million from €641 million in first-half 2011, representing **3.5% of sales** (3.1% of sales in first-half 2011). Almost half of capital spending consisted of growth Capex, around 80% of which related to selective growth projects in Asia and emerging countries and to businesses related to energy efficiency markets.

Cash flow from operations came in at €1,462 million, **down 15.0%** on first-half 2011. Before the tax impact of capital gains and losses on disposals and asset write-downs, cash flow from operations contracted 16.1% to €1,424 million, from €1,697 million in first-half 2011.

Given the increase in capital spending:

- **free cash flow (cash flow from operations less capital expenditure) was down 34.4%** to €708 million. Before the tax impact of capital gains and losses on disposals and asset write-downs, **free cash flow fell 36.6%** to €670 million, or **3.1% of sales** (versus 5.1% of sales in first-half 2011);

- **the difference between EBITDA and capital expenditure** was €1,530 million, **16.8% less** than in first-half 2011 (€1,838 million), and represented **7.1% of sales** (8.8% in the same period one year earlier).

Operating working capital requirements (WCR) improved sharply: amid a trading downturn, **operating WCR fell 5.1 days** over 12 months to stand at **41.5 days' sales** at June 30, 2012, a figure never yet achieved by the Group at June 30. This represents a gain of **€340 million over 12 months**, primarily as a result of action taken on inventories in the six months to June 30.

Consequently, **cash generation (free cash flow + change in operating WCR)** jumped **21%** over the last 12 months to €1,367 million, versus €1,129 million at June 30, 2011.

Investments in securities totaled €277 million, a **52.2% rise** on first-half 2011 (€182 million), mainly reflecting selective acquisitions signed in late 2011 on energy efficiency markets and in Building Distribution.

Net debt came in **8.5% higher** year-on-year at €9.8 billion. Over the last 12 months, although free cash flow generation (after changes in operating working capital requirements) was 21% up on first-half 2011, it was unable to fully finance financial investments, the 2011 dividend payment of €646 million, and share buybacks for €183 million. Net debt represented **54% of consolidated equity** versus 50% at June 30, 2011. **The net debt to EBITDA ratio came out at 2.1**, compared to 1.8 at end-June 2011.

Update on asbestos claims in the US

Some 2,000 claims were filed against CertainTeed in the first half of 2012 (as in first-half 2011). At the same time, 7,000 claims were settled (versus 4,000 in first-half 2011), bringing the total number of outstanding claims to **47,000** at June 30, 2012 versus 52,000 at December 31, 2011.
A total of USD 70 million in indemnity payments were made in the US in the 12 months to June 30, 2012, versus USD 82 million in the 12 months to December 31, 2011.

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 2012.

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 2011 annual report filed with the AMF under the reference D.12-0212 on March 23, 2012. There has not been any significant change in these risks during the first semester 2012.

Action plan to address the deteriorating economic environment

To address the deterioration in the economic environment observed in the second quarter of 2012, Saint-Gobain:

- **continued to give priority to sales prices**, which **rose 2.2%** over the first half (and **2.6% excluding Flat Glass)**;

- rolled out **new cost cutting measures (particularly in Flat Glass)**, with **cost savings in the first half** totaling **€170 million** in Western Europe and in Asia and emerging countries (chiefly in Flat Glass and Pipe). **For the year as a whole**, this program will lead to **cost savings of €500 million**, and its full-year impact (in 2013) will be **€750 million** (calculated on the 2011 cost base);

- slashed its operating working capital requirements **(WCR)**, with a **gain of 5.1 days (€340 million)** over the last 12 months, representing an improvement of **21%** in cash generated (free cash flow + change in operating WCR) over the past 12 months, at €1,367 million;

- **put any new acquisition projects on hold** (after having completed the acquisitions signed in late 2011 during the first half of 2012, for example Brossette).

This action plan will be pursued and firmly reinforced throughout the second half of 2012.

Outlook and objectives for full-year 2012

After a second quarter dampened by the deteriorating economic climate, especially in Europe, the Group expects the economic environment to remain tough overall in the second half of the year:

- **in Western Europe**, the automotive market should remain sluggish, while trading on other industrial markets should hold firm. The new-build and renovation markets should continue to slow, with stark contrasts persisting from one country to the next;

- **in North America**, industrial markets should enjoy further strong momentum, while construction markets look set to continue their gradual recovery;

- **in Asia and emerging countries**, growth is expected to pick up slowly;

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

Against this backdrop, trading for the Group is expected to remain subdued, despite a more favorable basis for comparison and positive seasonal effect than in the first six months of 2012.

In the second half, the Group will therefore press ahead with its action plan, by:

- **continuing to give priority to sales prices** in order to pass on the rise in raw material and energy costs over the year as a whole;

- pursuing **its new cost cutting measures**, with additional savings of €160 million in the second half, representing total cost savings of **€500 million over the year as a whole and a full-year impact (in 2013) of €750 million** (calculated on the 2011 cost base). This program will remain primarily focused on Europe;

- **maintaining a strict cash management policy**, with a decrease in capital expenditure and financial investments (**down €200 million and €350 million, respectively, in the second half** compared to second-half 2011);

- keeping a **tight rein on operating working capital.**

As a result of the above, and given the deterioration in the global economy since the start of the year, **for full-year 2012 the Group is now expecting:**

- a measured rise in its **sales prices**;

- a limited decline in its **volumes**;

- second-half operating income to be **moderately down** on operating income for first-half 2012;

- continuing **high levels of free cash flow** and a **strong balance sheet.**