SAINT-GOBAIN

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Half year financial report

Consolidated financial accounts as at June 30, 2013

Operating performance

Overall, after a particularly tough first quarter hit by both fewer working days than in the year-earlier period and by very poor weather, the **second quarter** saw underlying trends stabilize on the Group's main markets in Western Europe and market conditions continue to rally in other regions. However, like-for-like, the **second quarter** was down a slight **1.2%** on the same period in 2012, **with volumes off 2.2% and prices up 1.0%**. With the exception of Flat Glass – buoyed by a pick-up in growth in Asia and emerging countries – and Interior Solutions – lifted by the gradual improvement in the US construction market – all of the Group's Business Sectors and Divisions continued to suffer from sluggish European economies, albeit far less than in the first quarter.

In this persistently tough economic climate and despite the smaller rise in raw material and energy costs, **sales prices** remained a key priority for the Group throughout the first half, and **gained 1.0%.**

Overall, due to the ground lost in the first quarter, like-for-like **consolidated sales were down 3.2%** in the first six months of the year, with **volumes losing 4.2% and prices gaining 1.0%**.

Despite profitability gains in North America and in Asia and emerging countries, **the Group's operating margin narrowed, to 6.1% in first-half 2013** compared to 7.0% for the same period in 2012 and 6.3% for second-half 2012.

1°) Performance of Group Business Sectors

The deteriorating economic environment in Western Europe led to negative organic growth for all of the Group's Business Sectors in the six months to June 30, 2013.

Along the lines of the first quarter, **Innovative Materials** sales **fell 2.9% on a like-for-like basis** in the first half, hurt by a downturn in sales volumes, especially in Western Europe. **The operating margin for the Business Sector narrowed, to 6.7%** from 8.4% in first-half 2012 and 6.9% in second-half 2012.

- Like-for-like, **Flat Glass** sales **lost 1.3% over the first half, but were up 2.4% in the second quarter**. In the three months to June 30, the quicker pace of recovery in Asia and emerging countries (**double-digit growth**) more than offset the downturn in volumes and sales prices on Western European construction markets. Automotive Flat Glass sales stabilized over the second quarter in Western Europe, after a very tough first three months.

Over the first half as a whole, the price of commodity products *(*float glass*)* in Europe remained lower on average than in first-half 2012, despite the price increases implemented in the second quarter. As a result, and despite the large-scale restructuring measures rolled out, the **operating margin** for the Division slipped further, down to **1.5% of sales** versus 2.1% of sales in first-half 2012.

- **High-Performance Materials (HPM) sales shed 5.1%** on a like-for-like basis, reflecting the decline in businesses related to capital spending (Ceramics). HPM's other businesses (Abrasives, Plastics, Textile Solutions) proved resilient, especially in the US and in Asia and emerging countries. The **operating margin**, up against a very tough basis for comparison (15.6% in first-half 2012) came in at **13.0%**, an improvement on the six months to December 31, 2012 (12.7%).

Construction Products (CP) sales retreated 1.7% on a like-for-like basis, hit by the slowdown in sales in Western Europe, not wholly offset by growth in Asia and emerging countries. The **operating margin narrowed slightly, to 8.5%** from 8.8% in first-half 2012.

- **Interior Solutions** reported **timid 1.0% organic growth over the first half** on the back of continued strong momentum in its second-quarter sales in the US. After a very difficult start to the year, the business in Western Europe leveled off at the end of the first half, while trading in Asia and emerging countries remained upbeat. Although sales prices moved up across the Division, the **operating margin dropped to 7.6%** from 8.7% in first-half 2012 and 7.9% in second-half 2012, squeezed by the volume downturn in Western Europe.

- **Exterior Solutions sales contracted 4.1% on a like-for-like basis**, hit by the fall in Exterior Products sales in the US. Unlike the bullish first quarter, the three months to June 30, 2013 took an exceptional hit resulting from the large-scale destocking by our distributors. This destocking in no way reflects the underlying momentum of the US market. Pipe continued to feel the pinch of austerity measures in Europe, which the fledgling recovery in export sales has not yet been able to fully offset (the first deliveries under the USD 200 million contract with Kuwait began at the very end of the second quarter). Industrial Mortars enjoyed further vigorous growth in Asia and emerging countries, but were hit in Western Europe by the impact of the economic slowdown and poor weather conditions early in the year. Sales prices for the Division as a whole remained upbeat over the first half. As a result, the **operating margin widened, to 9.3%** of sales from 8.9% of sales in first-half 2012 and 7.7% of sales in the six months to December 31, 2012.

Building Distribution sales dropped 4.6% on a like-for-like basis over the first half, hard hit by fewer working days than in the year-earlier period (1.8 days less, representing a **negative impact of 1.4% on Business Sector volumes**) and by very harsh weather early in the year. However, the Sector's performance improved sharply in the second quarter, driven chiefly by a strong rebound in the UK, accelerated growth in Brazil, and stabilizing sales in Scandinavia. In France, trading continued to prove fairly resilient in a tough economic environment, with further gains in market share. Overall, sales prices remained upbeat across the Business Sector. The **operating margin** came out at **2.4%** versus 3.9% in first-half 2012, owing chiefly to the sharp downturn in volumes in the first quarter.

Packaging (Verallia) sales slipped 2.9% *on a like-for-like basis over the six months to June 30, despite a 2.1% rise in sales prices.* Volumes *retreated in the US and in Western Europe, and remained stable in Russia and Latin America.* **Operating income increased by €36 million, or 17.4%**, as a result of applying IFRS 5 (assets and liabilities held for sale) to Verallia North America (VNA) as of January 1, 2013, according to which depreciation of VNA's fixed assets (€36 million in the first half) is no longer charged to operating income. **Excluding this one-off item**, Verallia's operating income would be stable, at €207 million, and its **operating margin** – buoyed by a positive price/cost spread – **would be 11.4%,** versus 10.8% in first-half 2012. Regarding the planned divestment of VNA, Ardagh and Saint-Gobain are disappointed by the complaint filed by the FTC (Federal Trade Commission) on July 2, 2013, and intend to vigorously defend the transaction in litigation, whilst at the same time working with the FTC to seek to resolve its concerns.

2°) Analysis by geographic area

In line with the economic scenario presented by the Group in February and consistent with the first quarter's underlying trends, trading by geographic area in the first six months of 2013 reveals a sharp contrast between Western Europe – which slowed despite some improvement towards the end of the period – and Asia and emerging countries which, on the whole, returned to growth. North America continued to enjoy strong trading momentum, fueled by the upturn in the construction market, although Exterior Products suffered the fall-out in the second quarter of its very strong start to the year.
Consequently, profitability improved in Asia and emerging countries and in North America, but declined in both France and in other Western European countries.

- **France** and **other Western European countries** saw like-for-like **sales decline 6.3% and 4.8%, respectively**. This downtrend reflects the very tough market conditions in the first quarter and, to a lesser extent, the general slowdown in European economies over the six months to June 30, 2013. These factors impacted all of the Group's Business Sectors and Divisions (particularly Innovative Materials), which all reported volume declines over the period. In contrast, sales prices held up well. In the **second quarter**, while Southern Europe, Benelux and to a lesser extent France continued to slow (albeit far less than in the first quarter), trading stabilized in Germany and Scandinavia and picked up in the UK, spurred by the rebound in the construction market at the end of the period. The **operating margin narrowed**, both in France and in other Western European countries, **to 4.9% and 3.1%, respectively** (5.7% and 6.0%, respectively, in first-half 2012).

- **North America** posted a **2.0% drop in like-for-like sales**, with trading down 6.6% in the second quarter after growing 3.1% in the first. The reversal in the trend is wholly due to Exterior Products which, after a very strong start to the year, suffered in the second quarter from exceptionally high destocking by building materials distributors. This destocking in no way reflects the underlying momentum of the US market. Sales prices were up sharply over the first half, buoyed by further rises implemented since the beginning of the year in Construction Products. The **operating margin continued to recover, up to 13.2%** from 11.6% in first-half 2012.

- After a fledgling recovery in the first quarter (up 1.5%), **Asia and emerging countries saw trading pick up pace in the three months to June 30 (up 6.1%),** and reported **3.9% like-for-like sales growth over the first half**. This increase, which outpaced growth in the Group's underlying markets in the region, chiefly reflects the investments made in these countries over the past few years and continues to be led primarily by Latin America, with steep gains in Flat Glass and Interior Solutions. In contrast, Asia continued to decrease in the six-month period, despite advancing 2.7% in the second quarter, while Eastern Europe stabilized as vigorous momentum in Russia and the Baltics offset difficulties in Poland and the Czech Republic. The **operating margin** recovered, up to **7.1% of sales** versus 6.1% of sales one year earlier.

Analysis of the interim consolidated financial statements for first-half 2013

The interim consolidated financial statements set out below were approved and adopted by the Board of Directors on July 24, 2013. The comparative consolidated P&L presented in the financial statements for first-half 2012 has been restated to reflect the amendment to IAS 19 regarding employee benefits.

If the amended standard had been applied at January 1, 2012, it would have had the following impacts on the financial statements for the six months ended June 30, 2012 and for the year ended December 31, 2012, respectively:

- **an increase of €44 million in financial expenses** (€31 million after tax) **for the six months ended June 30, 2012 and of €88 million for the year ended December 31, 2012** (€62 million after tax), as a result of applying a rate of return on plan assets equal to the discount rate used for employee benefit obligations, instead of the expected rate of return;

- **an increase of €18 million in operating expenses** (€12 million after tax) **for the six months ended June 30, 2012 and the year ended December 31, 2012**, due to the impacts of employee benefit plan amendments;

- **a decrease of €14 million in equity** (€9 million after tax) **at January 1, 2012**, due mainly to the immediate recognition of past service cost (€8 million impact). The combined impact of all these adjustments on closing equity at December 31, 2012 would have been a negative €32 million (€21 million after tax).

	H1 2012* €m (A)	H1 2013 €m (B)	% change (B)/(A)	H1 2012 €m (C)
Sales and ancillary revenue	**21,590**	**20,771**	**-3.8%**	**21,590**
Operating income	**1,494**	**1,260**	**-15.7%**	**1,512**
EBITDA (op. inc. + operating depr./amort.)	2,266	**1,983**	-12.5%	2,284
Non-operating costs	(224)	**(260)**	+16.1%	(224)
Capital gains and losses on disposals, asset write-downs, corporate acquisition fees and earn-out payments	(135)	**(26)**	-80.7%	(135)
Business income	**1,135**	**974**	**-14.2%**	**1,153**
Net financial expense	(400)	**(403)**	-0.8%	(356)
Income tax	(266)	**(231)**	-13.2%	(285)
Share in net income of associates	4	**7**	+75.0%	4
Income before minority interests	**473**	**347**	**-26.6%**	**516**
Minority interests	(10)	**(15)**	+50.0%	(10)
Recurring[1] net income	**608**	**422**	**-30.6%**	**651**
Recurring[1] earnings per share[2] (in €)	**1.14**	**0.76**	**-33.3%**	**1.23**
Net income	**463**	**332**	**-28.3%**	**506**
Earnings per share[2] (in €)	**0.87**	**0.60**	**-31.0%**	**0.95**
Operating depreciation and amortization	772	**723**	-6.3%	772
Cash flow from operations[3]	1,419	**1,146**	-19.2%	1,462
Cash flow from oper. excl. cap. gains tax[4]	**1,381**	**1,165**	**-15.6%**	**1,424**
Capital expenditure	754	**519**	-31.2%	754
Free cash flow (excluding capital gains tax)[4]	**627**	**646**	**+3.0%**	**670**
Investments in securities	277	**41**	-85.2%	277
Net debt	**9,828**	**9,497**	**-3.4%**	**9,828**

* Accounts restated to reflect the impacts of the amendment to IAS 19.

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 (552,755,774 shares in 2013, including the capital increase following the payment of a share dividend on July 5, 2013, versus 531,052,614 shares in 2012). Based on the weighted average number of shares outstanding (527,978,739 shares in first-half 2013 versus 526,833,258 shares in first-half 2012), recurring earnings per share comes out at €0.80 (versus €1.15 in first-half 2012), and earnings per share comes out at €0.63 (versus €0.88 in first-half 2012).

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.

The comments below refer to the restated interim financial statements for first-half 2012.

Consolidated sales fell 3.8% to €20,771 million, from €21,590 million in first-half 2012. **Exchange rate fluctuations** had a **negative 1.3% impact**, chiefly resulting from the depreciation against the euro of the currencies of the main emerging markets where the Group operates (particularly Latin America) and, to a lesser extent, the US dollar and British pound. In contrast, **changes in Group structure** had a **positive 0.7% impact** over the first half (but a negative impact in the second quarter), mainly reflecting the consolidation of Brossette as of April 1, 2012.

Like-for-like (constant exchange rates and Group structure), sales therefore **declined 3.2%**, with the **1.0%** rise in **sales prices** failing to offset the **4.2%** downturn in **volumes**.

Operating income shed 15.7%, hit by slowing sales volumes. Consequently, **the operating margin** narrowed, to **6.1% of sales (8.6% excluding Building Distribution)**, versus 6.9% of sales (8.9% excluding Building Distribution) in first-half 2012 and 6.3% in second-half 2012 (8.0% excluding Building Distribution).

EBITDA (operating income + operating depreciation and amortization) **retreated 12.5%**. The consolidated **EBITDA margin** came in at **9.5%** of sales (13.5% excluding Building Distribution), versus 10.5% of sales (14.0% excluding Building Distribution) in first-half 2012.

Non-operating costs rose 16.1% to €260 million (€224 million in first-half 2012), driven by an increase in restructuring costs (particularly in Flat Glass). Non-operating costs for first-half 2013 include a €45 million accrual to the provision for asbestos-related litigation at CertainTeed in the US, unchanged compared to the first-half 2012 accrual.

The net balance of capital gains and losses on disposals, asset write-downs and corporate acquisition fees was a negative €26 million compared with a negative €135 million in the year-earlier period. This item includes €85 million in gains on disposals of assets relating mainly to the sale of the PVC Pipe & Foundations business, and €109 million in asset write-downs. The bulk of these write-downs are inherent to the restructuring plans and site closures implemented over the period, especially in Flat Glass (€87 million) and, to a lesser extent, in certain Construction Products businesses in Spain.

Business income fell 14.2% to €974 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 was practically unchanged, up 0.8% to €403 million from €400 million in first-half 2012, as the cost of gross debt stabilized over the period. Thanks to the Group's recent bond issues, **the average cost of gross debt over the first half fell to 4.7%** from 4.9% in first-half 2012.

In line with pre-tax income trends, **income tax** was down 13.2%, from €266 million to €231 million. The tax rate applicable to recurring net income was 32.7%, as in first-half 2012.

Recurring net income (excluding capital gains and losses, exceptional asset write-downs and material non-recurring provisions) **fell 30.6%** on first-half 2012 to €422 million. Based on the number of shares outstanding at June 30, 2013 (552,755,774 shares including the capital increase following the payment of a share dividend on July 5, 2013, versus 531,052,614 shares at June 30, 2012), **recurring earnings per share** came out at €0.76, **33.3% lower** than in first-half 2012 (€1.14).

Net income was **down 28.3%** year-on-year at €332 million. Based on the number of shares outstanding at June 30, 2013 (552,755,774 shares including the capital increase following the payment of a share dividend on July 5, 2013, versus 531,052,614 shares at June 30, 2012), **earnings per share** came out at €0.60, **down 31.0%** on the year-earlier period (€0.87).

Capital expenditure was down 31.2% to €519 million (€754 million in first-half 2012), representing **2.5% of sales** (3.5% in first-half 2012). The bulk of these investments consisted of growth capex focused on Asia and emerging countries and on markets related to energy efficiency in Western Europe and in the US.

Cash flow from operations came in at €1,146 million, **down 19.2%** on the year-earlier period (€1,419 million). Before the tax impact of capital gains and losses on disposals and asset write-downs, cash flow from operations **contracted 15.6%**, to €1,165 million from €1,381 million in first-half 2012.

Given the decrease in capital spending:

- free cash flow (cash flow from operations less capital expenditure) **fell 5.7%** to €627 million. Before the tax impact of capital gains and losses on disposals and asset write-downs, **free cash flow advanced 3.0%** to €646 million, representing **3.1% of sales** (2.9% in first-half 2012);

- the difference between EBITDA and capital expenditure was €1,464 million, **3.2% less** than in first-half 2012 (€1,512 million), and represented **7.0% of sales**, as in the previous year.

Operating working capital requirements continued to improve in value terms (down €44 million to €4,982 million) and remained largely unchanged in terms of days' sales compared to first-half 2012, at **42.4 days** versus 41.5 days in the year-earlier period.

Investments in securities were down sharply, to just €41 million compared to €277 million in first-half 2012. They primarily concerned selective bolt-on acquisitions consistent with the Group's strategic goals, namely development in Asia and emerging countries and energy efficiency markets and consolidation in Building Distribution.

Net debt was **down 3.4%** year-on-year to €9.5 billion, spurred by the sharp reduction in capital expenditure and financial investments over the past 12 months. Net debt represented **52% of consolidated equity** versus 54% at June 30, 2012. The **net debt to EBITDA ratio came out at 2.3**, compared to 2.1 at end-June 2012.

Update on asbestos claims in the US

Some 2,000 claims were filed against CertainTeed in the first half of 2013 (as in first-half 2012). At the same time, 2,000 claims were settled (versus 7,000 in first-half 2012), bringing the total number of outstanding claims to **43,000** at June 30, 2013, unchanged from December 31, 2012. A total of USD 87 million in indemnity payments were made in the US in the 12 months to June 30, 2013, versus USD 67 million in the year to December 31, 2012.

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 2013.

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 2012 annual report filed with the AMF under the reference D.13-0235 on March 28, 2013. There has not been any significant change in these risk factors during the first semester 2013.

Action plan to address the deteriorating economic environment

To address the deteriorating economic environment observed in Western Europe in first-half 2013, Saint-Gobain:

- **continued to give priority to sales prices**, which **rose 1.0%** over the first half;

- rolled out new **cost cutting measures**, with additional **cost savings of around €300 million in first-half 2013** compared to first-half 2012, chiefly in Western Europe (and Flat Glass in particular). These measures will be continued and stepped up in the second half, leading to **total annual cost savings of €580 million** in 2013, and of **€1,100 million compared to the 2011 cost base**;

- **stabilized its operating working capital requirements (WCR)** at 42 days' sales;

- **slashed its capital spending and financial investments** by €471 million year-on-year, driving net debt lower by 3.4%.

This action plan will be continued and intensified in the six months to December 31, 2013.

Outlook and objectives for full-year 2013

The first six months of 2013 remained tough, hit by a significantly negative calendar impact and by very poor weather early in the year, particularly in Europe. In the next few quarters, the Group expects trading to gradually improve, especially in North America and in Asia and emerging countries (regions which together represented 44% of consolidated operating income and 46% of the Group's fixed assets in 2012):

- **in North America**, the residential new-build and renovation markets should continue on a steady upward trend, while industrial output should remain at a good level;

- **in Asia and emerging countries**, trading should continue to improve, but stark contrasts will persist from one country to the next, with robust growth in Latin America, moderate growth in India and China, and stability in Eastern Europe;

- **in Western Europe**, industrial markets (particularly automotive) should stabilize, while construction market trends should remain challenging on the whole, albeit with sharply contrasting patterns from one country to the next. Regulatory measures promoting energy efficiency in new and existing homes should shore up demand, however, and allow the Group to outperform its underlying markets;

- lastly, **household consumption markets** should remain upbeat overall.

Against this backdrop, over the next few quarters the Group will press ahead with its action plan, focusing particularly on:

- **increasing its sales prices**, in a context of a slower rise in raw material and energy costs;

- **pursuing its cost cutting program**, in order to achieve **additional cost savings of €160 million** in the second half compared to the first six months of 2013 (or **€280 million** compared to second-half 2012). This will represent **€580 million in cost savings in 2013 as a whole** and **€1,100 million in cumulative cost savings** calculated on the 2011 cost base;

- keeping a **close watch on cash management** and **financial strength**.

Saint-Gobain will also **continue to pursue its strategic goals** (development in Asia and emerging countries, energy efficiency and energy markets, and consolidation in Building Distribution and Construction Products). Profitability will remain a constant focus, underpinned by strict financial discipline.

The Group is therefore **<u>confirming its targets for full-year 2013:</u>**

- **a recovery in operating income in the second half**, after having bottomed out in first-half 2013;

- **a high level of free cash flow**, thanks mainly to a €200 million reduction in capital expenditure;

- **a robust balance sheet, further strengthened by the disposal of Verallia North America.**