

CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED
JUNE 30, 2006



GROUP CONSOLIDATION AND REPORTING
DEPARTMENT

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CONSOLIDATED BALANCE SHEET

<i>(in € millions)</i>	Notes	June 30, 2006	Dec. 31, 2005 Pro forma ^(*)
ASSETS			
Goodwill	(4)	9,043	9,386
Other intangible assets		3,595	3,649
Property, plant and equipment	(5)	12,566	12,894
Investments in associates		107	137
Available-for-sale and other securities		101	161
Deferred tax assets	(9)	421	410
Other non-current assets		241	280
Non-current assets		26,074	26,917
Inventories	(6)	5,939	5,535
Trade accounts receivable	(7)	7,022	5,814
Current tax receivable		51	66
Other accounts receivable	(7)	1,952	928
Cash and cash equivalents	(13)	1,254	2,080
Current assets		16,218	14,423
Total assets		42,292	41,340
EQUITY AND LIABILITIES			
Capital stock (at June 30, 2006: 350,655,561 shares with a par value of €4; at December 31, 2005: 345,256,270 shares with a par value of €4)		1,403	1,381
Additional paid-in capital and legal reserve		2,459	2,261
Retained earnings and net income for the period		8,755	7,998
Cumulative translation adjustments		264	635
Fair value reserves		(4)	16
Treasury stock		(310)	(310)
Shareholders' equity		12,567	11,981
Minority interests		317	328
Total equity		12,884	12,309
Provisions for pensions and other employee benefits	(8)	2,674	3,419
Deferred tax liabilities	(9)	1,288	1,301
Provisions for other liabilities and charges	(10)	668	673
Long-term debt	(13)	10,280	11,315
Investment-related liabilities		148	130
Non-current liabilities		15,058	16,838
Current portion of provisions for other liabilities and charges	(10)	458	409
Current portion of long-term debt	(13)	1,886	922
Current portion of investment-related liabilities		130	263
Trade accounts payable	(12)	5,567	4,781
Current tax liabilities		495	275
Other payables and accrued expenses	(12)	2,988	2,850
Short-term debt and bank overdrafts	(13)	2,826	2,693
Current liabilities		14,350	12,193
Total equity and liabilities		42,292	41,340

(*) Details of the adjustments made to figures for the year ended December 31, 2005 are provided in Note 3.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

<i>(in € millions)</i>	Notes	First-half 2006	First-half 2005
Net sales		20,551	16,877
Cost of sales	(15)	(15,368)	(12,612)
Selling, general and administrative expenses, including research	(15)	(3,365)	(2,886)
Other operating income and expense	(15)	(3)	(7)
Operating income		1,815	1,372
Other business income	(15)	141	58
Other business expense	(15)	(285)	(162)
Business income		1,671	1,268
Net financial expense	(16)	(374)	(266)
Share in net income of associates		(2)	5
Income taxes	(9)	(479)	(359)
Net income		816	648
		797	632
Attributable to equity holders of the parent			
Minority interests		19	16
Earnings per share (in €)			
Weighted average number of shares in issue		338,648,777	336,023,721
Basic earnings per share		2.35	1.88
Weighted average number of shares assuming full dilution		360,923,576	357,028,923
Diluted earnings per share		2.25	1.81
Number of shares in issue at June 30		350,655,561	345,255,470
Earnings per share		2.27	1.83

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT*(in € millions)*

	Notes	First-half 2006	First-half 2005
Net income attributable to equity holders of the parent		797	632
Minority interests in net income	(*)	19	16
Share in net income of associates, net of dividends received		5	(3)
Depreciation, amortization and impairment of assets	(15)	887	689
Gains and losses on disposals of assets	(15)	(141)	(55)
Unrealized gains and losses arising from changes in fair value and share-based payments		76	76
Cash flows from operations		1,643	1,355
(Increase) decrease in inventories	(6)	(462)	(349)
(Increase) decrease in trade accounts and other accounts receivable	(7)	(1,654)	(1,201)
Increase (decrease) in trade accounts payable, other payables and accrued expenses	(12)	1,014	824
Changes in tax receivable and payable	(9)	228	(12)
Changes in deferred taxes and provisions for other liabilities and charges	(9) (10)	(233)	(161)
Net cash generated from operating activities		536	456
Purchases of property, plant and equipment [First-half 2006: (811), First-half 2005: (598)] and intangible assets	(5)	(854)	(631)
Increase (decrease) in amounts due to suppliers of fixed assets		(160)	(133)
Acquisitions of shares in consolidated companies [First-half 2006: (298), First-half 2005: (511)], net of cash acquired	(2)	(236)	(433)
Acquisitions of other investments		(48)	(52)
Increase (decrease) in investment-related liabilities		(117)	0
Investments		(1,415)	(1,249)
Disposals of property, plant and equipment and intangible assets	(5)	43	58
Disposals of shares in consolidated companies, net of cash divested	(2)	656	79
Disposals of other investments		1	12
Other divestments		(538)	3
Divestments		162	152
(Increase) decrease in loans and deposits		36	38
Net cash used in investing activities/divestments		(1,217)	(1,059)
Issues of capital stock	(*)	220	155
Minority interests' share in capital increases of subsidiaries	(*)	3	3
(Increase) decrease in treasury stock	(*)	15	23
Dividends paid	(*)	(459)	(430)
Dividends paid to minority shareholders of consolidated subsidiaries	(*)	(33)	(27)
Increase (decrease) in dividends payable		4	0
Increase (decrease) in bank overdrafts and other short-term borrowings		372	247
Increase (decrease) in long-term debt		(225)	(644)
Net cash used in financing activities		(103)	(673)
Net increase (decrease) in cash and cash equivalents		(784)	(1,276)
Net effect of exchange rate changes on cash and cash equivalents		(42)	62
Cash and cash equivalents at beginning of period		2,080	2,898
Cash and cash equivalents at end of period		1,254	1,684

(*) References to the consolidated statement of changes in equity.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>(Number of shares)</i>		<i>(in € millions)</i>								
	Issued	Outstanding, excluding treasury stock	Capital stock	Additional paid-in capital and legal reserve	Retained earnings and net income for the period	Cumulative translation adjustments	Fair value reserves	Treasury stock	Shareholders' equity	Minority interests	Total equity
At December 31, 2004	340,988,000	335,127,590	1,364	2,123	7,415	(80)	3	(152)	10,673	237	10,910
Adjustments to prior-period figures (see Note 3)					(47)				(47)		(47)
At December 31, 2004 – Pro forma	340,988,000	335,127,590	1,364	2,123	7,368	(80)	3	(152)	10,626	237	10,863
Translation adjustments						607			607	28	635
Changes in fair value recognized in equity							8		8		8
Actuarial gains and losses, net of tax					(119)				(119)		(119)
Changes in Group structure and other movements					8	0			8	35	43
<i>Income and expense recognized directly in equity</i>											
Net income for the period			0	0	(111)	607	8	0	504	63	567
<i>Total recognized income and expense for the period</i>			0	0	521	607	8	0	1,136	79	1,215
Issues of capital stock											
- Group Savings Plan	4,267,470	4,267,470	17	138					155		155
- Stock option plans									0		0
- Other									0	3	3
Dividends paid (€1.28 per share)					(430)				(430)	(27)	(457)
Treasury stock purchased									0		0
Treasury stock retired									0		0
Treasury stock sold		663,074			11			12	23		23
Share-based payments					26				26		26
At June 30, 2005 – Pro forma	345,255,470	340,058,134	1,381	2,261	7,496	527	11	(140)	11,536	292	11,828

Saint-Gobain Group – Consolidated financial statements

	<i>(Number of shares)</i>		<i>(in € millions)</i>								
	Issued	Outstanding, excluding treasury stock	Capital stock	Additional paid-in capital and legal reserve	Retained earnings and net income for the period	Cumulative translation adjustments	Fair value reserves	Treasury stock	Shareholders' equity	Minority interests	Total equity
Translation adjustments						108			108	9	117
Changes in fair value recognized in equity					(3)		5		2		2
Actuarial gains and losses, net of tax					(118)				(118)		(118)
Changes in Group structure and other movements					(28)				(28)	14	(14)
<i>Income and expense recognized directly in equity</i>			0	0	(149)	108	5	0	(36)	23	(13)
Net income for the period					632				632	14	646
<i>Total recognized income and expense for the period</i>			0	0	483	108	5	0	596	37	633
Issues of capital stock											
- Group Savings Plan									0		0
- Stock option plans	800	800							0		0
- Other									0	1	1
Dividends paid									0	(2)	(2)
Treasury stock purchased		(4,423,117)						(210)	(210)		(210)
Treasury stock retired									0		0
Treasury stock sold		1,237,292			1			40	41		41
Share-based payments					18				18		18
At December 31, 2005 – Pro forma (*)	345,256,270	336,873,109	1,381	2,261	7,998	635	16	(310)	11,981	328	12,309

Saint-Gobain Group – Consolidated financial statements

	<i>(Number of shares)</i>		<i>(in € millions)</i>								
	Issued	Outstanding, excluding treasury stock	Capital stock	Additional paid-in capital and legal reserve	Retained earnings and net income for the period	Cumulative translation adjustments	Fair value reserves	Treasury stock	Shareholders' equity	Minority interests	Total equity
Translation adjustments						(371)			(371)	(13)	(384)
Changes in fair value recognized in equity							(20)		(20)		(20)
Actuarial gains and losses, net of tax					367				367		367
Changes in Group structure and other movements									0	13	13
<i>Income and expense recognized directly in equity</i>			0	0	367	(371)	(20)	0	(24)	0	(24)
Net income for the period					797				797	19	816
<i>Total recognized income and expense for the period</i>			0	0	1,164	(371)	(20)	0	773	19	792
Issues of capital stock											
- Group Savings Plan	5,399,291	5,399,291	22	198					220		220
- Stock option plans									0		0
- Other									0	3	3
Dividends paid (€1.36 per share)					(459)				(459)	(33)	(492)
Treasury stock purchased		(1,105,000)						(59)	(59)		(59)
Treasury stock retired									0		0
Treasury stock sold		2,094,996			15			59	74		74
Share-based payments					37				37		37
At June 30, 2006	350,655,561	343,262,396	1,403	2,459	8,755	264	(4)	(310)	12,567	317	12,884

(*) Details of the adjustments made to figures for the year ended December 31, 2005 are provided in Note 3.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ACCOUNTING PRINCIPLES AND POLICIES

BASIS OF PREPARATION

The interim 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 described in these notes. They comply with IAS 34, which relates specifically to interim financial reporting.

These notes should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2005, prepared in accordance with IFRS as adopted by the European Union.

The same accounting policies were applied in the Group’s interim consolidated financial statements as in its financial statements for the year ended December 31, 2005, except for the change of method described below.

From January 1, 2006, the Group has elected to apply the option provided in paragraphs 93A to 93D of IAS 19 relating to the treatment of actuarial gains and losses concerning provisions for pensions and other employee benefit obligations. Consequently, actuarial gains and losses, which were previously amortized using the “corridor method” over the average remaining service period or average remaining life of the employee participating in the plan, are now recognized immediately in equity. The impact on the consolidated financial statements of this change in accounting method is described in Note 3.

The interpretations and amendments to published standards whose application is compulsory in 2006 (amendment to IAS 21, revisions to IAS 39, IFRS 6, IFRIC interpretations 4 and 6) did not have a material impact on the interim consolidated financial statements.

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Group’s accounting periods beginning on or after January 1, 2007. The Group has decided not to early adopt these standards, amendments and interpretations, and at the date of this report it is not aware of their possible impact on the consolidated financial statements.

The preparation of consolidated financial statements in compliance with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of expenses and income during the period. Actual amounts may differ from those obtained through the use of these assumptions and estimates.

These financial statements were approved by the Board of Directors on July 27, 2006. All amounts are in millions of euros unless otherwise specified.

INTERIM FINANCIAL STATEMENTS

The interim financial statements, which are not intended to provide a measure of performance for the year as a whole, include all period-end accounting entries deemed necessary by Group management in order to give a true and fair view of the information presented.

Impairment tests for goodwill and other intangible assets are performed systematically during the second half of the year as part of the preparation process for the five-year business plan. Consequently, they are only performed for the interim close if there is an indication that the assets concerned are impaired.

The entire expense related to the Group Savings Plan is recognized in the first half of the year since the offer period expires on June 30.

For the countries where the Group's pension and other post-employment benefit obligations are the most significant – i.e. the United States, the United Kingdom, France and Germany – an actuarial valuation is performed at end-June in order to adjust the amount recorded in provisions for pensions and other employee benefits. For the other countries where the Group operates, actuarial calculations are performed as part of the annual budget procedure. For these countries, additions to provisions recorded in the first half of the year are based on estimates performed at the end of the previous year.

CONSOLIDATION

Scope of consolidation

The Group's consolidated financial statements include the accounts of Compagnie de Saint-Gobain and of all its majority-owned subsidiaries, as well as those of jointly controlled companies and companies over which the Group exercises significant influence.

Significant changes in the Group's scope of consolidation during first-half 2006 are shown in Note 2, and a summary list of the principal consolidated companies at June 30, 2006 is provided in Note 19.

Consolidation methods

Companies over which the Group exercises exclusive control, either directly or indirectly, are fully consolidated.

The Group recognizes its interests in jointly controlled entities using proportionate consolidation. It has elected not to apply the alternative treatment permitted by IAS 31, under which jointly controlled companies may be accounted for by the equity method.

Companies over which the Group exercises significant influence, either directly or indirectly, are consolidated by the equity method.

Potential voting rights and commitments to purchase treasury stock

Potential voting rights conferred by share call options relating to minority interests are only taken into account in determining whether the Group exclusively controls an entity when the options are currently exercisable.

When calculating its percentage interest in Group companies, the Group takes into consideration the impact of cross put and call options contracted with minority interests in relation to those companies' shares. This approach gives rise to the recognition in the financial statements of an investment-related liability corresponding to the present value of the estimated exercise price for the put option, with a corresponding reduction in minority interests and the recognition of goodwill.

Non-current assets held for sale – Discontinued operations

Assets that are immediately available for sale and for which a sale is highly probable, are classified as non-current assets held for sale. Related liabilities are classified as liabilities directly associated with non-current assets held for sale. When several assets are held for sale in a single transaction, they are accounted for as a disposal group, which also includes any liabilities directly associated with those assets.

The assets, or disposal groups, are measured at the lower of carrying amount and fair value less costs to sell. Depreciation ceases when non-current assets or disposal groups are classified as held for sale. In accordance with IAS 12, deferred tax is recognized on the difference between the carrying amount of the assets sold and their tax base.

Non-current assets held for sale and directly associated liabilities are presented separately on the face of the consolidated balance sheet, and income and expenses are still recognized in the consolidated income statement on a line-by-line basis. The income and expenses of discontinued operations are recorded as a single amount on the face of the consolidated income statement.

At each balance sheet date, the value of these assets and liabilities is reviewed to determine whether a loss or gain should be recognized due to a change in the fair value less costs to sell.

Intragroup transactions

All intragroup balances and transactions are eliminated in consolidation.

Minority interests

When the equity of a consolidated subsidiary is negative at the period-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 periods.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group.

Translation of the financial statements of foreign companies

Assets and liabilities of subsidiaries outside the euro zone are translated into euros at the closing rate, and income and expense items are translated using the average exchange rate for the period.

The Group's share of any translation gains or losses is included in equity under "Cumulative translation adjustments", until the foreign investments to which they relate are sold or liquidated, at which time they are taken to the income statement. As the Group elected to use the exemption allowed under IFRS 1, the cumulative translation differences that existed at the transition date were reset to zero at January 1, 2004.

Foreign currency transactions

Foreign currency transactions are translated into the Company's functional currency (the euro) using the exchange rates prevailing at the transaction date. Assets and liabilities denominated in foreign currencies are translated at the closing rate and any exchange differences are recorded in the income statement. Exchange differences relating to loans and borrowings between Group companies are recorded, net of tax, in equity under "Cumulative translation adjustments", as in substance they are an integral part of the net investment in a foreign subsidiary.

BALANCE SHEET ITEMS

Goodwill

When an entity is acquired by the Group, the identifiable assets, liabilities, and contingent liabilities of the entity are recognized at their fair value. Any adjustments to provisional values as a result of completing the initial accounting are recognized from the acquisition date, within twelve months of that date. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity. If the cost of the acquisition is less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Goodwill on the acquisition of companies accounted for by the equity method is included in "Investments in associates".

Other intangible assets

Other intangible assets primarily include patents, brands, software, and development costs.

Acquired retail brands and certain manufacturing brands are treated as intangible assets with indefinite useful lives as they have a strong reputation on a national and/or international scale. These brands are not amortized but are tested for impairment on an annual basis. Other brands are amortized over their useful lives, not to exceed 40 years.

Patents and purchased computer software are amortized over their estimated useful lives. The applicable useful lives for patents do not exceed 20 years and those for purchased software range from 3 to 5 years.

Research costs are expensed as incurred. Development costs meeting the recognition criteria under IAS 38 are included in intangible assets and are amortized over a period not to exceed 5 years as from the date the products concerned are initially marketed.

The greenhouse gas emission allowances granted to the Group have not been recognized in the consolidated accounts, as IFRIC 3 – Emission Rights – has been withdrawn. A provision is recorded in the consolidated financial statements to cover any difference between the Group's emissions and the emission rights granted.

Property, plant and equipment

Land, buildings and equipment are carried at historical cost less depreciation. Cost may include transfers from equity of any gains/losses on qualifying cash flow hedges relating to purchases of property, plant and equipment.

Borrowing costs incurred for the construction and acquisition of property, plant and equipment are recorded under "Net financial expense" and are not included in the cost of the related asset.

The Group has opted not to record any residual value for its property, plant and equipment, with the exception of its head office building, which is its only material non-industrial asset. Most of the Group's industrial assets are intended to be used until the end of their useful lives and are not generally expected to be sold.

Property, plant and equipment other than land is depreciated using the components approach, on a straight-line basis over the following estimated useful lives:

Major factories and offices	30 – 40 years
Other buildings	15 – 25 years
Production machinery and equipment	5 – 16 years
Vehicles	3 – 5 years
Furniture, fixtures, office and computer equipment	4 – 16 years

Gypsum quarries are depreciated over their expected useful lives, determined by reference to the quantity of gypsum extracted during the year compared with the latest available estimate of total reserves.

Provisions for site restoration are set aside when the Group has a present legal or constructive obligation to restore a site in accordance with contractually determined conditions. These provisions are reviewed periodically and may be discounted over the expected useful life of the assets concerned. The cost of the assets may include the amounts recorded in these provisions.

Investment grants relating to purchases of non-current assets are recorded under “Other payables and accrued expenses” and taken to the income statement over the estimated useful lives of the relevant assets.

Leases

Assets held under leases which transfer to the Group substantially all of the risks and rewards of ownership (finance leases) are recognized as property, plant and equipment. They are capitalized at the commencement of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments.

The items of property, plant and equipment acquired under finance leases are depreciated over the shorter of the estimated useful life of the asset – determined using the same criteria as for assets owned by the Group – or the lease term. The corresponding liability is shown net of related interest in the balance sheet.

Rental payments under operating leases are expensed as incurred.

Non-current financial assets

Non-current financial assets include “Available-for-sale and other securities” and “Other non-current assets” which primarily comprise long-term loans and deposits.

Investments in non-consolidated companies classified as “available for sale” are carried at fair value through equity. Where there is an indication of a prolonged decline in the fair value of these securities below their cost, an impairment loss is recorded in the income statement.

Impairment of assets

The Group tests its property, plant and equipment, goodwill and other intangible assets for impairment on a regular basis. These tests consist of comparing the asset’s carrying amount with its recoverable amount, which represents the higher of the asset’s fair value less costs to sell and its value in use, calculated by reference to the present value of the future cash flows expected to be derived from the asset.

For property, plant and equipment and amortizable intangible assets, this impairment test is performed whenever an asset generates operating losses due to either internal or external factors, and when the annual budget or related business plan does not forecast a recovery.

For goodwill and other intangible assets (including retail brands with indefinite useful lives), an impairment test is performed each calendar year based on the related five-year business plan. Goodwill is reviewed systematically and exhaustively at the level of each cash-generating unit (business line and geographic region) and where necessary more detailed tests are carried out.

The method used for these impairment tests is consistent with that employed by the Group for the valuation of companies upon business combinations or acquisitions of equity interests. The carrying amount of the assets is compared with the present value of future cash flows excluding interest but including tax. Cash flows for the fifth year of the business plan are rolled forward over the following two years and are then projected to perpetuity for goodwill using a low growth rate (generally 1%, except for emerging markets or businesses with a high growth potential where the rate may be increased to 2%). The discount rate used for these cash flows corresponds to the Group's cost of capital, weighted with respect to the specific geographic region of the operations concerned.

Recoverable amount calculated using a post-tax discount rate gives the same result as a pre-tax rate applied to pre-tax cash flows.

Different assumptions measuring the sensitivity of the method used are systematically tested using the following parameters:

- +/-1% change in annual average growth rate for cash flows,
- +/-0.5% change in discount rate applied to cash flows.

When the annual impairment test reveals that an asset's fair value is lower than its carrying amount, an impairment loss is recorded to reduce the carrying amount of the asset or goodwill concerned to its recoverable amount.

Any impairment losses recognized for goodwill and other non-amortizable intangible assets are not reversed.

For property, plant and equipment and other intangible assets, an impairment loss recognized in a prior period may be reversed if there is an indication that the impairment no longer exists and that the recoverable amount of the asset concerned exceeds its carrying amount.

Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories includes the costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Cost is generally determined using the weighted-average cost method, and in some cases, the First-In-First-Out method. Cost of inventories may also include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

Operating receivables and payables

Operating receivables and payables are stated at nominal value as they generally have maturities of under three months. Provisions for impairment are established to cover the risk of full or partial non-recovery.

For commercial receivables transferred under securitization programs, the contracts concerned are analyzed and if substantially all the risks related to the receivables are not transferred to the financing institutions, they remain recognized in the balance sheet and a corresponding liability is recognized in short-term debt.

Net debt

- *Long-term debt*

Long-term debt encompasses bonds (including Océane bonds), Medium Term Notes, perpetual bonds, participating securities and all other types of long-term debt including borrowings under finance leases and the fair value of derivatives qualifying as interest-rate hedges.

Under IAS 32, the distinction between financial liabilities and equity is based on the substance of the contracts concerned rather than their legal form. As a result, participating securities have been classified as debt, and Océane bonds have been broken down into a liability component and an equity component.

At the balance sheet date, bonds and private placement notes are measured at amortized cost, and premiums and issuance costs are amortized using the yield-to-maturity method.

- *Short-term debt*

Short-term debt includes the current portion of the long-term debt described above, as well as short-term financing programs such as commercial paper, bank overdrafts and other short-term bank borrowings, as well as the fair value of debt derivatives not qualifying for hedge accounting.

- *Cash and cash equivalents*

Cash and cash equivalents mainly consist of cash on hand, bank accounts, and marketable securities that are short-term, highly liquid investments readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Marketable securities are measured at fair value through profit or loss.

Further details about long- and short-term debt are provided in Note 13.

Foreign exchange, interest rate and commodity derivatives (swaps, options, futures)

The Group uses interest rate, foreign exchange and commodity derivatives to hedge its exposure to changes in interest rates, exchange rates and commodity prices that may arise in its ordinary business operations.

In accordance with IAS 32 and IAS 39, all of these instruments are recognized in the balance sheet at fair value, irrespective of whether or not they are part of a hedging relationship that qualifies for hedge accounting under IAS 39.

Changes in the fair value both of derivatives that are designated and qualify as fair value hedges and derivatives that do not qualify for hedge accounting are taken to the income statement. However, the effective portion of the gain or loss arising from changes in fair value of derivatives that qualify as cash flow hedges is recognized directly in equity, whereas the ineffective portion is recognized in the income statement.

- *Fair value hedges*

A significant proportion of the interest-rate derivatives used by the Group to swap fixed rates for variable rates are designated and qualify as fair value hedges, as they are used to hedge exposure to changes in the fair value of fixed rate borrowings. Fair value accounting enables the hedged debt designated by the Group as forming part of a hedging relationship to be measured at fair value. As the effective portion of the gain or loss on the fair value hedge offsets the loss or gain on the underlying hedged item, the income statement is only impacted by the ineffective portion of the hedge.

- *Cash flow hedges*

Cash flow hedge accounting is applied by the Group mainly to derivatives used to fix the cost of future purchases of gas and fuel (fixed-for-variable price swaps). These instruments are matched to highly probable purchases. By using cash flow hedges, the Group can defer the impact on the income statement of the effective portion of changes in the fair value of these instruments by recording them in a special hedging reserve in equity. The reserve is reclassified into the income statement at the date the hedged transaction occurs, at which time the hedged item is also recognized in the income statement. In the same way as for fair value hedges, cash flow hedging limits the Group's exposure to changes in the fair value of these price swaps to the ineffective portion of the hedge.

- *Derivatives that do not qualify for hedge accounting*

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in the income statement. The instruments concerned mainly include cross-currency swaps; gas, currency and interest-rate options; currency, commodity and energy swaps; and futures.

Investment-related liabilities

Investment-related liabilities correspond to commitments to purchase shares in non-consolidated companies from minority interests, as well as liabilities relating to the acquisition of shares in Group companies, including additional purchase consideration. They are reviewed on a periodic basis. The impact of the passage of time on these liabilities is recognized in financial income and expense.

Employee benefits – defined benefit plans

After retirement, the Group's former employees receive pensions in accordance with the applicable laws and regulations in the respective countries in which the Group operates. There are additional pension obligations in certain Group companies, both in France and other countries.

In France, employees receive 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 determined using a method based on projected end-of-career salaries, taking into account the specific economic conditions applicable in each country. These obligations are covered by retirement funds and provisions recorded in the balance sheet.

Differences due to changes in pension plans (past service cost) are recognized as an expense on a straight-line basis over the average period until the benefits become vested or immediately if the benefits are already vested.

Actuarial gains or losses are the result of period-on-period 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 as they occur.

In the United States, Spain and Germany, the Group's retired employees receive benefits other than pensions, mainly concerning healthcare. The Group's obligations in this respect are determined using an actuarial method and are covered by a provision recorded in the balance sheet.

Actuarial provisions are also established for a certain number of additional benefits, such as jubilee or other long-service benefits and deferred compensation or termination benefits in various countries. Any actuarial gains and losses relating to these benefits are recognized immediately.

The Group has elected to recognize the interest costs for these obligations and the estimated return on plan assets as financial income or expense.

Employee benefits – defined contribution plans

Contributions to defined contribution plans are expensed as incurred.

Employee benefits – share-based payment

The Saint-Gobain Group has elected to apply IFRS 2 from January 1, 2004 to all its stock option plans since the plan launched on November 20, 2002.

Costs related to stock option plans are calculated using the Black & Scholes option pricing model, based on the following parameters:

- Volatility assumptions, which take into account the historical volatility of the share price over a rolling 10-year period, as well as implied volatility from traded share options as observed since the Océane bond issue in January 2002. Periods during which the share price was extraordinarily volatile have been disregarded.
- Assumptions relating to the average holding period of options, based on actual behavior of option holders observed in recent years for the plans established between 1993 and 1997.
- Expected dividends, as assessed on the basis of historical information dating back to 1988.
- The risk-free interest rate, which is the yield on long-term government bonds.

The cost calculated using this method is recognized in the income statement over the vesting period of the options, ranging between 3 and 5 years depending on the plan concerned.

For stock subscription options, the sums received by the Company when the options are exercised are recorded in “Capital stock” for the portion representing the par value of the shares, with the balance – net of directly attributable transaction costs – recorded under “Additional paid-in capital”.

In order to calculate the costs relating to its Group Savings Plan, the Group applies a method which takes into account the fact that shares granted to employees under the plan are subject to a five-year holding period. The cost relating to this holding period is measured and deducted from the 20% discount granted by the Group on employee share awards. The bases for the calculation are as follows:

- The exercise price is that determined by the Board of Directors and corresponds to the average of the opening share prices quoted over the 20 trading days preceding the date of grant, less a 20% discount.
- The grant date of the options is the date on which the plan is announced to employees. For Saint-Gobain, this is the date on which the terms and conditions of the plan are posted on the Group’s intranet site.
- The interest rate applicable to employee share awards and used to determine the borrowing cost relating to the shares during the holding period is the rate that would be applied by a bank to an individual with an average risk profile for a general purpose five-year consumer loan.

The related cost is recorded in full at the close of the subscription period.

Equity

- *Additional paid-in capital and legal reserve*

This item includes capital contributions in excess of the par value of capital stock as well as the legal reserve which corresponds to an accumulated portion of the net income of Compagnie de Saint-Gobain.

- *Retained earnings and net income for the period*

Retained earnings and net income for the period 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 period.

Provisions for other liabilities and charges

A provision is booked when the Group has a present legal or constructive obligation towards a third party as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

If the timing or the amount of the obligation cannot be measured with sufficient reliability, it is classified as a contingent liability and constitutes an off-balance sheet commitment. However, contingent liabilities relating to business combinations are recognized in the balance sheet.

Provisions for other material liabilities and charges whose timing can be estimated reliably are discounted to present value.

INCOME STATEMENT ITEMS

Revenue recognition

Revenue generated by the sale of goods or services is recognized when the risks and rewards of ownership have been transferred to the customer or when the service has been rendered, net of rebates, discounts and sales taxes.

Construction contracts

Group companies account for construction projects using the percentage of completion method as follows:

- When the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognized as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the balance sheet date.
- When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable.
- When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Construction contracts do not represent a material portion of the Group's sales.

Operating income

Operating income is used to measure the performance of the Group's sectors and divisions and has been used by the Group as its key external and internal management indicator for many years.

Restructuring costs and income and expenses relating to business disposals do not form part of the Group's normal operating cycle and are therefore recorded as other business income and expense. Foreign exchange gains and losses are included in operating income, as are changes in the fair value of financial instruments that do not qualify for hedge accounting when they relate to operating items.

Other business income and expense

Other business income and expense mainly includes allocations to and reversals of provisions for claims and litigation and environmental provisions, gains and losses relating to the sale of assets, impairment losses, and restructuring costs incurred upon the disposal or discontinuation of operations as well as costs related to arrangements for personnel affected by workforce reduction measures.

Business income

Business income includes all income and expenses other than financial income and expense, the Group's share in net income of associates, and income taxes.

Financial income and expense

Financial income and expense includes borrowing and other financing costs, income from cash and cash equivalents, financial expense relating to pensions and other post-employment benefits, net of return on plan assets, and other financial income and expenses. Financial income has not been presented on a separate line in the consolidated income statement as the amounts concerned are not material. Disclosures relating to financial income are provided in Note 16.

Income taxes

Under an agreement with the French tax authorities, Compagnie de Saint-Gobain is currently assessed for income tax purposes on its consolidated taxable income. As the Group has decided not to renew this agreement, the related taxation method will terminate on December 31, 2006 (see Note 9).

Deferred taxes are calculated using the liability method for temporary differences between the carrying amount of assets and liabilities and their tax basis. Tax rates applicable to future periods are used to calculate period-end deferred income tax amounts.

Deferred tax assets are recognized only if it is considered probable that there will be sufficient future taxable income against which the unused tax losses and credits can be utilized.

No provision is made in respect of tax payable on earnings of subsidiaries that are not intended to be distributed.

In accordance with interpretation SIC 21, a deferred tax liability is recognized for retail brands that are identified in the accounts.

Deferred taxes are recognized as income or expense in the income statement, except if they relate to items that are recognized directly in equity, in which case the deferred taxes are also recognized in equity.

Earnings per share

Basic earnings per share are calculated by dividing net income by the average number of shares in issue during the period, excluding treasury stock.

Diluted earnings per share are calculated based on adjusted net income and including in the average number of shares in issue the conversion of all outstanding dilutive instruments, such as stock options and convertible bonds. The Group applies the treasury stock method for the purpose of this calculation, under which it is assumed that the proceeds from the exercise of dilutive instruments are assigned on a priority basis to the purchase of common shares in the market.

The Group also discloses earnings per share calculated by dividing net income by the number of shares outstanding at the end of each financial reporting period.

CASH FLOW STATEMENT

“Cash flows from operations” as presented in the consolidated cash flow statement corresponds to net cash generated from operating activities before the impact of changes in working capital requirements, changes in current taxes and movements in provisions for other liabilities and charges and deferred taxes.

Inflows and outflows relating to interest and tax are not included in the consolidated cash flow statement. However, in order to ensure compliance with IAS 7, this information is disclosed in the notes to the consolidated financial statements.

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 first-half 2006

	France	Outside France	Total
<u>Fully consolidated companies</u>			
At January 1, 2006	219	1,177	1,396
Newly consolidated companies	22	40	62
Merged companies	(1)	(32)	(33)
Deconsolidated companies	(1)	(9)	(10)
Change in consolidation method		2	2
At June 30, 2006	239	1,178	1,417
<u>Proportionately consolidated companies</u>			
At January 1, 2006	2	9	11
Newly consolidated companies			0
Change in consolidation method			0
At June 30, 2006	2	9	11
<u>Companies accounted for by the equity method</u>			
At January 1, 2006	8	67	75
Newly consolidated companies	1	1	2
Merged companies		(2)	(2)
Deconsolidated companies		(5)	(5)
Change in consolidation method		(2)	(2)
At June 30, 2006	9	59	68
Total at June 30, 2006	250	1,246	1,496

Significant changes in Group structure*First-half 2006*

In 2005, the Group acquired the entire capital stock of China-based Xugang (Xuzhou General Iron and Steel Works) for €82 million, or €93 million including the net debt assumed. As this acquisition was only authorized by the Chinese authorities in late December 2005, the company – which reported first-half 2006 sales of €69 million – has been consolidated since January 1, 2006.

In first-half 2006, the Group entered into an agreement to sell Saint-Gobain Calmar to the MeadWestvaco group. Saint-Gobain Calmar's assets and liabilities were categorized 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. The company was deconsolidated at June 30, 2006.

2005

In the first half of 2005, the Group acquired the entire capital stock of the Swiss company Sanitas Troesch for €26 million (€10 million including net cash acquired). This entity was fully consolidated from March 1, 2005. The impact on the Group's net sales was €15 million in first-half 2005 and €159 million in first-half 2006.

In the second half of 2005, the Group acquired the entire capital of the Norway-based building materials distributor, Optimera Gruppen AS, for €203 million (€80 million including net debt assumed). This company was fully consolidated from August 1, 2005. The related impact on the Group's net sales in first-half 2006 was €336 million.

In 2005 the Group also acquired the BPB group through a cash offer which closed on December 2, 2005. The Saint-Gobain Group fully controlled BPB at December 31, 2005, and the total acquisition cost was €928 million (€6,506 million including net debt assumed). BPB was fully consolidated as from December 1, 2005. The positive impacts of this acquisition on the Group's first-half 2006 income statement (including acquisition finance costs) were as follows: (i) €1,773 million on net sales after eliminating intragroup transactions, (ii) €334 million on operating income, (iii) €333 million on business income and (iv) €18 million on net income.

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 €73 million in first-half 2005.

Impacts on the consolidated balance sheet

At June 30, 2006, the impact on the balance sheet of changes in Group structure and in consolidation methods was as follows:

	Increases	Decreases	Total
Impact on assets			
Non-current assets	234	(645)	(411)
Inventories	91	(52)	39
Trade accounts receivable	145	(73)	72
Other current assets excluding cash and cash equivalents	36	(9)	27
	506	(779)	(273)
Impact on equity and liabilities			
Shareholders' equity and minority interests	9		9
Provisions for pensions and other employee benefits	11	(16)	(5)
Long-term liabilities	4	(26)	(22)
Trade accounts payable	109	(35)	74
Other payables and accrued expenses	71	(37)	34
	204	(114)	90
Acquisitions/disposals of shares in consolidated companies including net debt acquired/disposed of (a)	302	(665)	(363)
Impact on consolidated net debt*			
Impact on cash and cash equivalents	62	(15)	47
Impact on net debt excluding cash and cash equivalents (b)	66	(9)	57
	4	6	10
Acquisitions/disposals of shares in consolidated companies, net of cash acquired/disposed of (a) - (b)	236	(656)	(420)
	=====	=====	=====

* representing debt, short-term credit facilities and cash and cash equivalents of companies acquired/divested.

NOTE 3 – IMPACTS ON PRIOR-PERIOD DATA OF CHANGES IN ACCOUNTING METHOD AND ESTIMATES

The following adjustments have been made to the published data at December 31, 2005 in order to present pro forma comparative information for the purposes of these interim consolidated financial statements.

<i>(in € millions)</i>	Dec. 31, 2005 Published	IAS 19 option concerning the recognition of actuarial gains and losses (a)	Allocation of goodwill (b)	Other impacts (c)	Dec. 31, 2005 Pro forma
Goodwill	10,541		(1,155)		9,386
Other non-current assets	15,786	(2)	1,689	58	17,531
Inventories, trade and other accounts receivable	12,391		(1)	(47)	12,343
Cash and cash equivalents	2,080				2,080
Total assets	40,798	(2)	533	11	41,340
Shareholders' equity	12,265	(218)		(66)	11,981
<i>o/w net income attributable to equity holders of the parent</i>	<i>1,264</i>	<i>1</i>	<i>(1)</i>		<i>1,264</i>
Minority interests	328				328
Long-term debt	11,315				11,315
Provisions for pensions and other employee benefits	3,029	343		47	3,419
Deferred tax liabilities	819	(127)	551	58	1,301
Other non-current liabilities	834		(6)	(25)	803
Trade accounts payable and other current liabilities	12,208		(12)	(3)	12,193
Total equity and liabilities	40,798	(2)	533	11	41,340

(a) Impact of applying the option provided under IAS 19 (amended) relating to actuarial gains and losses

As explained in Note 1, from January 1, 2006 the Group has elected to apply the option provided in paragraphs 93A to 93D of the amended version of IAS 19 relating to the treatment of actuarial gains and losses concerning provisions for pensions and other employee benefits. Consequently, the Group now recognizes these gains and losses in equity as they occur.

The impact on the balance sheet at January 1, 2005 arising from this change in method was a €30 million pre-tax reduction in the provision for pensions and other employee benefits and a €9 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 with a corresponding €218 million reduction in equity, after deferred taxes.

However, the impact of this change in method reversed during the first half of 2006 as a result of an increase in the applicable discount rate. This led to a €556 million pre-tax increase in equity (€367 million net of deferred taxes). Consequently the net positive impact on equity at June 30, 2006 came to €149 million.

(b) Allocation of goodwill arising on prior-period acquisitions

The allocation of goodwill relating to the BPB group – which was acquired in early December 2005 – was not completed at the end of first-half 2006. It is possible that the calculation of the group's identifiable assets, liabilities and contingent liabilities may change between July 1, 2006 and November 30, 2006, which represents the end of the 12-month period following the acquisition during which fair value adjustments are permitted.

At June 30, 2006 the provisional allocation of the acquisition price for BPB totaled €1,689 million, or €1,137 million net of deferred taxes. This figure breaks down into the pre-tax amounts of: (i) €386 million relating to property, plant and equipment (gypsum quarries and manufacturing sites), and (ii) €1,303 million corresponding to intangible assets (patents and trademarks). 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 €8 million reclassification between deferred tax assets and liabilities in the consolidated balance sheet.

In the first half of 2006, provisions for US employees' deferred compensation were classified under provisions for pensions and other employee benefits in an amount of €7 million.

Finally, corrections of errors made prior to December 31, 2005 led to a €6 million reduction in equity at June 30, 2006. 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)***First-half 2006****At January 1**

Gross value	9,424
Accumulated impairment	(38)
Net	9,386

Movements during the period

Changes in Group structure	(72)
Impairment	(109)
Translation adjustments	(162)
Total	(343)

At June 30

Gross value	9,182
Accumulated impairment	(139)
Net	9,043

The allocation of the acquisition price for the BPB group to its identifiable assets and liabilities and contingent liabilities led to a €1,155 pre-tax reduction in goodwill at December 31, 2005 (see Note 3).

In first-half 2006, “Changes in Group structure” primarily reflected (i) the acquisition of Xugang (acquisition price: €82 million; goodwill: €21 million) and several companies in the Building Distribution Sector, primarily in France, the United Kingdom and Scandinavia (total goodwill: €161 million); and (ii) the divestment of Synflex and Saint-Gobain Calmar in the United States which led to a €284 million reduction in goodwill.

Impairment of goodwill primarily concerned the Packaging Sector.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

<i>(in € millions)</i>	Land	Buildings	Machinery and equipment	Assets under construction	Total
At December 31, 2005					
Gross value	2,094	6,733	18,653	1,389	28,869
Accumulated depreciation and impairment	(257)	(3,251)	(12,450)	(17)	(15,975)
Net	1,837	3,482	6,203	1,372	12,894
Movements during the period					
Changes in Group structure	(4)	19	(64)	(3)	(52)
Acquisitions	26	31	142	618	817
Disposals	(6)	(14)	(28)	(11)	(59)
Translation adjustments	(25)	(71)	(164)	(38)	(298)
Depreciation and impairment	(13)	(125)	(596)	(2)	(736)
Transfers	0	111	358	(469)	0
Total	(22)	(49)	(352)	95	(328)
At June 30, 2006					
Gross value	2,047	6,731	18,262	1,490	28,530
Accumulated depreciation and impairment	(232)	(3,298)	(12,411)	(23)	(15,964)
Net	1,815	3,433	5,851	1,467	12,566

The balances at December 31, 2005 presented above include the impact of the allocation of BPB goodwill to property, plant and equipment as described in Note 3.

As an industrial group, Saint-Gobain does not have a significant non-operating property portfolio, except for its head office building.

In the first half of 2006, acquisitions of property, plant and equipment included new finance leases in the amount of €6 million (€7 million in first-half 2005), which did not have an impact on the cash flow statement.

NOTE 6 – INVENTORIES

<i>(in € millions)</i>	June 30, 2006	December 31, 2005
Gross value		
Raw materials	1,382	1,335
Work in progress	303	329
Finished goods	4,668	4,268
Gross inventories	6,353	5,932
Provisions for impairment in value		
Raw materials	(96)	(92)
Work in progress	(11)	(15)
Finished goods	(307)	(290)
Total provisions for impairment in value	(414)	(397)
Net inventories	5,939	5,535

In the first half of 2006, “Cost of sales” came to €15,368 million, compared with €12,612 million in first-half 2005.

Impairment of inventories recorded in the first-half 2006 income statement amounted to €56 million (€46 million in first-half 2005). Impairment reversals recorded due to increases in the net realizable value of inventories were deducted from expenses for the period in an amount of €23 million, versus €30 million in first-half 2005.

NOTE 7 – TRADE AND OTHER ACCOUNTS RECEIVABLE**Trade accounts receivable**

<i>(in € millions)</i>	June 30,	December 31,
	2006	2005
Gross value	7,421	6,214
Provisions for impairment in value	(399)	(400)
Net	7,022	5,814

The net expense in respect of irrecoverable and doubtful receivables amounted to €43 million for first-half 2006, compared with €41 million for the same period of 2005.

The overall increase in trade and other accounts receivable at June 30, 2006 is primarily attributable to the impact of seasonal fluctuations on the Group's operations. Other accounts receivable included €50 million due from the MeadWestvaco group in connection with the sale of Saint-Gobain Calmar.

NOTE 8 – PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS

<i>(in € millions)</i>	June 30, 2006	December 31, 2005
Pension obligations	1,863	2,566
Retirement bonus obligations	236	255
Post-employment healthcare benefit obligations	381	402
Total provisions for pensions and other post-employment benefit obligations	2,480	3,223
Healthcare benefits	54	61
Long-term incapacity benefits	38	38
Other long-term benefits	102	97
Provisions for pensions and other employee benefits	2,674	3,419

The above balances at December 31, 2005 include the impact of the change in the method used to recognize actuarial gains and losses described in Note 3.

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, except in the BPB group companies acquired in late 2005.

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 cover all other employee benefits, notably long-service awards in France, "jubilee" benefits in Germany and employee benefits in the United States. The amounts recorded are generally calculated on an actuarial basis.

Measurement of pension and other employee benefit obligations

Pensions and other post-employment benefit obligations are determined by actuarial valuations using a method based on projected end-of-career salaries (the projected unit credit method).

The Group's obligations for other employee benefits including long-term incapacity benefits and other long-term benefits are also calculated on an actuarial basis and recognized in the same way as pension obligations.

Plan assets

For defined benefit plans, plan assets have been progressively built up by contributions, primarily in the United States and the United Kingdom.

Actuarial assumptions used for valuing pension obligations and plan assets

Assumptions related to mortality, employee turnover and future salary increases take into account the economic conditions specific to each country and company. Interest rates used in 2005 to determine the present value of future obligations were generally between 4% and 6.5%, depending on the country concerned.

The rates used at December 31, 2005 – and for measuring the related expense for the first half of 2006 – were as follows in the countries in which the Group's obligations are the most significant:

	France	Other European countries		United States
		Euro zone	United Kingdom	
Discount rate	4.25%	4.25%	4.75%	5.75%
Salary increases	2.40%	2.50% to 3.50%	3.20% to 3.45%	3.00%
Expected return on plan assets	4.90%	3.50% to 5.00%	6.00% to 7.00%	8.75%

The calculation of the Group's obligations was updated at June 30, 2006 using the following discount rates: 5.00% for the Euro zone, 5.25% for the United Kingdom, and 6.50% for the United States.

A review was conducted at the end of June of the obligations relating to the Group's major operating countries and plans using these new discount rates. At the same time, the value of the main plan assets was reassessed. These reviews concerned the United Kingdom, the United States, Germany and France, which represent 80% of the Group's total obligations.

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%.

Actuarial gains and losses

Actuarial gains or losses are the result of period-on-period 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). In accordance with the option provided in IAS 19 (amended), since January 1, 2006 the Group has elected to recognize these gains and losses in equity in the period they occur (see Note 3).

Prepaid pension costs

A prepaid pension cost is recorded under "Other non-current assets" whenever the assets of a pension plan exceed the related projected benefit obligation, less any unrecognized actuarial gains or losses, 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.

Movements in provisions for pensions and other post-employment benefit obligations (excluding other employee benefits)

(in € millions)

Movements during the period

Charge for the period	95
Interest cost	17
Actuarial gains and losses for the period	(556)
Contributions and benefits paid	(237)
Changes in Group structure	(3)
Other (reclassifications and translation adjustments)	(59)

Total (743)

At June 30, 2006

Total provisions for pensions and other post-employment benefit obligations 2,480

NOTE 9 – CURRENT AND DEFERRED TAXES

Compagnie de Saint-Gobain is assessed for income tax purposes on its consolidated taxable income. The current tax 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.

<i>(in € millions)</i>	First-half 2006	First-half 2005
Current taxes	(664)	(356)
France	(269)	(143)
Outside France	(395)	(213)
Deferred taxes	185	(3)
France	177	40
Outside France	8	(43)
Total income tax expense	(479)	(359)

Taxes paid in the first half of 2006 amounted to €435 million, compared with €368 million in first-half 2005.

In the first six months of 2006, the income tax expense represented 37% of the net pre-tax income of companies included in the tax group, compared with 36% in the equivalent prior-year period. The effective tax rates can be analyzed as follows:

<i>(in %)</i>	First-half 2006	First-half 2005
Current income tax rate	33	33
Surcharge on French income tax	1	1
Technical assistance fees and net capital gains taxed at lower rates	(1)	(1)
Other	4	3
Effective rate	37	36

Including the impact of adjustments to the amounts published at December 31, 2005 (see Note 3), changes in net deferred tax liabilities in the balance sheet break down as follows:

<i>(in € millions)</i>	Net deferred tax liabilities
At December 31, 2005	891
Deferred tax expense/(benefit) for the period	(185)
Deferred taxes relating to actuarial gains and losses recognized for the period (IAS 19)	189
Translation adjustments	6
Effect of changes in Group structure and other	(34)
At June 30, 2006	867

Since December 31, 2005, deferred taxes have been reclassified in the balance sheet to reflect the net deferred tax position by country. At June 30, 2006, the Group recognized €421 million in assets (€410 million at December 31, 2005), primarily relating to the United States (€310 million) and Germany (€84 million). The Group also recognized €1,288 million in liabilities (€1,301 million at December 31, 2005) relating to various countries including France (€601 million) and the United Kingdom (€241 million). Other countries accounted for significantly lower amounts.

NOTE 10 – PROVISIONS FOR OTHER LIABILITIES AND CHARGES

<i>(in € millions)</i>	Provision for claims and litigation	Provision for environ- mental risks	Provision for re- structuring costs	Provision for personnel costs	Provision for customer warranties	Provision for other contingencies	Total
At December 31, 2005							
Current portion	131	18	98	21	74	67	409
Non-current portion	245	89	95	32	83	129	673
Total provisions for other liabilities and charges	376	107	193	53	157	196	1,082
Movements during the period							
Additions	51	4	69	6	30	79	239
Reversals	0	(2)	(6)	(2)	(7)	(5)	(22)
Utilizations	(47)	(5)	(57)	(4)	(19)	(11)	(143)
Changes in Group structure Other (reclassifications and translation adjustments)	0 (27)	1 (6)	(2) (2)	(1) 0	0 (6)	2 11	0 (30)
Total	(23)	(8)	2	(1)	(2)	76	44
At June 30, 2006							
Current portion	117	17	107	22	69	126	458
Non-current portion	236	82	88	30	86	146	668
Total provisions for other liabilities and charges	353	99	195	52	155	272	1,126

The above balances at December 31, 2005 include the impact of prior-period adjustments as described in Note 3.

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 11.

Provision for environmental risks

This provision covers costs relating to environmental protection measures, as well as site restorations and clean-ups.

Provision for restructuring costs

The provision for restructuring costs came to €195 million at June 30, 2006 (including net additions of €69 million during the period), compared with €93 million at December 31, 2005. The provision mainly concerns the United Kingdom (€53 million), Germany (€46 million), France (€43 million), North America (€23 million), and the Benelux countries (€8 million).

Provision for personnel costs

This provision primarily covers indemnities due to personnel that are unrelated to the Group's reorganization operations.

Provision for customer warranties

This provision covers the Group's commitments in relation to warranties granted to customers.

Provision for other contingencies

At June 30, 2006, provisions for other contingencies amounted to €72 million and related mainly to France (€12 million), Germany (€38 million), North America (€28 million) and Latin America (€1 million).

NOTE 11 – LITIGATION

In France, further individual lawsuits were filed in the first half of 2006 by former employees (or persons claiming through them) of Everite and Saint-Gobain PAM (“the employers”) – which in the past had carried out fiber-cement operations – for asbestos-related occupational diseases, with the aim of obtaining supplementary compensation over and above the amounts paid by the French Social Security authorities for the consequences of these diseases. A total of 579 such lawsuits have been issued against the two companies since 1997.

At June 30, 2006, 411 of these 579 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 398 of these 411 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 168 lawsuits outstanding against Everite and Saint-Gobain PAM at June 30, 2006, the merits of 68 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, 6 have been dismissed following a claim made to the French Asbestos Victims Compensation Fund (FIVA). At June 30, 2006, the procedures relating to the merits of the other 94 cases were at different stages: 32 were at the administrative stage with the French Social Security authorities, 42 were pending before the Social Security courts and 2 before the Paris Court of Appeal, and 18 had been referred back to the Versailles Court of Appeal by the Court of Cassation.

In addition, 89 suits based on inexcusable fault have been filed by current or former employees of thirteen other French companies in the Group, in particular involving circumstances where equipment containing asbestos had been used to protect against heat from furnaces.

At June 30, 2006, 18 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 6 cases where it had already paid compensation to the employee or former employee concerned.

At the end of first-half 2006, 41 lawsuits were completed, of which 9 rulings 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 June 30, 2006, 3 were in the investigation stage by the French Social Security authorities, 10 were pending before the Social Security courts and 9 before the Courts of Appeal, and 2 cases had been appealed to the Court of Cassation.

Asbestos-related litigation in the United States

The estimated number of new asbestos-related claims filed against Certain Teed in the United States in the first half of 2006 came to approximately 4,000 compared with 7,000 in the second half of 2005. On a rolling 12 month basis, new claims fell to around 11,000 at end-June 2006 versus 17,000 at end-December 2005 and 19,000 at end-June 2005.

Some 86,000 claims were outstanding at June 30, 2006 – a notable decrease versus December 31, 2005 and December 31, 2004, when the number of claims outstanding represented 100,000 and 106,000 respectively. This decrease mainly stems from the fact that approximately 10,000 claims were placed on the inactive docket further to court rulings in the State of Ohio.

Some 8,000 claims were settled out of court in the first six months of 2006. At June 30, 2006, the average individual cost of formal settlements reached during the previous twelve months (including those in the process of formal settlement) came to around \$2,200 per claim. This decrease from the December 31, 2005 figure of \$2,800 and the \$2,500 recorded at June 30, 2005 reflects the high number of class actions dismissed in the past twelve months.

An additional estimated provision of €50 million – half of the amount booked for full-year 2005 – was recorded in the consolidated financial statements for the first half of 2006 in relation to these claims. As in 2002, 2003, 2004 and 2005, a precise assessment of the provision required for the full year will be performed at the year-end.

NOTE 12 – TRADE ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUED EXPENSES

<i>(in € millions)</i>	June 30, 2006	December 31, 2005
Trade accounts payable	5,567	4,781

The overall increase in trade accounts payable, other payables and accrued expenses at June 30, 2006 is primarily attributable to the impact of seasonal fluctuations on the Group's operations.

NOTE 13 – NET DEBT**Long- and short-term debt**

Long- and short-term debt consist of the following:

<i>(in € millions)</i>	June 30, 2006	December 31, 2005
Bond issues	5,273	4,993
Medium Term Notes	39	42
Perpetual bonds and participating securities	203	203
Acquisition-related bank borrowings	4,329	5,341
Other long-term debt including finance leases	432	802
Fair value of interest-rate hedges	4	(66)
Total long-term debt (excluding current portion)	10,280	11,315
Current portion of long-term debt	1,886	922
Short-term financing programs (US CP, euro CP and <i>Billets de trésorerie</i>)	979	782
Bank overdrafts and other short-term bank borrowings (including securitization)	1,858	1,937
Fair value of derivatives relating to borrowings not qualified as hedges	(11)	(26)
Short-term borrowings and bank overdrafts	2,826	2,693
Total debt – gross	14,992	14,930
Cash and cash equivalents	(1,254)	(2,080)
Total net debt including accrued interest	13,738	12,850

The fair value of gross long-term debt (including the current portion) managed by Compagnie de Saint-Gobain amounted to €1.8 billion at June 30, 2006.

Long-term debt repayment schedule

The repayment schedule for gross long-term debt at June 30, 2006 breaks down as follows:

(in € millions)

Maturity	Currency	Within 1 year	1 to 5 years	Beyond 5 years	Total
Bond issues	EUR	908	3,878	1,177	5,963
	USD	390	0	0	390
	GBP	0	218	0	218
Medium Term Notes	EUR	8	0	0	8
	USD	0	39	0	39
	Other	35	0	0	35
Perpetual bonds and participating securities	EUR	0	0	203	203
Acquisition-related bank borrowings	EUR	0	4,329	0	4,329
	GBP	0	0	0	0
Other long-term debt	All currencies	409	361	71	841
Fair value of interest-rate hedges	EUR	0	3	0	3
	USD	0	3	0	3
	GBP	0	(2)	0	(2)
Total, excluding accrued interest		1,750	8,829	1,451	12,030

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.

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 €10 each, and the total issue came to €20 million. The annual interest rate on these Océane bonds is 2.625%, payable in arrears on January 1 each year.

At June 30, 2006, Compagnie de Saint-Gobain had not used its entitlement to repurchase any of the Océane bonds. During the first half of 2006, 528 Océane bonds were converted into Compagnie de Saint-Gobain shares on the basis of four shares per bond.

If all of the bonds were converted at the price provided for in the issue agreement, the holders would receive a total of 17,521,700 shares, representing 5.00% of the capital stock of Compagnie de Saint-Gobain at June 30, 2006 (excluding the bonds already converted at June 30, 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 June 30, 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 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 June 30, 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 the first half of 2006 came to € million, compared with €4.7 million in first-half 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 June 30, 2006, these programs were as follows:

Programs	Currency	Drawdown period	Authorized ceiling at June 30, 2006	Drawn down at June 30, 2006	Drawn down at December 31, 2005
<i>(in millions of currency)</i>					
Medium Term Notes	EUR	1 to 30 years	5,000	82	85
US commercial paper	USD	up to 12 months	1,000 (*)	100	0
Euro commercial paper	USD	up to 12 months	1,000 (*)	0	0
<i>Billets de trésorerie</i>	EUR	up to 12 months	3,000	900	782

(*) equivalent to €787 million based on the exchange rate at June 30, 2006.

The authorized ceilings on the Medium Term Notes and *Billets de Trésorerie* programs were raised to € billion and € 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 2010 which may be extended for a one-year period at December 31, 2006, as well as seven bilateral credit lines totaling €627 million at June 30, 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 annually):
 - ratio of net debt to consolidated cash flows from operations below 4 or 3.75;
 - interest cover ratio of over 2 or 3. Interest cover represents the coverage of consolidated net interest expense by consolidated pre-tax profit excluding net interest expense.This constraint covers four bilateral lines representing €447 million.
- Default on bank borrowings in excess of certain ceilings.

None of these lines were drawn down during the period.

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 syndicated line of credit in 2005, in the amount of €9 billion, for the acquisition of the BPB group, as well as for refinancing certain debts of the BPB and Saint-Gobain groups. This line is composed of tranches with maturities of up to five years. At June 30, 2006, €4.35 billion had been drawn down.

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 EBITDA below 3.75.
 - interest cover ratio of over 3.5 (based on EBITDA and net interest expense).
- Default on bank borrowings in excess of €40 million.

The aggregate commitment fees for all of these facilities amounted to €2.7 million in the first half of 2006, compared with €1.1 million in first-half 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 for commercial receivables through its US subsidiary, CertainTeed Receivables Corporation, and through its subsidiary in the UK, Jewson Ltd.

The US program concerned an amount of €433 million at June 30, 2006 (€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 the first half of 2006, the expense recorded in the income statement came to €1.4 million (first-half 2005: €6.1 million).

The UK program concerned €231 million at June 30, 2006, compared with €233 million at December 31, 2005. The total amount recorded as a financial expense in relation to this program came to €4.7 million in the first half of 2006 (first-half 2005: €5.1 million).

Collateral

At June 30, 2006, €31.5 million of Group debt was secured by various non-current assets (real estate and securities).

NOTE 14 – FINANCIAL INSTRUMENTS**Derivatives**

The following table presents a breakdown of the principal derivatives used by the Group:

<i>(in € millions)</i>	Fair value				Nominal value broken down by maturity date at June 30, 2006			
	At June 30, 2006			At Dec. 31, 2005 Total	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	Total
	Assets	Liabilities	Total					
<u>Fair value hedges</u>								
Interest-rate swaps	3	(7)	(4)	67	393	1,257	0	1,650
<u>Cash flow hedges</u>								
Commodity swaps	5	(15)	(10)	24	168	17	0	185
Forward currency contracts	0	0	0	0	52	2	0	54
Interest-rate swaps	0	0	0	0	79	0	0	79
<u>Derivatives not qualifying as hedges</u>								
Interest-rate swaps	0	0	0	(4)	51	0	0	51
Cross-currency swaps	13	0	13	21	23	49	0	72
Exchange-rate swaps	10	(12)	(2)	8	2,860	0	0	2,860
Commodity swaps	0	0	0	0	0	0	0	0
Forward currency contracts	1	0	1	(29)	204	3	0	207
Currency options purchased	0	0	0	0	47	0	0	47
Currency options sold	0	0	0	0	3	0	0	3
Interest-rate conversion options	0	0	0	0	0	0	0	0
Commodity options purchased	0	0	0	1	0	0	0	0
Commodity options sold	0	0	0	0	0	0	0	0
Total	32	(34)	(2)	88	3,880	1,328	0	5,208
of which derivatives linked to net debt			7	92				

The fair value of financial instruments is generally determined by reference to the market price resulting from transactions on a national stock market or over-the-counter financial market.

When no listed market price is available, the fair value is based on estimates performed by financial discounting or other techniques.

➤ Interest-rate swaps

Interest-rate swaps are used by the Group to convert a portion of debt contracted in the bond markets at fixed rates to variable rates, or to convert variable-rate debt to fixed rate.

➤ Cross-currency swaps

The Group uses cross-currency swaps in connection with the financing of its US subsidiaries. Under these swaps, the Group is the euro lender and the dollar borrower.

➤ Exchange-rate swaps

The Group uses exchange-rate swaps as part of its day-to-day cash management as well as, in certain cases, to utilize euro-denominated financing for assets denominated in currencies other than the euro.

➤ Currency options and forward currency contracts

Currency options and forward currency contracts enable Group companies to hedge their foreign currency transactions, particularly their commercial transactions (purchases and sales) and investments.

➤ Commodity swaps and options

Commodity swaps are used to hedge the risk of changes in the purchase price of raw materials, particularly heavy fuel oils in Europe and natural gas in the United States and the United Kingdom. Commodity options enable Group companies to hedge the risk of changes in the purchase price of natural gas in the United States.

Group debt structure

The weighted average interest rate on total gross debt under IFRS and after hedging (cross-currency swaps, exchange-rate swaps, interest-rate swaps and caps) was 4.3% at June 30, 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, break down as follows:

Internal rate of return on outstandings at	June 30, 2006	Dec. 31, 2005
Bond issues	5.01%	5.49%
Medium Term Notes	5.23%	4.94%
Perpetual bonds and participating securities	5.47%	5.09%
Acquisition-related bank borrowings	3.54%	4.14%

The table below presents the breakdown by currency and by type of rate (fixed or variable) of the Group's net debt at June 30, 2006, after hedging by means of interest-rate swaps, exchange-rate swaps and cross-currency swaps.

<i>(in € millions)</i>	After hedging		
	Variable rate	Fixed rate	Total
Currency (of net debt)			
EUR	4,761	5,487	10,248
USD	1,059	193	1,252
GBP	1,192	7	1,199
SEK	329	46	375
Other	362	174	536
Total	7,703	5,907	13,610
	57%	43%	100%
Fair value of related derivatives			(7)
Accrued interest			135
Total net debt			13,738

Revision schedule of interest rates applicable to financial assets and debt

The schedule at June 30, 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.

<i>(in € millions)</i>	Total	Within 1 year	Between 1 and 5 years	Over 5 years
Gross debt after hedging	14,992	9,086	4,666	1,240
Impact of interest-rate swaps	0	1,257	(1,257)	0
Cash and cash equivalents	(1,254)	(1,254)	0	0
Net debt after hedging	13,738	9,089	3,409	1,240

Impact of financial instruments on equity

The equity component of the Océane bonds amounted to €100.9 million at June 30, 2006, unchanged from December 31, 2005. Accumulated amortization relating to the equity component of the Océane bonds amounted to €89.9 million at June 30, 2006.

At the same date, the reserve recorded under equity relating to forward currency contracts, commodity swaps, and interest-rate swaps treated for accounting purposes as cash flow hedges totaled zero, a negative €3.1 million and zero respectively, compared with zero, €12.54 million and zero respectively at December 31, 2005. This reserve is taken to the income statement when the hedged forecast transactions affect net income.

Equity also includes a reserve stemming from the BPB group to cover foreign exchange risks on investments which qualifies as a net investment hedge within the meaning of IFRS. This reserve totaled €1.6 million at June 30, 2006. The principal of the hedge had been unwound at June 30, 2006.

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 €2 million, compared with a negative €10 million at June 30, 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 June 30, 2006, no embedded derivatives deemed to be material at Group level were identified.

NOTE 15 – BUSINESS INCOME AND EXPENSE*(in € millions)*

	First-half 2006	First-half 2005
Personnel costs		
Salaries and payroll taxes	(3,777)	(3,476)
Share-based payment ^(a)	(37)	(26)
Pensions and other post-employment benefits	(123)	(125)
Depreciation and amortization	(759)	(649)
Other ^(b)	(14,040)	(11,229)
Operating expense	(18,736)	(15,505)
Gains on disposals of assets ^(c)	141	55
Recognition of negative goodwill in the income statement	0	3
Other business income	141	58
Restructuring costs	(87)	(54)
Provisions and expenses relating to claims and litigation ^(d)	(51)	(57)
Impairment of assets ^(e)	(128)	(56)
Other	(19)	5
Other business expense	(285)	(162)

- (a) Including share-based compensation under the Group Savings Plan, amounting to €19 million in 2006 and €1 million in 2005. This expense is recognized in full at the close of the offer period (April 14 for 2006). Consequently, the entire amount of the Group Savings Plan expense is recorded during the first half of the year.

As explained in Note 1, the interest rate applicable to employee share awards and used to determine the borrowing costs relating to the shares held during the holding period is the rate that would be applied by a bank to an individual with an average risk profile for a general purpose five-year consumer loan (6.88% in 2006 and 6.30% in 2005). The impact of a 1% decrease in the rate applied would have led to an additional expense of €1 million for the first half of 2006.

- (b) This item mainly relates to the costs of goods sold by the Distribution Sector (€6,525 million in the first half of 2006 and €5,723 million in first-half 2005), as well as transport costs, the costs of raw materials and other production costs in the other sectors.
- (c) Gains on disposals of assets primarily correspond to the gain realized on the sale of Saint-Gobain Calmar (see Note 2).
- (d) As in the first half of 2005, provisions and expenses relating to claims and litigation primarily included the asbestos-related litigation charge explained in Note 11.
- (e) In first-half 2006, impairment of assets included €109 million relating to goodwill and €19 million concerning property, plant and equipment.

NOTE 16 – FINANCIAL INCOME AND EXPENSE

<i>(in € millions)</i>	First-half 2006	First-half 2005
Interest expense on borrowings – gross	(339)	(223)
Income from cash and cash equivalents	26	29
Interest expense on borrowings – net	(313)	(194)
Interest cost relating to pensions - gross	(158)	(183)
Return on plan assets	137	139
Interest cost relating to pensions - net	(21)	(44)
Other financial income and expense	(40)	(28)
Net financial expense	(374)	(266)

In the first half of 2006, total interest paid and received came to €60 million, compared with €174 million in first-half 2005.

Net translation losses recognized in cost of sales came to €4 million in the first six months of 2006, versus €8 million in first-half 2005.

NOTE 17 – NET INCOME EXCLUDING CAPITAL GAINS

Net income excluding capital gains totaled €813 million in first-half 2006, compared with €642 million in the corresponding prior-year period. Based on the 350,655,561 shares outstanding at June 30, 2006 (345,255,470 at June 30, 2005), earnings per share (EPS) excluding capital gains amounted to €2.32, versus €1.86 in first-half 2005.

The difference between net income and net income excluding capital gains can be analyzed as follows:

<i>(in € millions)</i>	First-half 2006	First-half 2005
Net income attributable to equity holders of the parent	797	632
Less		
Gains on disposals of assets	141	55
Impairment of property, plant and equipment and intangible assets	(128)	(55)
Tax impact	(29)	(5)
Impact of minority interests	0	(5)
Net income excluding capital gains	813	642

NOTE 18 – SEGMENT REPORTING

Segment information by sector and division

Segment information is presented as follows:

- Building Distribution Sector
- High-Performance Materials (HPM) Sector
 - Ceramics & Plastics and Abrasives
 - Reinforcements
- Flat Glass Sector
- Packaging Sector
- Construction Products Sector (CP)
 - Building Materials
 - Insulation
 - Gypsum
 - Pipe

Management uses several different indicators to measure operational performance and to make resource-allocation decisions. These indicators are based on the data used to prepare the consolidated financial statements and meet the requirements of IAS 14. Intercompany (“internal”) sales are generally carried out based on the same conditions as sales to external customers and are eliminated in consolidation. The accounting policies applied are the same as those applied for the Group, as described in these notes.

<i>(in € millions)</i>	Building Distribution	High-Performance Materials				Flat Glass	Packaging	Construction Products					Other *	Total	
First-half 2006		Ceramics & Plastics and Abrasives	Reinforcements	Items eliminated HPM	Total			Building Materials	Insulation	Gypsum	Pipe	Items eliminated CP	Total		
External sales	8,401	1,809	671		2,480	2,482	2,126	1,310	1,133	1,773	844		5,060	2	20,551
Internal sales	0	24	47	(7)	64	16	3	73	91	191	61	(16)	400	(483)	0
Net sales	8,401	1,833	718	(7)	2,544	2,498	2,129	1,383	1,224	1,964	905	(16)	5,460	(481)	20,551
Operating income	418	253	23		276	228	205	120	169	334	81		704	(16)	1,815
Business income	411	220	12		232	216	229	106	165	333	60		664	(81)	1,671
Share in net income of associates	1	(1)	1		0	(6)				3			3		(2)
Depreciation and amortization	121	73	54		127	165	124	41	62	80	33		216	6	759
Impairment of assets		9	6		15	2	91	5			6		11	9	128
Investments during the period:															
- capital expenditure	140	61	15		76	166	119	39	43	207	17		306	10	817
- securities (net of cash acquired)	245	(1)	2		1	3	(8)	4	0	4	(12)		(4)	(1)	236
Cash flows from operations	310	167	44		211	261	225	111	168	201	72		552	84	1,643

* "Other" corresponds to the elimination of intragroup transactions for internal sales and to holding operations for the other captions.

<i>(in € millions)</i>	Building Distribution	High-Performance Materials				Flat Glass	Packaging	Construction Products					Other *	Total	
First-half 2005		Ceramics & Plastics and Abrasives	Reinforcements	Items eliminated HPM	Total			Building Materials	Insulation	Gypsum	Pipe	Items eliminated CP	Total		
External sales	7,363	1,756	598		2,354	2,315	1,974	1,268	964		636		2,868	3	16,877
Internal sales	1	32	40	(11)	61	14	3	93	81		64	(10)	228	(307)	0
Net sales	7,364	1,788	638	(11)	2,415	2,329	1,977	1,361	1,045		700	(10)	3,096	(304)	16,877
Operating income	363	240	31		271	233	221	103	121		59		283	1	1,372
Business income	358	216	26		242	229	233	99	122		46		267	(61)	1,268
Share in net income of associates		4			4			1					1		5
Depreciation and amortization	101	74	53		127	163	126	44	55		26		125	7	649
Impairment of assets		28			28	2					10		10		40
Investments during the period:															
- capital expenditure	137	61	45		106	164	89	38	50		17		105	4	605
- securities (net of cash acquired)	300		14		14	119		1	(1)				0		433
Cash flows from operations	258	195	59		254	260	233	97	122		55		274	76	1,355

* "Other" corresponds to the elimination of intragroup transactions for internal sales and to holding operations for the other captions.

Information by geographic area

<i>(in € millions)</i>	France	Other Western European countries	North America	Emerging markets and Asia	Internal sales	Total
First-half 2006						
Net sales	6,357	8,887	3,634	2,762	(1,089)	20,551
Capital expenditure	153	311	112	241		817

<i>(in € millions)</i>	France	Other Western European countries	North America	Emerging markets and Asia	Internal sales	Total
First-half 2005						
Net sales	5,826	7,135	2,876	1,978	(938)	16,877
Capital expenditure	133	184	93	195		605

NOTE 19 – PRINCIPAL FULLY CONSOLIDATED COMPANIES

The table below shows the Group's principal consolidated companies, notably those with net sales of over €100 million.

Principal fully consolidated companies at June 30, 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%
Saint-Gobain Abrasivi	Italy	99.92%
SEPR Italia	Italy	100.00%
Saint-Gobain Abrasivos Brasil	Brazil	100.00%
Saint-Gobain Abrasives BV	Netherlands	99.92%
Saint-Gobain Abrasives Ltd	United Kingdom	99.96%

REINFORCEMENTS

Saint-Gobain Vetrotex France	France	100.00%
Saint-Gobain Vetrotex Italia SpA	Italy	100.00%
Saint-Gobain Vetrotex America Inc.	United States	100.00%

FLAT GLASS SECTOR

Saint-Gobain Glass France	France	100.00%
Saint-Gobain Sekurit France	France	100.00%
Saint-Gobain Sekurit Deutschland GmbH & CO Kg	Germany	99.90%
Saint-Gobain Glass Deutschland GmbH	Germany	99.90%
Saint-Gobain Glass Benelux	Belgium	99.75%
Saint-Gobain Sekurit Benelux SA	Belgium	99.90%
Saint-Gobain Autover Distribution SA	Belgium	99.90%
Koninklijke Saint-Gobain Glass	Netherlands	99.75%
Cebrace Cristal Plano Ltda	Brazil	50.00%
Saint-Gobain Vidros	Brazil	100.00%
Saint-Gobain Cristaleria SA	Spain	99.67%
Solaglas Ltd	United Kingdom	99.96%
Saint-Gobain Glass Italia	Italy	100.00%
Saint-Gobain Sekurit Italia	Italy	100.00%
Hankuk Glass Industries	South Korea	80.47%
Hankuk Sekurit Limited	South Korea	90.14%

PACKAGING SECTOR

Saint-Gobain Desjonquères	France	99.99%
Saint-Gobain Emballage	France	100.00%
Saint-Gobain Oberland AG	Germany	96.67%
Saint-Gobain Vicasa SA	Spain	99.59%
Saint-Gobain Containers Inc.	United States	100.00%
Saint-Gobain 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 Weber Cemarsa SA	Spain	99.99%

INSULATION

Saint-Gobain Isover	France	100.00%
Saint-Gobain Isover G+H AG	Germany	99.90%
CertainTeed Corporation	United States	100.00%
Saint-Gobain Ecophon Group	Sweden	99.65%

GYPSUM

BPB Plc	United Kingdom	100.00%
BPB America Inc	United States	100.00%
BPB Canada Inc	Canada	100.00%
BPB Gypsum (Pty) Ltd	South Africa	100.00%
BPB Gypsum Inc	United States	100.00%
BPB Iberplaco SA	Spain	100.00%
BPB Italia SpA	Italy	100.00%
British Gypsum Ltd	United Kingdom	100.00%
Gypsum industries Ltd	Ireland	100.00%
Placoplatre SA	France	99.71%
Rigips GmbH	Germany	100.00%

PIPE

Saint-Gobain PAM SA	France	100.00%
Saint-Gobain Gussrohr KG	Germany	100.00%
Saint-Gobain Pipelines Plc	United Kingdom	99.96%
Saint-Gobain Canalizacion SA	Spain	99.93%
Saint-Gobain Condotte SpA	Italy	100.00%
Saint-Gobain Canalizaçao SA	Brazil	100.00%

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COMPAGNIE DE SAINT-GOBAIN

**STATUTORY AUDITORS' REVIEW REPORT ON
INTERIM FINANCIAL INFORMATION FOR 2006**

The Statutory Auditors

**PricewaterhouseCoopers Audit
Crystal Park
63, rue de Villiers
92208 Neuilly-sur-Seine Cedex**

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Immeuble KPMG
1, cours Valmy
92923 Paris La Défense**

STATUTORY AUDITORS' REVIEW REPORT ON INTERIM FINANCIAL INFORMATION FOR 2006

This is a free translation into English of the Statutory Auditors' review report issued in French 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.

Compagnie de Saint-Gobain

Les Miroirs
18, avenue d'Alsace
92400 Courbevoie

To the shareholders,

In our capacity as Statutory Auditors and in accordance with the requirements of article L. 232-7 of the French Commercial Code (*Code de commerce*), we have reviewed the accompanying condensed interim consolidated financial statements of Compagnie de Saint-Gobain for the period from January 1 to June 30, 2006, and verified the information given in the interim management report.

These condensed interim consolidated financial statements are the responsibility of the Board of Directors. Our role is to report our conclusions on these financial statements based on our review.

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that all material matters have been identified. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – Interim Financial Reporting, as adopted by the European Union.

**COMPAGNIE DE SAINT-GOBAIN
STATUTORY AUDITORS' REVIEW REPORT ON
INTERIM INFORMATION FOR 2006**

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In accordance with professional standards applicable in France, we have also verified the information given in the interim management report accompanying the condensed interim consolidated financial statements subject to our review.

We have no matters to report as to its fair presentation and consistency with the condensed interim consolidated financial statements.

Neuilly-sur-Seine and Paris La Défense, July 27, 2006

The Statutory Auditors

PricewaterhouseCoopers Audit

KPMG Audit
Department of KPMG S.A.

Pierre Coll

Rémi Didier

Jean Gatinaud