SAINT-GOBAIN

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Half year financial report

Consolidated financial accounts as at June 30, 2008

Performance of Group sectors

The Group's performance held firm in first-half 2008 amid a difficult economic climate and an unfavorable basis for comparison after a particularly strong first-half 2007.

All sectors reported advances in like-for-like sales over the first six months of the year. **The Group's organic growth came in at +2.2%**, including a +3.1% price impact and a -0.9% volume effect. **In the second quarter alone, organic growth was +3.4%** (versus +0.9% in the three months to March 30, 2008)**, reflecting higher sales price increases in the second quarter** (+3.5% versus +2.6% in the first quarter of the year).

Residential construction continued to slow in the US throughout the first half of the year. Overall, the market held up well in western Europe, despite the sharp downturn in the UK and Spanish markets during the second quarter. In line with the first quarter, household consumption, industrial production and capital expenditure in both the US and Europe remained robust. Business remained **vigorous in Asia and emerging countries** for all of the Group's sectors, with **organic growth of +11.7%.**

The Flat Glass Sector delivered robust +4.7% organic growth on the back of a satisfactory rise in sales prices (+2.7%) and volumes (+2.0%) across all of its activities. Organic growth was very robust in Asia & emerging countries. Helped also by the ongoing improvement in the product mix, **the operating margin posted a further rise, up to 14.2%** versus 13.1% in first-half 2007.

On a like-for-like basis, the **High-Performance Materials** Sector reported +**3.0% sales growth** in the first half of the year**,** including +**5.0% growth during the second quarter** alone, powered by healthy capital spending markets. Excluding divested businesses (Reinforcements & Composites), **the operating margin jumped to 13.9%** of sales compared with 13% in the same year-ago period.

Construction Products (CP) delivered a +6.1% rise in sales, driven by the positive +8.9% impact of acquisitions carried out in the last 12 months - particularly Norandex and Maxit (consolidated on September 1, 2007 and March 1, 2008, respectively) - which largely offsets the negative -4.3% exchange rate impact. **Organic growth came in at +1.5% thanks to significant price rises (+3.1%)** in all geographic areas barring the US, **and the continued strong growth momentum in Asia and emerging countries (+17.0%)**. **The sector's operating margin came in at 10.1%** versus 13.1% in the year-earlier period.

- **Interior Solutions suffered a -3.4% drop in like-for-like sales**, on account of weaker activity in North America. Increasing energy and commodity prices impacted the sector's **operating margin, which fell back to 12.0%** versus 15.9% in first-half 2007.

- By contrast, **Exterior Solutions saw like-for-like sales surge +8.9%**, chiefly powered by a strong rise in sales prices (+6.6%) and robust trading by the Pipe and Industrial Mortars businesses. In the second quarter alone, the Exterior Products business in North America posted organic growth of +6.8%. **The division's operating margin held firm at 7.9%** (versus 8.7% in the year-earlier period).

The Building Distribution Sector posted +5.4% sales growth on a reported basis, buoyed by acquisitions carried out in 2007 and the first half of 2008. The **moderate +1.2% organic growth** recorded by this sector in the first half of the year compares with the very vigorous +8.7% organic growth recorded in the first six months of 2007, and is the result of vigorous demand in France and Scandinavia, partly offset by a fall in sales in the UK and Spain. The sector's **operating margin dropped to 4.7%** (compared to a record high of 5.2% in the same year-ago period), due mainly to a decline in profitability of the UK business and the impact of the acquisition of Norandex.

The Packaging Sector saw sales climb +**6.5% on a like-for-like basis**, driven by continuing favorable trading conditions in Europe and emerging countries. Excluding divested businesses (SG Desjonquères), **operating income advanced +23.9% while operating margin gained almost two points, up to 13.4% in first-half 2008** from 11.3% for the first six months of 2007**.**

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Analysis of the interim consolidated financial statements for first-half 2008

The interim consolidated financial statements set out below were authorized for issue by the Board of Directors on July 24, 2008:

	H1 2007 In € millions (1)	**H1 2008 In € millions (2)**	**% change (2)/(1)**
Sales and ancillary revenue	**21,779**	**22,141**	**+1.7%**
Operating income	**2,093**	**2,005**	**-4.2%**
Non-operating costs*	(126)*	(79)*	-37.3%
Provision for Flat Glass fines	(650)	0	
Capital gains and losses and exceptional asset write-downs	3	(31)	
Dividends received	1	2	
Business income	**1,321**	**1,897**	**+43.6%**
Net financial expense	(351)	(352)	+0.3%
Income tax	(491)	(444)	-9.6%
Share in net income of associates	8	6	-25.0%
Income before minority interests	487	1,108	+127.5%
Minority interests	(22)	(32)	+45.4%
Recurring net income**	**1,067**	**1,101**	**+3.2%**
Recurring ** **earnings per share** (in €)	**2.85**	**2.88**	**+1.0%**
Net income	465	1,076	
Earnings per share (in €)	1.24	2.81	
Cash flow from operations	1,932	1,894	-2.0%
Cash flow from operations excluding capital gains tax	**1,883**	**1,887**	**+0.2%**
Depreciation and amortization	1,005***	778	-22.6%
Capital expenditure	822	872	+6.1%
Investments in securities	432	2,178	
Net debt	**12,007**	**13,321**	**+10.9%**

* excluding the provision for Flat Glass fines (European Commission)
** excluding capital gains and losses, asset write-downs and Flat Glass fines (European Commission)
*** including €216 million in depreciation, amortization and exceptional asset write-downs in respect to the sale of the Reinforcements & Composites business

Sales edged up +1.7%, or +**4.9% at constant exchange rates*.** Changes in Group structure had a positive +2.6% impact, more than offset by the negative -3.1% currency effect, sparked by fresh falls in the dollar, and to a lesser extent in the pound sterling. **On a like-for-like basis*, Group sales climbed +2.2%,** including a positive +3.1% price impact and a negative -0.9% volume effect.

The breakdown of sales by **geographic area** reveals a continued but slowing decline in North America (down -3.4%) and **a good trading environment in France (up +2.9%).** Business in **other western European countries** leveled out over the period, with like-for-like sales **rising +0.6%**. The UK and Spain lost ground, while other countries (in particular Scandinavia) are still enjoying satisfactory growth. **Business remains buoyant in the emerging countries & Asia region, which continues to spearhead the Group's organic growth performance (11.7% in first-half 2008).**

* based on average exchange rates for first-half 2007

By major geographic area, France represented 29.5% of first-half 2008 sales; other western European countries 44%; North America 11.5%; and the emerging countries & Asia region 15%.

Operating income shrank -4.2%, or **-2.3% at constant exchange rates***. Falling profitability in North America squeezed the Group's operating margin, which came in at **9.1%** of sales (**12.1%** excluding Building Distribution), versus 9.6% in first-half 2007 (12.6% excluding Building Distribution) and 8.8% in first-half 2006. Profitability improved in France and the Asia & emerging countries region, but narrowed slightly in other western European countries.

Non-operating costs came in at €79 million, compared with €126 million in first-half 2007. They include €41.5 million in net restructuring costs, and a charge of €37.5 million for asbestos-related litigation involving CertainTeed in the US (€47.5 million in first-half 2007).

The net total of capital gains and losses and exceptional asset write-downs was a negative €31 million, including a positive €12 million in capital gains and a negative €43 million in exceptional asset write-downs.

Business income was up +43.6% after taking into account the factors mentioned above (non-operating costs, capital gains and losses and exceptional asset write-downs), and the provision for Flat Glass fines (€650 million), which had a strongly adverse impact on the interim consolidated accounts for first-half 2007.

Net financial expense remained virtually flat, at €352 million versus €351 million in first-half 2007. This reflects the year-on-year stability of average net debt. The interest cover ratio (operating income over interest expense) is in line with first half 2007, at a satisfactory 5.7.

Recurring net income (excluding capital gains and losses, exceptional asset write-downs and Flat Glass fines) **advanced +3.2% to €1,101 million** versus €1,067 million in first-half 2007. Based on the number of shares outstanding at June 30, 2008 (382,489,099 shares versus 373,824,232 shares at June 30, 2007), **recurring earnings per share came in at €2.88, up +1.0%** on June 30, 2007 (€2.85).

Net income came in at €1,076 million, up +131% on first-half 2007 which was hit by the one-off provision for Flat Glass fines. Based on the number of shares outstanding at June 30, 2008 (382,489,099 shares versus 373,824,232 shares at June 30, 2007), earnings per share came in at €2.81, up +126.6% on June 30, 2007 (€1.24).

Cash flows from operations totaled €1,894 million, down -2.0% on the first half of 2007. Before the tax impact of capital gains and losses and asset write-downs, **cash flows from operations inched forward +0.2% to €1,887 million**, compared with €1,883 million in the six months to June 30, 2007.

Capital expenditure rose +6.1% to €872 million (3.9% of sales) versus €822 million (3.8% of sales) in first-half 2007. This result stems entirely from the Group's continued investment in Asia and emerging countries, which accounted for 36% of its total capital expenditure in the first half of 2007 (42% excluding Building Distribution).

Investments in securities totaled €2,178 million for the six months to June 30, 2008. Investments came to €1,555 million for the Construction Products Sector (chiefly Maxit) and €503 million for Building Distribution, representing a total of 46 acquisitions for €840 million in full-year sales.

Net debt came in at €13,321 million at June 30, 2008, climbing +34.2% over December 31, 2007 (€9,928 million) and +10.9% over June 30, 2007, due mainly to the Maxit acquisition on March 1, 2008 for an enterprise value of €2.1 billion. Net debt represents 86% of consolidated equity compared with 80% at June 30, 2007.

* based on average exchange rates for first-half 2007

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Update on asbestos claims in the United States

Some 3,000 claims were filed against CertainTeed in the first half of 2008, compared with 4,000 claims in first-half 2007. Over the period, 4,000 claims were settled (5,000 in first-half 2007), bringing the total number of outstanding claims down to 73,000 at June 30, 2008 (74,000 at December 31, 2007). A total of USD 70 million in indemnity payments were made over the last 12 months, compared to USD 73 million at end-December 2007.

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2008 outlook and objectives

Faced with the gradual deterioration in the international economic environment since summer 2007, the Group **stepped up the cost cutting program** put in place for the US in the second half of 2006 and for certain European countries at the end of 2007. In total, these programs will lead to additional full-year workforce reductions of 6,000, including 4,000 in 2008, **and generate full-year cost savings of €435 million, of which €300 million for 2008.** Most of these savings (€350 million and €215 million, respectively) relate to restructuring measures implemented to adapt to the economic downturn. The balance (€85 million) relates to structural cost saving programs (an estimated €300 million by 2010) initiated in the context of the Group's strategic focus on construction markets as outlined by the Group in summer 2007.

The Group does not expect the US economy to stage a recovery in the six months to December 31, 2008, and assumes that the construction market in western Europe will continue to lose steam – particularly in the UK and Spain – while commodity and energy prices pursue their upward trend.

Against this backdrop, and despite a continuing strong growth outlook in Asia and emerging countries, the Group has adjusted its full-year objectives slightly and is now aiming to **maintain high levels of operating income (at constant exchange rates*) and recurring net income**, close to those recorded in 2007.**

* average exchange rates for 2007
** excluding capital gains and losses, asset write-downs and Flat Glass fines (European Commission)

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