

# LETTER TO Shareholders

No. 59  
MARCH 2011

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## Heads-up with Pierre-André de Chalendar

Chairman and Chief Executive Officer of Saint-Gobain

**“For 2011, Saint-Gobain is targeting robust organic growth and double-digit growth in operating income\*.”**



**Saint-Gobain has just published its results for 2010. Do you think it has now put the crisis behind it?**

Yes. In a global economy still recovering from the crisis, we delivered a sharp upswing in our results in 2010. Sales came in at €40.1 billion, up 6.2% on 2009, **driven by robust momentum in emerging countries and Asia and by vigorous trading in industrial markets.** Construction markets remained rather sluggish on the whole in North America, but improved steadily over the year in Europe, and particularly in the UK, Germany and Scandinavia. The Group slashed costs by €600 million and continued to give a clear operating priority to sales prices, leading to a significant rise in operating income.

**What outlook do you see for the Group in 2011?**

Overall in 2011, we expect to see more upbeat trading conditions in our key markets. Nevertheless, there will be a sharp rise in raw material and energy costs that we will endeavor

to limit by pursuing our priority focus on raising sales prices. Against this backdrop, **Saint-Gobain is targeting robust organic growth and double-digit growth in operating income\*** for 2011. Leveraging its financial strength, the Group will **resolutely adopt a tempered development policy** to boost this return to growth. **It will step up its capital expenditure and financial investments, targeting emerging countries and high value-added Habitat solutions.** The Group has resumed an ambitious development policy on all fronts. Given an increase in its capital expenditure of €500 million in 2011, Saint-Gobain is targeting free cash flow of €1.3 billion.

**What's your dividend policy for this year?**

Thanks to our robust financial strength and outlook for 2011, we want to resume our pre-crisis dividend policy as from this year. Compagnie de Saint-Gobain's Board of Directors will therefore recommend a **dividend payout of €1.15 per share, up 15% on last year.** The dividend will be paid entirely in cash as from June 16.

**At the Investor Day held last November, you presented a vision of Saint-Gobain for the next five years. Can you give us more details?**

The Group intends to pursue a profitable growth and expansion strategy over the next few years, with the aim of becoming **the reference in sustainable Habitat. This strategy**

## 2010 Results

Sales

**€40.1bn** ↑ 6.2%

Operating income

**€3.1bn** ↑ 41%

Recurring net income\*

**€1.3bn** ↑ 116%

Dividend\*\* (paid in cash)

**€1.15 per share** ↑ 15%

\* Excluding capital gains and losses, asset write-downs and material non-recurring provisions.

\*\* Amount to be recommended to the Annual General Meeting.

**will involve the gradual divestment of Verallia, Saint-Gobain's Packaging business.** We will be ready for a minority listing of Verallia in the second quarter of 2011, permitting market conditions.

We will bolster the Group's positioning in high value-added solutions for the Habitat market, so that these solutions represent 60% of the Group's sales by 2015 (compared to 51% currently). And we will accelerate the Group's expansion in Asia and emerging countries, with the aim of these regions accounting for 26% of the Group's sales by 2015 (versus 19% currently).

The Group has set ambitious targets for 2015, including sales of €55 billion, operating income of €5.5 billion and recurring net income of €3 billion. We firmly believe in our strategy.

\* At constant exchange rates (average exchange rates for 2010).

## Key consolidated figures

	2009 €M	2010 €M	% change
Sales	37,786	40,119	+6.2%
Operating income	2,216	3,117	+40.7%
Business income	1,240	2,524	+103.5%
Recurring net income <sup>1</sup>	617	1,335	+116.4%
Recurring <sup>1</sup> earnings per share <sup>2</sup> (in €)	1.20	2.51	+109.2%
Earnings per share <sup>2</sup> (in €)	0.39	2.13	+446.1%
Cash flow from operations <sup>3</sup>	2,303	3,004	+30.4%
Cash flow from operations excluding capital gains tax <sup>4</sup>	2,268	2,987	+31.7%
Capital expenditure	1,249	1,450	+16.1%
Free cash flow (excluding capital gains tax) <sup>4</sup>	1,019	1,537	+50.8%
Investments in securities	204	129	-36.8%
Net debt	8,554	7,168	-16.2%

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 December 31 (530,836,441 shares in 2010 versus 512,931,016 shares in 2009). Based on the weighted average number of shares outstanding (517,954,691 shares in 2010 versus 473,244,410 in 2009), recurring earnings per share comes out at €2.58 (versus €1.30 in 2009), and earnings per share comes out at €2.18 (versus €0.43 in 2009).

3 - Excluding material non-recurring provisions.

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

• **Sales** advanced 6.2%, powered by a strong 3.9% positive currency impact. This reflects the appreciation against the euro of most currencies of the other monetary areas where the Group trades, namely Scandinavian and emerging country currencies (especially the Brazilian real). **On a constant exchange rate basis\*, sales therefore climbed 2.3%.** Changes in Group structure had a mild 0.4% positive impact on sales. **Like-for-like, Group sales moved up 1.9% (including a positive 1.1% volume impact and a positive 0.8% price effect),** reflecting the acceleration in organic growth throughout the second half of the year, up to 2.8% (of which 3.3% in the fourth quarter), after 1.0% in the six months to June 30.

• In line with targets, and thanks chiefly to the cost savings achieved, the Group's **operating income rose sharply, up 40.7%** (33.7% at constant exchange rates). As a result, the **operating margin improved sig-**

**nificantly, up to 7.8% of sales (10.7% excluding Building Distribution),** versus 5.9% (8.4% excluding Building Distribution) in 2009. **In the second half,** the Group outperformed its target ("operating income for second-half 2010 slightly above the first half"), with a **rise of 15.7% in operating income compared to first-half 2010 and of 30.0% compared to second-half 2009.**

• **Recurring net income** (excluding capital gains and losses, asset write-downs and material non-recurring provisions) jumped **116.4% year-on-year, to €1,335 million.** Based on the number of shares outstanding at December 31, 2010 (530,836,441 shares versus 512,931,016 shares at end-2009), **recurring earnings per share came out at €2.51, up 109.2% on 2009 (€1.20).**

\* Based on average exchange rates for 2009.

## 2010 action plan priorities: ahead of targets

The Group has resolutely implemented its action plan priorities and outperformed its 2010 targets.

- Operating priority given to sales prices: **up 0.8% over the year; up 1.4%** in the second half.
- Cost savings: **€600 million** over the year; **€2.1 billion** between 2007 and 2010.
- Robust growth in operating income (at constant exchange rates\*): **up 33.7%**, with second-half operating income significantly outperforming (up 15.7%) the first-half figure.
- Free cash flow\*\* of **€1.5 billion** (up 51%), despite the increase in capex.
- Further reduction in net debt: **down €1.4 billion over 12 months** and gearing ratio cut to **39%** of equity.
- **Selective development and acquisitions policy** in fast-growing businesses and/or regions.

\* 2009 exchange rates.

\*\* Excluding the tax impact of capital gains and losses, asset write-downs and material non-recurring provisions.

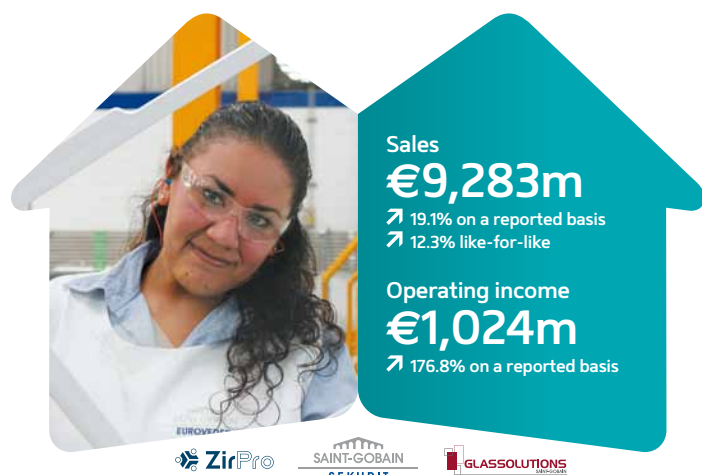
2010 dividend  
€1.15 (+15%),  
paid entirely in cash

At its meeting of February 24, Compagnie de Saint-Gobain's Board of Directors decided to recommend to the June 9, 2011 Shareholders' Meeting a dividend payout of €605 million\*, representing **45% of recurring net income and 54% of net income, i.e. a dividend of €1.15 per share, up 15% on the 2009 dividend.** Based on the closing share price at December 31, 2010 (€38.50), this represents a **net dividend yield of 3.0%.**

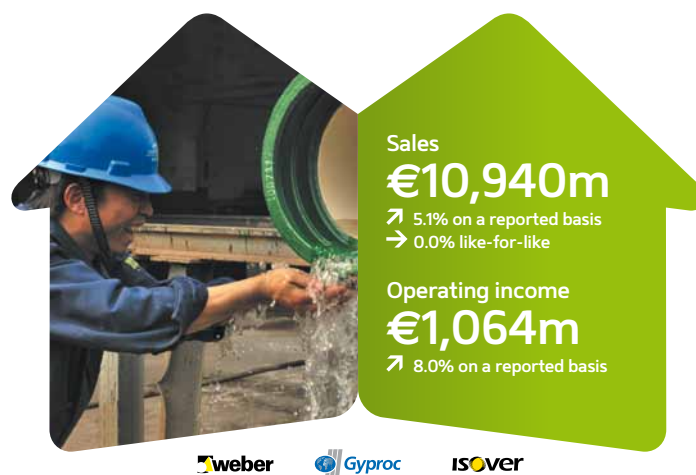
The dividend will be paid entirely in cash on **June 16, 2011**, with the ex-coupon date scheduled for June 13, 2011.

\* The dividend amount is based on the number of shares carrying dividend rights on January 31, 2011.

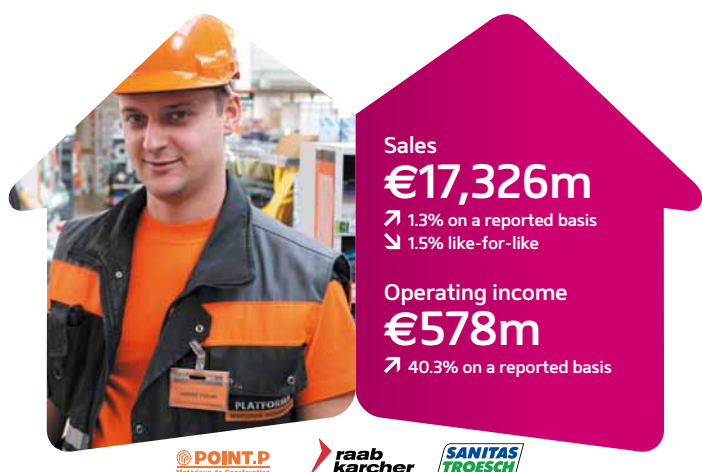
## 2010 results by Business Sector (comments based on like-for-like figures)



**Innovative Materials** delivered the Group's best organic growth performance, at 12.3%. The Business Sector reported double-digit growth in both the first and second halves of 2010, despite a much tougher basis for comparison over the six months to December 31. **The Sector's operating margin rose sharply, up to 11.0%** compared with 4.7% in 2009. **In the second half, operating margin came in at 11.6%** (6.7% in second-half 2009), ahead of the 11.5% achieved in second-half 2008.



Like-for-like sales for the **Construction Products Business Sector** remained stable over the year as a whole and in the second half, with improved second-half trading conditions in Europe offset by the fall in sales in the United States. However, Construction Products sales improved sharply in the fourth quarter (up 3.7%) across all regions, and particularly Eastern Europe. **The Business Sector's operating margin continued to rise, up to 9.7%** from 9.5% in 2009, bolstered by the cost savings achieved and upbeat sales prices.



**Building Distribution** saw a slight 1.5% decline in year-on-year trading, due to ongoing tough conditions in the first half. The Business Sector got back on the growth track in the second half of 2010 (up 1.0%), despite severe weather conditions at the end of the year. Thanks mainly to the impacts of streamlining measures, cost savings and a higher gross margin, **the operating margin for the Business Sector improved, up to 3.3% of sales (4.2% in the second half)** from 2.4% of sales in the year-earlier period.



**Packaging (Verallia)** continued to report robust trading conditions and earnings, which remained virtually stable year-on-year. Nevertheless, **the Business Sector's operating margin narrowed slightly to 12.2% of sales** (12.7% of sales in 2009), with the sharper rise in sales prices in the second half failing to fully offset, over the year as a whole, the slowdown in volumes across Europe and to a lesser extent, the rise in energy costs.

### Update on asbestos claims in the US

Some 5,000 claims were filed against CertainTeed in 2010, compared with 4,000 in 2009. Over the year, 13,000 claims were settled (versus 8,000 in 2009), bringing the total number of outstanding claims to **56,000** at December 31, 2010, versus 64,000 at December 31, 2009. Confirming the trends observed at the end of June 2010, a total of USD 103 million in indemnity payments were made in the 12 months to December 31, 2010, up from USD 77 million in the year-earlier period.

In light of these trends, and particularly the rise in indemnity payments, an additional provision of €97 million was accrued in 2010 (€75 million in 2009), bringing the total coverage for CertainTeed's asbestos-related claims to around USD 501 million at December 31, 2010, virtually stable compared to December 31, 2009 (USD 500 million).



Details of the consolidated financial statements are available on the Group's website ([www.saint-gobain.com](http://www.saint-gobain.com)) or on request from the Shareholder Relations Department (see contact details on the back page).





# Research, an innovation driver

Saint-Gobain implements an **ambitious research policy** to maintain its lead position on its markets. Europe, the Americas and Asia: Saint-Gobain's innovation capabilities are developed on three continents in **15 R&D centers** and **about 100 research units**.

**R**esearch provides support for Saint-Gobain's key technologies in order to ensure the Group maintains its lead market positions. The future of the Activities is dependent on innovation and the continuous improvement of industrial processes and existing solutions. The challenges in this area are threefold. The Group must adapt to the local market and new legislation, apply its best practices and use increasingly environmentally friendly processes.

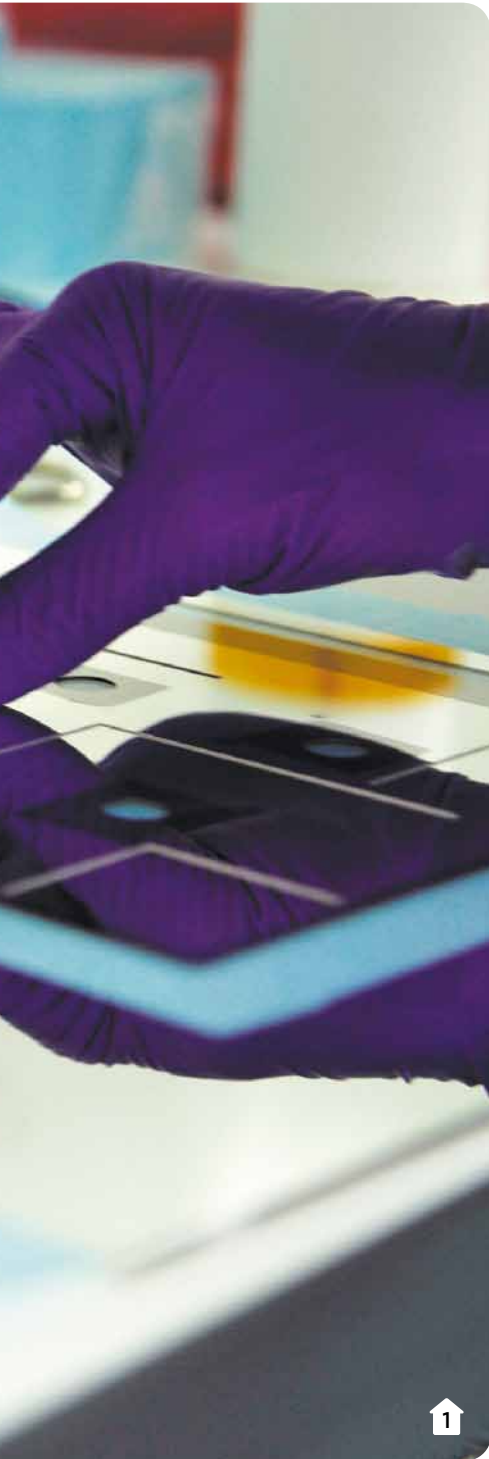
Within this particular area, four cross-functional research centers (Northboro in the US, Shanghai in China, and Cavaillon and Aubervilliers in France) have been specifically tasked with fostering technology synergies between Business Sectors and Activities. These centers also help transfer the Group's historic expertise to habitat markets. *"Cross-functional research centers bring in expertise from other businesses, allowing new solutions to be developed while also encouraging researchers to think outside the box"*, says Charlotte Famy, Core Technology Director,

Weber (Construction Products). *"It's a strength our competitors do not have because of their one-business focus"*.

## Future markets

Research also works to develop specific projects for emerging, high-potential markets and for future habitat markets.

*"We need to be the driver of new research and to act as the crucible for new ideas"* sums up Catherine Langlais, Saint-Gobain Research Director in Aubervilliers. *"For example, over the past two years we*



1

*have been developing expertise in virtual reality as it relates to habitat, and we have extended our knowledge of thermal dynamics so that we are better placed to answer energy efficiency issues in relation to buildings”, she adds.*

This focus of development on new markets has already led to innovative products and solutions, for example in active glazing (electrochrome glass, integration of LEDs in glazing, etc.). “Our research has for a long time supported and financed activities that did not initially fall within

## Three questions to... Didier Roux

Vice President, Research  
and Innovation, Saint-Gobain



*What has been the impact of the recent economic situation on the Group's Research and Innovation policy?*

Saint-Gobain is the leader or joint leader in most of its markets worldwide. This means that it must place strong emphasis on research to ensure the renewal of its product ranges and to open up to new markets. In view of this, Saint-Gobain has pursued an ambitious innovation policy over the past few years. The crisis certainly required us to adjust our overheads, but the Group's research budget has been maintained, clearly demonstrating the priority given to innovation.

*What are Saint-Gobain's main areas of research?*

The Group's activities are constantly innovating on their own markets by offering new products to reflect customers' needs. The way Research is centrally structured underpins and reinforces these innovation efforts through a policy focused on horizontality and exploratory research. Our policy has two main aspects: strategic programs for opening up new markets and cross-functional programs that leverage the synergies between our various activities (see inset on page 6). In both cases, strong ties with marketing are essential. We also promote a strategy of openness built around international partners, including laboratories, universities, start-ups, and so on.

*How do you see the job of researcher today?*

To be a researcher is to combine creativity with practical applications based on an in-depth understanding of technology rooted in solid scientific knowledge. In an industrial group, it is also essential to incorporate a sound understanding of market dynamics. Research provides a fantastic training ground in Saint-Gobain's businesses.



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1 The Group's research units team up with internal and external partners to remain at the forefront of innovation.

2 The cross-functional research center at Aubervilliers dedicated to polymer binders.

“Saint-Gobain’s areas of business”, explains François Creuzet, R&D Director, Advanced Glazing (Innovative Materials).

Research on solid oxide fuel cells (SOFCs) at the European Research Center (CREE) in Cavaillon (France) or on solar energy at the Herzogenrath (Germany) and Aubervilliers (France) research facilities are also illustrations of this support for new markets.

Research is therefore at the heart of the Group’s business. It contributes to all stages in the innovation process, from exploratory research to industrialization, including concept validation, development and the pilot project. Meeting this need for innovation requires us to team up with internal and external partners. As part of the Saint-Gobain University Network program, the Group is building long-term relations with several universities around the world. For example in Japan, an agreement has been signed with NIMS (National Institute

of Materials Science) to create a Center of Excellence for Advanced Materials. Another aspect of this open strategy is the development of cooperation with start-ups tracked

**1/5**  
of products sold by Saint-Gobain  
did not exist five years ago,  
and **361** patents were filed in 2010

**3,500**  
research staff work in **15** R&D centers  
(including **4** cross-functional centers)

**€402m**  
of R&D expenditure  
in 2010

by NOVA External Venturing, the unit specifically tasked with setting up strategic partnerships between Saint-Gobain and start-ups the world over.

#### Strategic programs

- Solar power
- Lighting
- Solid oxide fuel cells (SOFCs)
- Active glazing
- High-performance insulation systems
- External wall insulation systems
- Energy-efficient manufacturing processes within a smaller environmental footprint
- Applying green chemistry to materials

#### Cross-functional programs

- Anti-microbial surfaces
- Catalysts
- Physico-chemical properties of building materials
- Acoustics
- Cement-based materials
- Building envelope energy performance
- Flexible functional materials

## The Group’s innovation center

Located within the Saint-Gobain Research center in Aubervilliers (France), the Group’s innovation center is currently under construction and due for completion during the year. When finished, it will be a low-energy consuming building housing modular meeting areas, a “solution library”, experimental displays, a 3D movie theater, an inspiration wall featuring images and objects representing all Saint-Gobain’s innovations since the company was founded, and sensory modules to present the notions of comfort and discomfort by modulating the space’s sound, light, heat and aesthetics.

The center will play host to specifiers and opinion leaders (architects, economists, project owners and engineering firms), showcasing Saint-Gobain’s expertise and the Group’s 16 operational entities in the habitat market. The center will also present the leading-edge solutions currently being developed by the Group for tomorrow’s world.



## LATEST NEWS

### FIRST-EVER GUIDE TO “HEALTH-RELATED BUILDINGS”



*Saint-Gobain has published a special guide to health-related buildings showcasing the solutions developed by 13 Group companies. This comprehensive guide to health-related buildings for tomorrow’s world showcases highly innovative construction systems and products meeting today’s strict requirements in terms of energy efficiency, sustainable construction and comfort for end users. The guide*

*is based around 35 technical solutions, presented and organized into major areas including opaque walls, roofing, joinery and glazing, interior fittings, air management and waste processing. The brochure is a tangible illustration of how Saint-Gobain brands work together, and will be used in operations to promote the Group’s products to hospitals, retirement homes and the like.*

## SAINT-GOBAIN PAM AT HONG KONG AIRPORT

*Saint-Gobain PAM (Construction Products) is delivering products for the new freight terminal at Hong Kong Airport (China). Built by Cathay Pacific Airways, it is intended to be one of the largest and most efficient terminals in the world. Saint-Gobain PAM will deliver more than 14 kilometers of cast iron pipes,*

*and 189 EPAMS symphonic roof outlets to evacuate rainwater from the building’s 49,000 square meter roof. Scheduled for completion at the end of 2011, the terminal will be able to handle 2.6 million metric tons of freight annually. It will position Hong Kong Airport as the world’s leading air freight hub.*



# Shareholders' Club:

## register online!

Saint-Gobain's Shareholders' Club invites you to discover the Group's businesses, latest innovations and core values.

Every six months for the past year, the Shareholders' Club has offered its registered members a hugely diverse program of events in France, including on-site visits, cultural visits, stock market training sessions and meetings with management.

The Shareholders' Club is open to all individual shareholders holding at least one registered or bearer share.

We invite you to visit [www.saint-gobain.com](http://www.saint-gobain.com) (Finance/Individual Shareholders tab), where a special area allows you to contact the Shareholder Relations Department and sign up for publications as well as join the Shareholders' Club and update your personal details. This simple, rapid solution will also allow you to consult availability for the different events in real time, and manage your subscriptions and possible cancellations.



## Advantages of the Shareholders' Club

- Invitations to on-site visits and cultural events in France
- Invitations to shareholder meetings in several French cities
- Training sessions on managing your stock market portfolio
- An invitation to the Actionaria trade show in Paris
- Automatic subscription to the Letter to Shareholders

*"My visit to the plant at Saint-Pierre-lès-Nemours was really interesting. I'd like to thank you for the explanations we received both in the main hall and in the plant itself. It's great to see dynamic industrial sectors working on high-growth markets."*

Pierre C. - Saint-Pierre-lès-Nemours

*"I would like to thank you for the training session I recently attended on economic indicators. I appreciated both the content (summary of various approaches) and form (training given in conjunction with the Ecole de Bourse)."*

Daniel S. - Lyon

*"I wanted to thank you for a really exceptional day at Vaujours, which took in an exploration of underground quarries and related techniques as well as state-of-the-art industrial facilities. Pleasant, highly qualified speakers were also on hand to give excellent answers to our questions. I've already been on several plant visits, and this one was really outstanding."*

Michel D. - Melun



In 2010, Saint-Gobain played host to more than 2,000 shareholders at some 20 different events across France.



## SAINT-GOBAIN AND SUSTAINABLE DEVELOPMENT

### Saint-Gobain commits to energy-efficient buildings

Saint-Gobain has joined 15 other CAC 40 companies in a pledge to reduce energy consumption in offices. The participating companies signed an "Energy Efficiency Manifesto" and will draw up and implement concrete, quantifiable measures to reduce the energy consumed by buildings. This program has the backing of the EpE, France's Enterprise for the Environment association, which will be chaired by Pierre-André de Chalendar in 2012.

Saint-Gobain was already active in energy efficiency with its launch in 2008 of the CARE:4® program designed to achieve a fourfold reduction in the energy consumption and greenhouse gas emissions of its commercial premises.

For more information, see [www.epe-asso.org](http://www.epe-asso.org)

## Dates for your diary

### UPCOMING SHAREHOLDER MEETINGS

- **March 14**, Bordeaux with Laurent Guillot, Chief Financial Officer
- **April 7**, Toulouse with Laurent Guillot, Chief Financial Officer
- **June 27**, Lyon with Pierre-André de Chalendar, Chairman and Chief Executive Officer

### ANNUAL GENERAL MEETING

3:00 p.m. on June 9,  
at the Palais des Congrès, Porte Maillot, Paris

### UPCOMING RESULTS PUBLICATIONS

- Sales for the first quarter of 2011  
**April 28**, after close of trading on the Paris Bourse
- Final results for first-half 2011  
**July 28**, after close of trading on the Paris Bourse

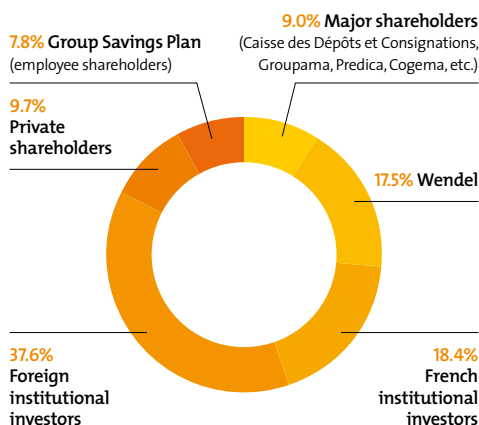
### DIVIDEND

Payment: June 16, 2011

## TOTAL NUMBER OF SHARES AT DECEMBER 31, 2010:

# 530,836,441

## OWNERSHIP STRUCTURE AT DECEMBER 31, 2010 (in %)



## Saint-Gobain share price

### SHARE PRICE PERFORMANCE 2004-2010

Saint-Gobain share price\* in euros, indexes at January 1, 2004

The Saint-Gobain share has been significantly outperforming the CAC40 index since January 1, 2011, and especially following the publication, on February 24, of better than expected 2010 results and outlook for 2011. On February 25, the Saint-Gobain share rose 5.52% to €43.025, representing the CAC 40's strongest performance.

In light of the favorable outlook announced by the Group for 2011, financial analysts once again raised their price targets, and are now forecasting a share price of €50 on average for the share in six months' time.

Performance over the period: Saint-Gobain: +22.9% CAC 40: +15.5%



(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.

↑  
High:  
€76.986<sup>(1)</sup>  
July 12, 2007

€43.325<sup>(1)</sup>  
February 28, 2011

↓  
Low:  
€17.485<sup>(1)</sup>  
February 26, 2009

### RECENT PERFORMANCE OF THE SAINT-GOBAIN SHARE

Recent performance  
at February 28, 2011  
(€43.325) in %

	Saint-Gobain share price	CAC 40	DJ Euro Stoxx 50	DJ Euro Stoxx 50 Construction
Trailing 12 months	+25.5%	+10.8%	+10.4%	+12.4%
Trailing 6 months	+51.0%	+18.3%	+15.6%	+29.6%
Trailing 3 months	+20.4%	+10.2%	+10.1%	+13.3%
Since January 1, 2011	+12.5%	+8.0%	+7.9%	+6.9%

## Your contacts

Saint-Gobain's Shareholder Relations Department will be pleased to answer any enquiries. Please feel free to contact them:

• By dialing **N° Vert 0 800 32 33 33**

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