

LETTER TO Shareholders

N° 57
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Pierre-André de Chalendar

Jean-Louis Beffa: A look
back on 24 years at
the helm of Saint-Gobain

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Heads-up with Pierre-André de Chalendar

Appointed Chairman and Chief Executive Officer of Saint-Gobain on June 3, 2010, **Pierre-André de Chalendar** sets out his vision for the coming 10 years. This vision springs from one firm conviction: Saint-Gobain must become **the benchmark** in all its businesses.



You were appointed Chairman and CEO of Saint-Gobain on June 3, 2010. How are you approaching this new phase?

PIERRE-ANDRÉ DE CHALENDAR: I joined Saint-Gobain more than 20 years ago. I know the Group well, having worked in several of its businesses, both in France and abroad.

In the past five years, Jean-Louis Beffa and I worked steadily together. He gradually passed his experience on to me in the two years that I was Chief Operating Officer, and then again from 2007, when I was made Chief Executive Officer by the Board of Directors, in charge of leading the Group on an operational level. It's a great honor for me to take over the reins from Jean-Louis, who has shaped the Group into one that is now well prepared to meet the challenges raised by the future and globalization.

How do you see the position of Chairman and CEO?

P.-A. C.: I think that in an increasingly unpredictable world, the role of a Chief Executive Officer is above all to reject all dogma and know how to adapt on an ongoing basis, especially by listening. Listening to our customers, employees and shareholders, and also to the world at large. This is a prerequisite for making the right decisions, those that enable you to follow the contours of the ever-changing market because you have anticipated change.

What is your goal for the Saint-Gobain Group?

P.-A. C.: The Group has singled out one main market: Habitat. The Habitat market offers considerable prospects worldwide. This is evident in emerging countries, where we will be serving rapidly growing markets, driven by their large-scale urban growth and massive infrastructure needs. We will adapt to local conditions, with the aim of acting Brazilian in Brazil, Indian in India, Chinese in China, and so on. However, the same also applies to mature countries, where our markets will be strongly driven by increasingly stringent energy performance requirements and where the inevitable rise in energy costs will make the use of efficient, innovative and high value-added solutions essential.

Our goal is to be the global leader in Habitat. We want to design, manufacture and distribute innovative solutions to meet the challenges of growth, energy saving and environ-

mental protection. In short, we want to invent the home for the future. I want Saint-Gobain to be seen as the benchmark, and its name to be automatically associated with new solutions for Habitat and with new ways of building, in line with the Group's heavyweight brands and the confidence they inspire.

What role will innovation play?

P.-A. C. : Innovation has a major role to play in all this. It is at the heart of our strategy, because we want to invent the materials that can be used to build the home of the future. One of our basic – traditional – materials, glass, is the material preferred by most architects. Constantly being innovated, glass fulfils many functions and more importantly, looks good. The home of the future will also be energy efficient. The energy consumed by buildings across the globe will inevitably decrease as the cost of energy rises.



I want Saint-Gobain to be recognized as the benchmark in construction materials where innovation, energy efficiency and environmental protection are concerned. ”

We have already built passive houses that consume no energy, but we also dream of doing better, building positive energy houses. These have photovoltaic roofs that generate more energy than they consume; the surplus energy generated can be used, for example, to recharge the batteries of an electric car. The home of the future will also be comfortable, sound-proofed and pleasant to live in, offering superior air quality thanks to new materials. These are all areas on which marketing teams are working side-by-side with the Group's research laboratories.

In your view, what will Saint-Gobain look like in 10 years?

P.-A. C. : First, Saint-Gobain must retain its commitment to leading the market, which has formed the core of its entire strategy over the past two decades. And I will make sure that we continue to pursue this goal relentlessly. In all its businesses, Saint-Gobain will continue to be the European leader, and among the top-ranked globally. This commitment to leadership is measured in far more than just size, even if this is often a critical factor in many respects. We must focus on being the leader in terms of manufacturing, sales and financial performance, and in growth and innovation. We want to be recognized by everyone, customers and competitors alike, as the benchmark in everything we do. Saint-Gobain will remain by nature a conquering Group. This entails acquisitions and external growth, but also and above all organic growth fueled by technological expertise. Moreover, Saint-Gobain is, and will remain, a technology-intensive manufacturing Group rooted in innovative materials. A Group with a building distribution business that brings it into close contact with its customers.

To provide the best possible response to local needs, Saint-Gobain will continue to be a highly decentralized Group. Our business portfolio will continue to evolve, even if the majority of the necessary components are already in place.

Finally, Saint-Gobain will be an increasingly international Group. The percentage of its business in emerging countries will grow, but the Group will remain European, with its anchor point in

France. I do not really see Saint-Gobain as a global corporation. A company is always from somewhere, just as the men and women who work for it. In this respect, we are fortunate to have considerable growth potential for our businesses across the globe and a majority of multi-regional businesses, for which we manufacture locally to sell locally.

You have just published your first-half 2010 results?

Can you give us your comments?


P.-A. C. : After a first quarter affected by very cold winter weather in Europe, trading rebounded sharply in the second quarter of 2010. All of the Group's Business Sectors and activities contributed to this uptrend, reporting a gradual improvement in market conditions as from March. Thanks to this rebound in sales and particularly the cost savings achieved, the Group posted a strong upswing in its first-half results. Moreover, on the back of

ongoing strict financial discipline, over the past 12 months Saint-Gobain generated €1.9 billion in free cash flow and further reduced net debt by €1.8 billion. The Group also continued to leverage growth opportunities, focused particularly on emerging countries and energy efficiency markets, which accounted for 58% of its capital expenditure in the period.

What are your objectives for 2010?

P.-A. C. : For 2010 as a whole, based on the Group's robust first-half performance, Saint-Gobain is confirming its objective of strong growth in operating income (at constant exchange rates), with operating income for second-half 2010 slightly above the first half. It is also raising its free cash flow target to €1.4 billion, having practically met its initial target of €1 billion at June 30. In the second half of the year, the Group will intensify its capex and acquisitions policy in emerging countries and on the fast-growing sectors of energy efficiency and solar power.

Do you have a message you would like to pass on to Saint-Gobain's shareholders?

P.-A. C. : I would like to thank them above all for their support and the trust they have shown in the Group and its development. The past two years have been critical in management terms, with the necessity to react boldly to the crisis. The next few years should see a return to strong trading momentum and I would like our 260,000 individual shareholders to share in this. This is why we are stepping up our communication initiatives and, since the beginning of the year, have been inviting shareholders to participate in our large-scale program of site visits, stock market training and regional meetings. I am more than ever committed to the quality of our relationship and the dialogue we maintain with our shareholders on a daily basis. 

Flashback

On June 3, 2010, **Jean-Louis Beffa** chaired his last Shareholders' Meeting. We look back at a 24-year career marked by **strategic redeployment**.



- 1 The friendly takeover bid for Norton Company in 1990 allowed the Group to carve out a position for itself in technological materials.
- 2 The acquisition of Poliet in 1996 gave Saint-Gobain an opening in the building materials distribution market and allowed it to move closer to its end customers.
- 3 In 2005, the Group acquired British Plaster Board, world leader in plaster-based products. Together with Saint-Gobain's Insulation business, the operation created a world leader in Interior Solutions.
- 4 and 5 On June 3, 2010, Jean-Louis Beffa chaired his last Shareholders' Meeting, handing over to Pierre-André de Chalendar.

Chairman and CEO from 1986 to 2007, then Chairman of the Board of Directors of Compagnie de Saint-Gobain, Jean-Louis Beffa has had a far-reaching influence on the fate of Saint-Gobain, giving it a new start and leading it with clear-sightedness and persistence down the path to growth. Following privatization in 1986-1987, more than one-third of Saint-Gobain's sales still came from the so-called "Enterprise and Services" sector. A new strategy rapidly emerged, the result of Jean-Louis Beffa's beliefs formulated during his time as Chief Executive Officer from 1982 to 1985. In two years, the first divestments were made in the Enterprise Sector, helping to improve the Group's financial position and enable the first redeployments to be made.

The friendly takeover bid for Norton in 1990 led to new businesses for the Group, in abrasives, ceramics for ther-

mal and technical applications, grains and powders, crystals and plastics. The new High-Performance Materials sector offered unrivalled technological leadership and proved a powerful growth driver in both emerging and industrialized countries.

At the same time, businesses that no longer met the new strategic criteria were sold off, such as Paper-Wood in 1994.

The acquisition of Poliet in 1996 heralded the Group's entry into building materials distribution. The move was beneficial on several fronts: the sector was less exposed to global competition, was less capital-intensive and more consumer-oriented, and offered significant growth potential in industrialized countries.

Lastly, together with Saint-Gobain's Insulation activity, the 2005 acquisition of British Plaster Board, world leader in plaster-based products and itself a multi-regional business, helped create the world

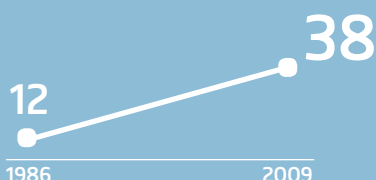
leader in Interior Solutions within the Construction Products Sector.

In all, Jean-Louis Beffa oversaw 900 divestments and 1,200 acquisitions in 21 years, with 53% of 1986 revenues sold.

This impressive record was rooted in four core principles: leading positions as the sine qua non for each business; a policy of diversification as the means to drive growth; manufacturing consistency within the framework of growth, particularly with regard to technological materials; and vigorous, essential international expansion, especially in emerging countries.

Under the impetus of Jean-Louis Beffa, Saint-Gobain underwent a profound change, from being essentially a glass-making firm to a Group based no longer on materials but on a market: Habitat. Boasting high value-added activities and leading positions in local businesses, the strong foundations for sustainable growth and profitability had been laid.

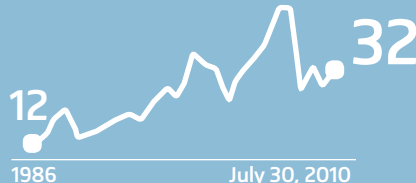
Sales
(€billion) SAINT-GOBAIN



No. of countries where
the Group is based



Share price performance
(€)



Key consolidated data

	H1 2009 €M	H1 2010 €M	% change
Sales and ancillary revenue	18,715	19,529	+4.3%
Operating income	930	1,445	+55.4%
Business income	601	1,201	+99.8%
Recurring ¹ net income	210	580	+176.2%
Recurring ¹ earnings per share ² (in €)	0.41	1.09	+165.9%
Earnings per share ² (in €)	0.25	0.94	+276.0%
Cash flow from operations ³	1,079	1,431	+32.6%
Cash flow from operations excluding capital gains tax ⁴	1,064	1,419	+33.4%
Capital expenditure	514	432	-16.0%
Free cash flow (excluding capital gains tax) ⁴	550	987	+79.5%
Investments in securities	164	36	-78.0%
Net debt	10,890	9,081	-16.6%

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

2 - Calculated based on the number of shares outstanding at June 30 (530,786,373 shares in 2010 versus 512,893,494 in 2009). Based on the weighted average number of shares outstanding (509,735,208 shares in first-half 2010 versus 439,305,156 in first-half 2009), recurring earnings per share comes out at €1.14 (versus €0.48 in first-half 2009), and earnings per share comes out at €0.98 (versus €0.29 in first-half 2009).

3 - Excluding material non-recurring provisions.

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

• **Sales** increased 4.3%, powered by a strong 3.0% positive currency impact. This reflects the appreciation of most other currencies against the euro, particularly Scandinavian currencies and currencies of the main emerging countries in which the Group operates – especially the Brazilian real. **On a constant exchange rate basis*, sales therefore climbed 1.3%.** Changes in the scope of consolidation had a mild 0.3% positive impact on sales. **Like-for-like (constant Group structure and exchange rates), Group sales rose 1.0%, including a positive 0.9% volume impact and a positive 0.1% price effect.**

• Thanks chiefly to the cost savings achieved, the Group's **operating income increased** sharply compared to both first-half 2009 (up 55% or 50% at constant exchange rates*), and the six months to December

31, 2009 (up 12.4%). This fueled a steep rise in the operating margin, which climbed to 7.4% of sales (10.7% excluding Building Distribution), versus 5.0% of sales (7.6% excluding Building Distribution) in first-half 2009 and 6.7% (9.1% excluding Building Distribution) in the six months to December 31, 2009

• **Recurring net income** (excluding capital gains and losses, exceptional asset write-downs and material non-recurring provisions) leapt **176.2% year-on-year, to €580 million.** Based on the number of shares outstanding at June 30, 2010 (530,786,373 shares versus 512,893,494 shares at June 30, 2009), **recurring earnings per share came out at €1.09, up 165.9% on first-half 2009 (€0.41).**

* Based on average exchange rates for first-half 2009.

Strong capacity to adapt to changes in the Group's various markets

- Priority given to sales prices: **+0.1%** over the period and +0.8% in the second quarter.
- Extension of cost cutting program: **€450 million** in additional cost savings unlocked in first-half 2010 compared with the six months to June 30, 2009. For full-year 2010, the Group confirms its target of **€600 million** in additional cost savings compared to 2009.
- Vigorous free cash flow generation: **€1.9 billion** in free cash flow¹ after operating WCR over 12 months.
- Balance sheet strengthened: **€1.8 billion** paid down in net debt over one year and gearing ratio cut to **51%.**
- Fast-paced development in Asia and emerging countries and on energy efficiency markets: **58%** of the Group's capital expenditure in first-half 2010.

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

Objectives for full-year 2010

- **Strong growth in operating income** at constant exchange rates (2009 exchange rates), with **operating income for second-half 2010 slightly above the first half.**
- **Free cash flow¹ of €1.4 billion.**
- Ongoing **robust financial structure.**

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

Key consolidated results by Business Sector (comments based on like-for-like figures)



Innovative Materials delivered the Group's **best organic growth performance**, at 13.8%. Trading for the sector gained momentum in the second quarter compared to the first (up 17.0% versus 10.4%). The rebound in markets linked to industrial output intensified over the three months to June 30, both in North America and Western Europe. The Business Sector was also buoyed by very strong growth in Asia and emerging countries throughout the first half. Together with the positive impact of the Group's restructuring programs, this helped drive a **very significant rise in the Sector's operating margin to 10.4%** from 2.7% in first-half 2009.



Like-for-like sales for **Construction Products** remained **stable over first-half 2010**, with the 2.9% sales advance in the second quarter fully offsetting the 3.3% drop in sales over the three months to March 30 due to very poor weather conditions. The **Business Sector's operating margin continued on an upward trend, at 10.1%** versus 9.1% in first-half 2009, thanks mainly to the cost savings achieved.



Building Distribution continued to be affected by persistently tough conditions on European construction markets throughout the first half and by very slack trading in the first two months of the year due to harsh winter weather. **First-half sales for the Sector therefore fell 4.1% but were virtually flat in the second quarter (down 0.1%)**. This stability reflects widely contrasting trends across Europe: while trading recovered in the UK, Scandinavia and Germany, there was a further decline in Southern and Eastern Europe as well as in the Netherlands, and a more moderate slowdown in France. **The Business Sector's operating margin improved, up to 2.4% of sales** from 1.4% of sales in the year-earlier period, owing mainly to the cost savings achieved.



Packaging continued to report robust trading conditions and earnings, which remained broadly stable year-on-year. The Sector's **operating margin narrowed slightly, to 12.9% of sales** versus 13.4% of sales in first-half 2009.

Update on asbestos claims in the US

Some 2,000 claims were filed against CertainTeed in the six months to June 30, 2010, as in first-half 2009. During the same period, 2,000 claims were settled (versus 3,000 in first-half 2009), bringing the total number of outstanding claims to **64,000** at June 30, 2010, stable compared to December 31, 2009.

A total of USD 96 million in indemnity payments were made in the United States over the 12 months to June 30, 2010, versus USD 77 million in the year to December 31, 2009.



Details of the consolidated financial statements are available on the Group's website (www.saint-gobain.com), or on request from the Shareholder Relations Department. (See contact details on the back page).

Saint-Gobain Gyproc

opens the first plasterboard plant in the Middle East

Saint-Gobain Gyproc (Construction Products Sector) has opened its first plasterboard plant in the Middle East, in Abu Dhabi.

The opening ceremony took place on April 28, 2010 under the patronage of His Excellency Sheikh Sultan bin Mohammed bin Hamdan Al Nahyan, adviser to His Excellency Sheikh Khalifa bin Zayed Al Nahyan, President of the United Arab Emirates (UAE) and Ruler of Abu Dhabi. Claude Imauven, Senior Vice-President of Saint-

Gobain and President of the Construction Products Sector, was in attendance, along with local dignitaries and VIP customers.

The state-of-the-art facility, built with local partner Sultan International Holdings, represents an investment of over USD 60 million (€55 million).

Built on a 70-hectare site in a rapidly expanding industrial area, the plant will produce 30 million square meters of plasterboard each year to meet the ever growing demand for lightweight building systems in the region's construction sector.

Craig Chambers, Managing Director of Gyproc in the Middle East, said "This new plant demonstrates our commitment to the region. There are many exciting developments in the Middle East, and this new plant puts us in a better position to serve the needs of our customers through local production. This plant is a significant milestone for us as we expand within the Middle East, since Abu Dhabi occupies a prominent and strategic place in the Gulf region".



Claude Imauven, Senior Vice-President of Saint-Gobain and President of the Construction Products Sector, and His Excellency Sheikh Mohammed Bin Sultan Bin Hamdan Al Nahyan, unveil the inauguration plaque at Saint-Gobain Gyproc's plasterboard plant.



LATEST NEWS

SECOND PLANT TO PRODUCE HIGH-EFFICIENCY PHOTOVOLTAIC MODULES IN GERMANY

As part of its solar power growth strategy, on June 7, 2010 Saint-Gobain announced that its subsidiary Avancis would be building a new plant producing photovoltaic (PV) modules for the roofs of residential, industrial and commercial buildings as well as solar

plants. The site will be located in Torgau, Germany, where the Group is already present through Saint-Gobain Glass (flat and coated glass), Saint-Gobain Sekurit (automotive glass) and Avancis (PV modules).

A BOTTLE AS CLEAR AS THE SOURCE OF THE WATER

Mineraqua, a Spanish group of mineral water companies, asked Verallia España (Packaging Sector) to create the bottle for its new premium range. The Peñalara 22 spring water bottle has a capacity of 50cl.



Its minimalist design conveys its richness and purity, while the round neck and the shape of the bottle reflect its singular character. The qualities of this unique spring water, sourced from the middle of the Cameros mountain range in the Spanish Rioja region, served as the initial inspiration for Verallia España.

Saint-Gobain takes center stage at

World Expo Shanghai



The Rhône-Alpes pavilion.

The Shanghai Expo in China was officially opened on May 1. Based on the theme, "Better city, better life", the Expo showcases scientific and technical innovations from 200 participating countries. Saint-Gobain supplied numerous products and systems used to build the infrastructure for the pavilions.

Saint-Gobain Performance Plastics (Innovative Materials) supplied 100,000 square meters of SHEERFILL® architectural membrane to

cover the 1 km-long main thoroughfare, Expo Boulevard. Products from Weber, Gyproc, Isover (Construction Products), Saint-Gobain Glass and Saint-Gobain Performance Plastics (Innovative Materials) were used in the construction of different pavilions, including the Rhône-Alpes French region, the Netherlands and Luxembourg, Switzerland, Finland and the Expo Center, providing Saint-Gobain with an ideal occasion to showcase its solutions for the Habitat market to millions of visitors from across the globe.



SAINT-GOBAIN AND SUSTAINABLE DEVELOPMENT CEDEO launches its "New Energies" showroom

CEDEO, a Point.P banner specializing in heating, plumbing and air conditioning, has introduced a new type of showroom specifically dealing with renewable energy. The concept is the result of a global project launched by the banner in 2008 aimed at raising the awareness of professionals and homeowners to renewable energies. The New Energies showroom has an information corner and product display area, and is staffed by dedicated sales

teams trained in renewable energies by three of Point.P's training schools.

Rolled out in around 20 branches in spring 2010, the New Energies showrooms will be gradually extended to some 100 branches throughout France by 2012.



Agenda

UPCOMING SHAREHOLDER MEETINGS

- **October 7, Lille**
with Laurent Guillot, Chief Financial Officer
- **November 19 (3:30pm-4:30pm), Paris**
Actionaria tradeshow, with Pierre-André de Chalendar, Chairman and Chief Executive Officer
- **November 30, Dijon**
with Florence Triou-Teixeira, Head of Investor Relations

TRADESHOW

- **November 19 and 20, in Paris**
Actionaria tradeshow, Palais des Congrès, Porte Maillot

UPCOMING RESULTS PUBLICATIONS

- **Sales for the first nine months of 2010:**
October 21 octobre, after close of trading on the Paris Bourse

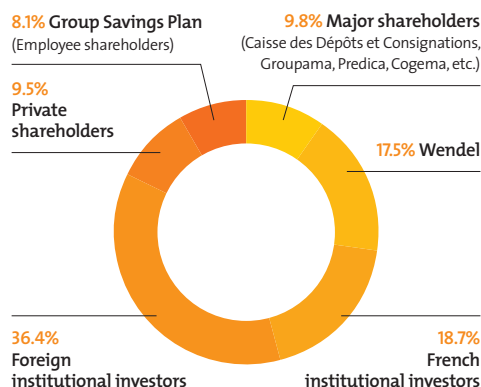
Discover the calendar of events for the second half of 2010 (site visits and stock market training sessions with École de la Bourse) on www.saint-gobain.com (under Finance/Individual shareholders). The calendar of events can also be obtained on request by dialing toll-free number **N° Vert 0 800 32 33 33** (France only).



TOTAL NUMBER OF SHARES AT JUNE 30, 2010

530,800,865

ESTIMATED OWNERSHIP STRUCTURE AT JUNE 30, 2010 (%)



Saint-Gobain share price

SHARE PERFORMANCE 2004-2010

On July, 30, Saint-Gobain reported a strong upswing in its first-half results on the back of a gradual recovery in the economic climate and especially the cost savings achieved. It also announced an improvement in its outlook for full-year 2010 (see page 4).

Analysts welcomed the news, raising their 2010 earnings forecasts and share price targets.

Performance over the period: Saint-Gobain : **-7.4%** CAC 40: **+2.4%**



— (1) Saint-Gobain share price — CAC 40
— DJ EURO STOXX 50 — DJ EURO STOXX 50 Construction

*Data adjusted for the impact of the February 2009 rights issue.

RECENT PERFORMANCE OF THE SAINT-GOBAIN SHARE

Recent performance at July 30, 2010 (€32.665) in %

	Saint-Gobain share price	CAC 40	DJ Euro Stoxx 50	DJ Euro Stoxx 50 Construction
Trailing 12 months	+14.3%	+6.0%	+3.3%	-0.5%
Trailing 6 months	-6.3%	-2.6%	-1.2%	-9.6%
Trailing 3 months	-12.7%	-4.6%	-2.7%	-14.7%
Trailing month	+5.7%	+5.8%	+6.6%	+3.0%

Your contacts

Saint-Gobain's Shareholder Relations Department will be pleased to answer any enquiries. You may contact them:

• By dialing

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