SAINT-GOBAIN

Half year financial report

Consolidated financial accounts as at June 30, 2011

Operating performance

The second quarter of 2011 confirmed the underlying trends seen in the three months to March 31 (excluding the very positive impact of mild winter weather and number of working days which boosted volumes in the first quarter). **Organic growth for the Group came in at 4.4%,** with contributions from all of the Group's business sectors and main geographic regions. This performance continued to be powered by vigorous momentum in emerging countries and brisk trading in industrial markets, and **confirms the gradual improvement in businesses linked to the residential construction sector in Europe.** High value-added solutions and especially businesses related to energy efficiency in the Habitat market (Insulation, Reinforced Thermal Insulation Glass, Industrial Mortars, etc.) continued to spearhead the Group's organic growth on residential construction markets in Europe, buoyed by new energy performance standards and particularly Thermal Regulation "RT 2012" in France. The growth push in these sectors continues to be driven by the Group's largest national markets (France, Germany and Scandinavia), with the exception of the UK where sales volumes slowed during the second quarter.
Business related to household consumption (Packaging sector: Verallia) continued to perform well.
Barring the renovation segment (Exterior Products), which saw growth pick up pace over the last few months due to severe storms, **construction markets in North America** remained in the doldrums.
With market conditions for the Group improving on the whole and raw material and energy costs soaring, **sales prices** remained a key focus for the Group throughout the first half, **climbing 2.4% over the period, including 2.8% in the second quarter alone** (after 2.0% in the three months to March 31).

Overall in the first six months of 2011, the Group posted 6.7% organic growth (positive volume and price impacts of 4.3% and 2.4%, respectively). However, trading levels were still well below their pre-crisis levels of first-half 2008 (12.6% lower in volume terms).
Bolstered by the cost savings achieved over the last few years, the Group saw **strong gains in its operating margin, up to 8.2%** from 7.4% in first-half 2010. Each key geographical area contributed to margin growth except North America, where profitability in the comparative first-half 2010 period had been boosted by stockpiling by the building materials distributors who are Group customers.

1°) Performance of Group Business Sectors

All business sectors reported robust organic growth in the first half of 2011. Profitability improved in Innovative Materials and Building Distribution, but dipped slightly in Construction Products and Packaging (Verallia), squeezed by the hike in raw material and energy costs. For these two sectors, the acceleration in sales price increases all through the first half failed to compensate fully for cost inflation.

Innovative Materials continued to enjoy the bullish trading observed in 2010 and once again delivered the Group's best organic growth performance, both in the first half (**up 8.5%**) and in the three months to June 30 (**up 5.5%**). The contribution from the sector's different divisions was roughly equal. Markets related to industrial output and capital spending remained upbeat across all regions, and particularly Asia and emerging countries. Innovative Materials also benefited from an upturn in residential construction

markets across Europe during the first half. Combined with a significantly leaner cost base thanks to the cost savings achieved in the past few years, this drove **further advances in the business sector's operating margin, which rose to 12.5%** from 10.4% in first-half 2010.

- **Flat Glass** reported **8.2% organic growth over the period, including 5.8% in the second quarter**, spurred chiefly by volume advances in Asia and emerging countries as well as Western Europe (France in particular). Volume growth in Western Europe reflects the gradual recovery in residential construction markets across the region. In an attempt to curb the impact of rising raw material and energy costs, sales prices increased over the first half, with increases picking up pace between the first and second quarters. **The operating margin climbed sharply, up to 9.5% of sales** from 7.8% of sales in the same year-ago period.

- **High-Performance Materials (HPM)** delivered a **further 9.3% rise in like-for-like sales (up 5.5% in the second quarter)**. Industrial output and capital spending remained upbeat across all regions, and particularly Western Europe. To keep up with spiraling raw material and energy costs, sales prices were up significantly over the period, with price increases across the sector also picking up pace in the second quarter. Although HPM volumes are not as yet back to their pre-crisis levels of first-half 2008, very strong operating leverage sent the **operating margin** well above its record first-half 2008 showing (13.9%), at **16.4% of sales** versus 13.5% of sales in first-half 2010.

Construction Products (CP) like-for-like sales climbed 4.9% over the first half (3.7% in the second quarter), buoyed by the rebound in sales volumes across all divisions except Pipe and Interior Solutions in the US. The **business sector's operating margin edged down to 9.7%** from 10.1% in first-half 2010. This reflects narrower margins in Exterior Solutions, due chiefly to the hike in raw material and energy costs. The upward momentum in sales prices over the six months to June 30 (up 2.8% for the business sector as a whole and 2.7% for Exterior Solutions) failed to fully offset this cost inflation.

- After an excellent first quarter, **Interior Solutions** posted **robust 6.0% organic growth over the first half and more moderate 3.9% growth in the three months to June 30**. The sharp recovery in sales volumes over both periods in most Western European countries (particularly in Insulation) along with ongoing vibrant trading in Asia and emerging countries more than offset the ongoing slowdown in North America. Sales price increases (up 3.0% over the first half and 3.2% in the second quarter) – especially in the Insulation business, helped offset the spike in energy and raw material costs. Volume growth led to **further advances in the operating margin, up to 7.9% versus 6.8%** in first-half 2010.

- **Like-for-like Exterior Solutions sales climbed 4.1%** over the first half and 3.9% in the second quarter. This improvement reflects a very mixed performance from its different divisions. Industrial Mortars delivered double-digit organic growth in the six months to June 30, powered by bullish conditions in Asia and emerging countries, but Pipe volumes were down sharply, hit by austerity measures in most European countries and a decline in export sales. Exterior Products benefited from a sharp upturn in the US renovation market in the second quarter, on the back of severe storms over the past few months. Despite an acceleration in sales price increases in the three months to June 30 (up 3.4% after a 1.8% rise in the first quarter), the **operating margin narrowed to 11.1% from 13.0%** in first-half 2010, squeezed mainly by the sharp downturn in the Pipe business sector and soaring raw material and energy costs.

Building Distribution rebounded strongly over the first half, posting **7.3% organic growth (of which 4.5% in the second quarter)**, spurred by a strong rise in sales volumes in France, Germany, the Netherlands and Scandinavia during the first six months of the year. In contrast, trading was more uneven in the UK and Eastern Europe and remains very tough in southern Europe. Bolstered by a sharp reduction in the cost base over the past few years, the overall trading upturn powered a **sharp rise in the operating margin, up to 3.6% from 2.4%**.

Packaging (Verallia) reported **4.2% organic growth** over the first half, driven by improved conditions in Western Europe and buoyant trading in Latin America. Despite the negative currency impact due mainly to the fall in the US dollar against the euro, EBITDA climbed to €347 million from €344 million in the same period in 2010, **in line with Verallia's target for the full year**. This performance reflects Verallia's ability to pass on most of the steep rise in its costs (mainly energy and raw materials) to prices, which gained 2.6%. The EBITDA margin dipped to 19.1% from 19.5% one year earlier, reflecting the time lag before the full impact of the sales price rises kicks in.

Taking the opportunity of the release of Saint-Gobain's first-half results, Verallia's registration document (*document de base*) was updated with the French financial markets authority (AMF) on July 28, 2011.

2°) Analysis by geographic area

As in the first quarter, all of the Group's regions delivered strong organic growth over the six months to June 30, 2011. Profitability improved sharply in Western Europe, Asia and emerging countries, but edged down slightly in North America.

- In **France** and **other Western European countries**, **organic growth** for the first half came in at **6.2% and 6.3%**, respectively (**3.9% and 3.2%, respectively, in the second quarter**). During the second quarter, the rebound observed in businesses related to residential construction over the three months to March 31 continued apace, particularly in Building Distribution and Interior Solutions, despite a slowdown in the UK and persistent difficulties in southern Europe. Businesses related to industrial markets remained buoyant. As a result, the **operating margin climbed sharply** in both France and other Western European countries, **to 7.2% and 6.2%, respectively** (6.2% and 51%, respectively, in first-half 2010).

- **North America** reported **3.9% organic growth** over both the first half and the second quarter. This was essentially driven by fresh advances in High-Performance Materials and rising volumes in Exterior Products. The **operating margin** continued to perform very well, despite narrowing to 11.2% (compared to 12.0% in first-half 2010, which had benefited from stockpiling by building materials distributors).

- **Asia and emerging countries** once again delivered **the Group's strongest organic growth performance**, both in the first half and over the second quarter (up **12.4% and 9.7%**, respectively). This strong momentum was seen across all regions, and particularly Eastern Europe. The **operating margin** continued on an upward trend, at **10.1% of sales** versus 9.1% one year earlier.

Analysis of the interim consolidated financial statements for first-half 2011

The interim consolidated financial statements set out below were authorized for issue by the Board of Directors on July 28, 2011:

	H1 2010 €m	H1 2011 €m	% change
Sales and ancillary revenue	**19,529**	**20,875**	**+6.9%**
Operating income	**1,445**	**1,720**	**+19.0%**
EBITDA (op. inc. + operating depreciation/amortization)	**2,220**	**2,479**	**+11.7%**
Non-operating costs	(193)	(150)	-22.3%
Capital gains and losses on disposals, asset write-downs, corporate acquisition fees and earn-out payments	(51)	(114)	+123.5%
Business income	**1,201**	**1,456**	**+21.2%**
Net financial expense	(387)	(298)	-23.0%
Income tax	(279)	(352)	+26.2%
Share in net income of associates	3	4	+33.3%
Income before minority interests	**538**	**810**	**+50.6%**
Minority interests	(37)	(42)	+13.5%
Recurring[1] net income	**580**	**902**	**+55.5%**
Recurring[1] earnings per share[2] (in €)	**1.09**	**1.68**	**+54.1%**
Net income	**501**	**768**	**+53.3%**
Earnings per share[2] (in €)	**0.94**	**1.43**	**+52.1%**
Operating depreciation and amortization	775	759	-2.1%
Cash flow from operations[3]	1,431	1,721	+20.3%
Cash flow from operations excluding capital gains tax[4]	**1,419**	**1,697**	**+19.6%**
Capital expenditure	432	641	+48.4%
Free cash flow (excluding capital gains tax)[4]	**987**	**1,056**	**+7.0%**
Investments in securities	36	182	+405.6%
Net debt	**9,081**	**9,055**	**-0.3%**

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 (535,334,213 shares in 2011 versus 530,786,373 shares in 2010). Based on the weighted average number of shares outstanding (526,306,335 shares in first-half 2011 versus 509,735,208 shares in first-half 2010), recurring earnings per share comes out at €1.71 (versus €1.14 in first-half 2010), and earnings per share comes out at €1.46 (versus €0.98 in first-half 2010).

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 6.9%. **Exchange rate fluctuations** had a minimal 0.2% positive impact, with gains in Scandinavian currencies and most currencies of the Group's main emerging countries against the euro

almost fully offset by the decline in the US dollar. The impact of **changes in Group structure** was neutral over the period, with the sale of Advanced Ceramics at December 31, 2010 fully offsetting sales contributions from acquisitions over the 12 months.
Sales therefore climbed 6.7% on both a constant exchange rate basis* and like-for-like (constant exchange rates and Group structure. **Volumes** were up **4.3%**, while **sales prices** gained **2.4%**.

Thanks to sweeping cost cuts over the last three years, **operating income** benefited fully from the growth in sales, surging **19.0%**, or **18.6%** at constant exchange rates*. The **operating margin** therefore improved significantly, **up to 8.2% of sales (11.3% excluding Building Distribution)**, versus 7.4% of sales (10.7% excluding Building Distribution) in first-half 2010.

EBITDA (operating income + operating depreciation and amortization) advanced 11.7%. The consolidated EBITDA margin came in at **11.9%** of sales (16.4% excluding Building Distribution), up from 11.4% (16.2% excluding Building Distribution) in the six months to June 30, 2010.

Non-operating costs declined 22.3% from €193 million in first-half 2010 to €150 million in first-half 2011 on the back of lower restructuring costs. This amount includes a €48.5 million accrual to the provision for asbestos litigation involving CertainTeed in the US (half of the 2010 accrual).

The net balance of capital gains and losses, asset write-downs and corporate acquisition fees was a negative €114 million. This amount comprises €21 million in net gains on asset disposals and €128 million in asset write-downs. Most write-downs relate to restructuring plans and plant closures in progress and chiefly concern certain Building Distribution businesses in Europe (mostly southern Europe) and Construction Products businesses in the US (impairment of property, plant and equipment at mothballed sites where production is no longer considered likely to resume in the short term).

Business income jumped 21.2% to €1,456 million after taking into account the items mentioned above (non-operating costs, capital gains/losses on disposals and asset write-downs).

Net financial expense fell €89 million, or 23.0%, to €298 million from €387 million in the same year-ago period, powered chiefly by the fall in average net debt over the period and the decrease in net interest costs on pensions (higher returns on plan assets). **The average cost of net debt in first-half 2011 came out at 5.6%,** as for full-year 2010.

Income tax was up 26.2%, from €279 million to €352 million, reflecting the rise in pre-tax income. The income tax rate on recurring net income came out at 28% versus 32% in the six months to June 30, 2010.

Recurring net income (excluding capital gains and losses, exceptional asset write-downs and material non-recurring provisions) amounted to **€902 million**, soaring **55.5% year-on-year.** Based on the number of shares outstanding at June 30, 2011 (535,334,213 shares versus 530,786,373 shares at June 30, 2010), **recurring earnings per share came out at €1.68, a rise of 54.1%** on first-half 2010 (€1.09).

Net income came in at **€768 million, up 53.3%** on first-half 2010. Based on the number of shares outstanding at June 30, 2011 (535,334,213 shares versus 530,786,373 shares at June 30, 2010), **earnings per share came out at €1.43, up 52.1%** on first half 2010 (€0.94).

* Based on average exchange rates for first-half 2010.

Following the relaunch of the investment strategy announced at the start of 2011, **capital expenditure** jumped **48.4%, to €641 million** (€432 million in first-half 2010), and accounted for **3.1% of sales** (2.2% in first-half 2010). Half of these investments relate to growth capex, focused chiefly on selective growth projects in Asia and emerging countries and activities related to energy efficiency (Flat Glass – including solar power – and Construction Products).

Free cash flow rose 20.3% year-on-year to **€1,721 million.** Before the tax impact of capital gains and losses on disposals and asset write-downs, free cash flow rose **19.6%** to €1,697 million, from €1,419 in the six months to June 30, 2010.

Despite the sharp rise in capital expenditure:

- **free cash flow (cash flow from operations less capital expenditure)** rose 8.0% to €1,079 million. Before the tax impact of capital gains and losses and asset write-downs, **free cash flow moved up 7.0% to €1,056 million, at 5.1% of sales** (as in first-half 2010). More than 80% of the Group's full-year €1.3 billion free cash flow target has therefore already been met in the first half;

- **the difference between EBITDA and capital expenditure** was up 2.8%, to €1,838 million in first-half 2011 from €1,788 million in first-half 2010, representing 8.8% of sales (9.2% in the same year-ago period).

After eight years of continuous improvements, **operating working capital requirements** inched up 1.1 day to 46.6 days' sales at June 30, 2011, to stand in between operating WCR at June 30, 2010 (45.5 days) and at June 30, 2009 (47.2 days). This trend chiefly reflects the upturn in trading and increase in raw material inventories amid spiraling raw material costs in the first half of 2011.

Consistent with the relaunch of the Group's acquisitions strategy announced at the start of 2011, **investments in securities** were up sharply at **€182 million**, a five-fold increase on first-half 2010 (€36 million). In all, 85% of these investments (€154 million) related to acquisitions in Asia and emerging countries.

Net debt remained stable year-on-year, at €9.1 billion, with all of the cash flow generated over the past 12 months (net of changes in operating WCR) used to relaunch capital spending and acquisitions projects and to pay dividends (2009 dividend paid in July 2010 on top of the 2010 dividend paid in June 2011 for a total of €746 million) and share buy-backs. Net debt came out at **50% of shareholders' equity**, versus 51% at June 30, 2010. **The net debt to EBITDA ratio came out at 1.8 versus 2.1 at end-June 2010**.

Update on asbestos claims in the US

Some 2,000 claims were filed against CertainTeed in the first six months of 2011, on a par with first-half 2010. A total of 4,000 claims were settled during the period (2,000 in first-half 2010), bringing the total number of outstanding claims to **54,000** at June 30, 2011, compared with 56,000 at December 31, 2010.
A total of US$ 96 million in indemnity payments were paid in the US over the year to June 30, 2011, compared with US$ 103 million in the year to December 31, 2010.

Main related-party transactions

Related parties mainly relate to equity consolidated companies, proportionately consolidated companies and certain subsidiaries of the Wendel group.
In accordance with Group policy, these transactions with these related-party entities are carried out as part of its usual business on an arm's length basis. There has not been any significant change in related-party transactions during the first semester 2011.

Main risk factors

Group activities are facing certain macroeconomic, business, operational, market, industrial, environmental and legal risk factors. The main risk factors that Group could face are described in the section "Risk factors" of the management report of the 2010 annual report filed with the AMF under the

reference 2010 D.11-0189 on March 29 2011. There has not been any significant change in these risks during the first semester 2011.

Outlook and objectives for full-year 2011

After a very encouraging first half, the Group expects the conditions observed on its various markets since the beginning of the year to continue apace:

- growth should remain vigorous **in Asia and emerging countries**;
- industrial markets should remain upbeat **in North America**, while construction markets are likely to remain fairly sluggish;
- industrial markets should continue to perform well **in Western Europe**, while the residential sector (new-builds and renovations) is expected to continue on an upward trend. Trading is expected to remain upbeat in France, Scandinavia and Germany;
- **household consumption markets** should hold firm across all regions.

Against this backdrop, **all of the Group's business sectors** should continue to benefit from a **positive growth momentum**, despite a higher basis for comparison in the second half.

To drive growth in its different businesses, Saint-Gobain will therefore continue to:

- pursue its **resolute and tempered development strategy**, underpinned by strict financial discipline. It will step up capital spending and acquisitions, focusing on the Group's main growth drivers (emerging countries, energy efficiency and solar power – which should account for more than 80% of growth capex in 2011 as a whole – as well as consolidation in Building Distribution and Construction Products business sectors). Along these lines, early this week the Group announced its acquisition of Brossette and of the Build Center network in the UK;

- **leverage its price-focused policy** and endeavor to pass on the rise in raw material and energy costs through sales price increases, particularly amid rising inflation;

- maintain a tight rein on costs;

- keep a close watch on cash management and on maintaining a strong balance sheet;

- maintain R&D efforts.

Consequently, Saint-Gobain is confident about its ability to achieve its full-year 2011 targets:

- **robust organic growth**;
- **double-digit growth in operating income** (at constant exchange rates*), despite the rise in raw material and energy costs;
- **€1.3 billion in free cash flow**, after a €500 million increase in capital expenditure;
- **a persistently strong balance sheet**.

* average exchange rates for 2010.

STATEMENT BY THE PERSON
RESPONSIBLE FOR THE 2011 INTERIM FINANCIAL REPORT

I hereby declare that, to the best of my knowledge, the 2011 interim financial statements have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of Compagnie de Saint Gobain and the undertakings included in the consolidation taken as a whole, and that the interim management report includes a fair review of the material events that occurred in the first six months of the financial year, their impact on the financial statements and the main related-party transactions, as well as a description of the main risks and uncertainties for the second half of 2011.

Courbevoie, July 28, 2011

Chief Executive Officer	Chief Financial Officer
Pierre-André de CHALENDAR	Laurent GUILLOT

COMPAGNIE DE SAINT-GOBAIN

STATUTORY AUDITORS' REVIEW REPORT ON THE 2011 INTERIM FINANCIAL INFORMATION

The Statutory Auditors

PricewaterhouseCoopers Audit	KPMG Audit
Crystal Park	Immeuble KPMG
63, rue de Villiers	1, cours Valmy
92208 Neuilly-sur-Seine Cedex	92923 Paris La Défense

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

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

STATUTORY AUDITORS' REVIEW REPORT
ON THE 2011 INTERIM FINANCIAL INFORMATION

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 is 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 compliance with the assignment entrusted to us by your Shareholders' Meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code ("*Code monétaire et financier*"), we hereby report to you on:
- the review of the accompanying condensed interim consolidated financial statements of Compagnie de Saint-Gobain for the six months ended June 30, 2011;
- the verification of the information contained in the half-year financial report.

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

I - Conclusion on the financial statements

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 we would become aware of all significant matters that might be identified in an audit. 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 have not been prepared, in all material respects, in accordance with IAS 34 – "Interim Financial Reporting", as adopted by the European Union.

II – Specific verification

In accordance with professional standards applicable in France, we have also verified the information given in the half-year financial report on the condensed interim consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and its consistency with the condensed interim consolidated financial statements.

Neuilly-sur-Seine and Paris La Défense, July 28, 2011

The Statutory Auditors

PricewaterhouseCoopers Audit

KPMG Audit
Division of KPMG S.A.

Pierre Coll   Jean-Christophe Georghiou

Jean-Paul Vellutini   Philippe Grandclerc

CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2011

Consolidation and Group Reporting Department

CONSOLIDATED BALANCE SHEET

(in EUR millions)	Notes	June 30, 2011	Dec. 31, 2010
ASSETS			
Goodwill	(3)	10,887	11,030
Other intangible assets	(3)	3,024	3,067
Property, plant and equipment	(3)	13,389	13,727
Investment in associates		132	137
Deferred tax assets	(7)	677	700
Other non-current assets		307	272
Non-current assets		**28,416**	**28,933**
Inventories	(4)	6,425	5,841
Trade accounts receivable	(5)	6,369	5,038
Current tax receivable	(7)	86	175
Other receivables	(5)	1,412	1,248
Cash and cash equivalents	(9)	1,275	2,762
Current assets		**15,567**	**15,064**
Total assets		**43,983**	**43,997**
EQUITY AND LIABILITIES			
Capital stock		2,141	2,123
Additional paid-in capital and legal reserve		5,913	5,781
Retained earnings and net income for the period		10,817	10,614
Cumulative translation adjustments		(743)	(383)
Fair value reserves		(17)	(43)
Treasury stock		(345)	(224)
Shareholder's equity		**17,766**	**17,868**
Minority interests		378	364
Total equity		**18,144**	**18,232**
Long-term debt	(9)	6,581	7,822
Provisions for pensions and other employee benefits	(6)	2,732	2,930
Deferred tax liabilities	(7)	913	909
Other non-current liabilities and provisions	(9)	2,126	2,228
Non-current liabilities		**12,352**	**13,889**
Current portion of long-term debt	(9)	1,595	1,094
Current portion of other liabilities	(9)	523	527
Trade accounts payable	(5)	5,840	5,690
Current tax liabilities	(7)	117	156
Other payables and accrued expenses	(5)	3,258	3,395
Short-term debt and bank overdrafts	(9)	2,154	1,014
Current liabilities		**13,487**	**11,876**
Total equity and liabilities		**43,983**	**43,997**

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

CONSOLIDATED INCOME STATEMENT

(in EUR millions)	Notes	**First-half 2011**	**First-half 2010**
Net sales	(19)	20,875	19,529
Cost of sales	(11)	(15,571)	(14,566)
Selling, general and administrative expenses including research	(11)	(3,584)	(3,518)
Operating income		1,720	1,445
Other business income	(11)	21	9
Other business expense	(11)	(285)	(253)
Business income		**1,456**	**1,201**
Borrowing costs, gross		(261)	(287)
Income from cash and cash equivalents		17	17
Borrowing costs, net		(244)	(270)
Other financial income and expense	(13)	(54)	(117)
Net financial expense		**(298)**	**(387)**
Share in net income of associates		4	3
Income taxes	(7)	(352)	(279)
Net income		**810**	**538**
Attributable to equity holders of the parent		**768**	**501**
Minority interests		42	37
Earnings per share (in EUR)			
Weighted average number of shares in issue		526,306,335	509,735,208
Basic earnings per share	(15)	1.46	0.98
Weighted average number of shares assuming full dilution		531,187,152	511,538,221
Diluted earnings per share	(15)	1.45	0.98

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

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE

	Shareholder's equity		Minority interests	Total equity
(in EUR millions)	**Before tax effect**	**Tax effect**		
First-half 2010				
Net income	***761***	***(260)***	***37***	***538***
Translation adjustments	1,385		39	1,424
Changes in fair values	12	(3)		9
Changes in actuarial gains and losses	(443)	144		(299)
Other	(3)		1	(2) (*)
Income and expense recognized directly in equity	***951***	***141***	***40***	***1,132***
Total recognized income and expense for the period	1,712	(119)	77	1,670
First-half 2011				
Net income	***1,100***	***(332)***	***42***	***810***
Translation adjustments	(359)		(13)	(372)
Changes in fair values	26	(9)		17
Changes in actuarial gains and losses	17	(2)		15
Other	2	10		12 (*)
Income and expense recognized directly in equity	***(314)***	***(1)***	***(13)***	***(328)***
Total recognized income and expense for the period	786	(333)	29	482

(*) “Other” mainly includes the impact of applying the changes introduced by IFRS 3R.

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

CONSOLIDATED CASH FLOW STATEMENT

(in EUR millions)	Notes	First-half 2011	First-half 2010
Net income attributable to equity holders of the parent		**768**	**501**
Minority interests in net income	(*)	42	37
Share in net income of associates, net of dividends received		(1)	(1)
Depreciation, amortization and impairment of assets	(11)	886	830
Gains and losses on disposals of assets	(11)	(21)	(9)
Unrealized gains and losses arising from changes in fair value and share-based payments		4	32
Changes in inventories	(4)	(692)	(416)
Changes in trade accounts receivable and payable, and other accounts receivable and payable	(5)	(1,267)	(1,011)
Changes in tax receivable and payable	(7)	49	211
Changes in deferred taxes and provisions for other liabilities and charges	(6)(7)(8)	(127)	(106)
Net cash from operating activities		**(359)**	**68**
Purchase of property, plant and equipment [H1 2011: (641), H1 2010: (432)] and intangible assets	(3)	(676)	(451)
Increase (decrease) in amounts due to suppliers of fixed assets	(5)	(173)	(152)
Acquisitions of shares in consolidated companies [H1 2011: (172), H1 2010: (33)], net of cash acquired	(2)	(167)	(24)
Acquisitions of other investments		(10)	(3)
Increase in investment-related liabilities	(8)	2	21
Decrease in investment-related liabilities	(8)	(6)	(2)
Investments		**(1,030)**	**(611)**
Disposals of property, plant and equipment and intangible assets	(3)	74	45
Disposals of shares in consolidated companies, net of cash divested	(2)	(3)	1
Disposals of other investments and other divetsments		(6)	9
Divestments		**65**	**55**
Increase in loans and deposits		(19)	(27)
Decrease in loans and deposits		19	20
Net cash from (used in) investing activities		**(965)**	**(563)**
Issues of capital stock	(*)	150	509
Minority interest's share in capital increases of subsidiaries	(*)	1	2
Changes in investment-related liabilities following the exercise of put options of minority	(*)	(12)	(11)
(Increase) decrease in treasury stock	(*)	(122)	(4)
Dividends paid	(*)	(603)	(509)
Dividends paid to minority shareholders of consolidated subsidiaries and increase (decrease) in dividends payable		(14)	100
Increase (decrease) in bank overdrafts and other short-term debt		1,138	228
Increase in long-term debt	(**)	253	188
Decrease in long-term debt	(**)	(911)	(1,770)
Net cash from (used in) financing activities		**(120)**	**(1,267)**
Increase (decrease) in cash and cash equivalents		**(1,444)**	**(1,762)**
Net effect of exchange rate changes on cash and cash equivalents		(43)	93
Cash and cash equivalents at beginning of period		**2,762**	**3,157**
Cash and cash equivalents at end of period		**1,275**	**1,488**

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

(**) Including bond premiums, prepaid interest and issue costs.

Income tax paid amounted to €299 million in first-half 2011 and €96 million in first-half 2010. Interest paid net of interest received amounted to €264 million in first-half 2011 and €376 million in first-half 2010.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(number of shares)		*(in EUR millions)*								
	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	**Shareholder's equity**	Minority interests	**Total equity**
At January 1, 2010	**512,931,016**	**508,473,517**	**2,052**	**5,341**	**10,137**	**(1,340)**	**(75)**	**(203)**	**15,912**	**302**	**16,214**
Income and expenses recognized directly in equity			0	0	(305)	1,385	12	0	**1,092**	40	**1,132**
Net income for the period					501				**501**	37	**538**
Total recognized income and expense for the period			***0***	***0***	***196***	***1,385***	***12***	***0***	***1,593***	***77***	***1,670***
Issues of capital stock											
Stock dividends	12,861,368	12,861,368	51	315					**366**		**366**
Group Saving Plan	4,993,989	4,993,989	20	123					**143**		**143**
Other	0	0							**0**	2	**2**
Dividends paid (EUR 1.00 per share)					(509)				**(509)**	(38)	**(547)**
Treasury stock purchased	0	(2,462,452)				2		(88)	**(86)**		**(86)**
Treasury stock sold	0	2,293,742			(4)			86	**82**		**82**
Share-based payments	0	0			22				**22**		**22**
At June 30, 2010	**530,786,373**	**526,160,164**	**2,123**	**5,779**	**9,842**	**47**	**(63)**	**(205)**	**17,523**	**343**	**17,866**
Income and expenses recognized directly in equity			0	0	125	(429)	20	0	**(284)**	(10)	**(294)**
Net income for the period					628				**628**	47	**675**
Total recognized income and expense for the period			***0***	***0***	***753***	***(429)***	***20***	***0***	***344***	***37***	***381***
Issues of capital stock											
Stock options plans	50,068	50,068		2					**2**		**2**
Dividends paid (EUR 1.00 per share)									**0**	(16)	**(16)**
Treasury stock purchased		(3,651,698)				(1)		(124)	**(125)**		**(125)**
Treasury stock sold		3,164,010						105	**105**		**105**
Share-based payments					19				**19**		**19**
At December 31, 2010	**530,836,441**	**525,722,544**	**2,123**	**5,781**	**10,614**	**(383)**	**(43)**	**(224)**	**17,868**	**364**	**18,232**
Income and expenses recognized directly in equity			0	0	18	(359)	26	0	**(315)**	(13)	**(328)**
Net income for the period					768				**768**	42	**810**
Total recognized income and expense for the period			***0***	***0***	***786***	***(359)***	***26***	***0***	***453***	***29***	***482***
Issues of capital stock											
Stock dividends									**0**		**0**
Group Saving Plan	4,497,772	4,497,772	18	132					**150**	1	**151**
Dividends paid (EUR 1.15 per share)					(603)				**(603)**	(16)	**(619)**
Treasury stock purchased		(5,917,262)				(1)		(259)	**(260)**		**(260)**
Treasury stock sold		3,245,171						138	**138**		**138**
Share-based payments					20				**20**		**20**
At June 30, 2011	**535,334,213**	**527,548,225**	**2,141**	**5,913**	**10,817**	**(743)**	**(17)**	**(345)**	**17,766**	**378**	**18,144**

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

NOTES TO THE 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 ("the Group") have been prepared in accordance with the accounting and measurement principles set out in International Financial Reporting Standards (IFRSs), as described in these notes. These condensed financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting.

These notes should be read in conjunction with the consolidated financial statements for the year ended December 31, 2010, prepared in accordance with the IFRSs adopted for use in the European Union and with the IFRSs issued by the International Accounting Standards Board (IASB).

The accounting policies applied are consistent with those used to prepare the financial statements for the year ended December 31, 2010, except for the application of the new standards and interpretations described below. The interim consolidated financial statements have been prepared using the historical cost convention, except for certain assets and liabilities that have been measured using the fair value model as explained in these notes.

The standards, interpretations and amendments to published standards applicable for the first time in 2011 (see the table below) do not have a material impact on the Group's interim consolidated financial statements.

The Group has not early adopted any new standards, interpretations or amendments to published standards that are applicable for financial years beginning on or after January 1, 2012 (see the table below).

These interim consolidated financial statements were adopted by the Board of Directors on July 28, 2011. They are presented in millions of euros.

ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in compliance with IFRS requires management to make estimates and assumptions that affect the reported amounts 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 income and expenses during the period. These estimates and assumptions are based on past experience and on various other factors, including the prevailing economic environment. Actual amounts may differ from those obtained through the use of these estimates and assumptions.

The main estimates and assumptions described in these notes concern the measurement of employee benefit obligations (Note 6), provisions for other liabilities and charges (Note 8), asset impairment tests (Note 1), deferred taxes (Note 7), share-based payments (Note 12) and financial instruments (Note 10).

SUMMARY OF NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS

Standards, interpretations and amendments to existing standards applicable in 2011	
Amendment to IAS 32	Classification of Rights Issues
Revised IAS 24	Related Party Disclosures
Amendment to IFRIC 14	Prepayments of a Minimum Funding Requirement
Amendment to IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
Standards, interpretations and amendments to existing standards early adopted in 2011	
Amendment to IAS 1	Presentation of Financial Statements
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets

Standards adopted by the European Union may be consulted on the European Commission website, at http://ec.europa.eu/internal_market/accounting/ias/index_en.htm

INTERIM FINANCIAL STATEMENTS

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

Goodwill and other intangible assets are systematically tested for impairment during the second half of the year as part of the preparation process for the five-year business plan. Tests are generally performed for the interim financial statements only in the event of an unfavorable change in impairment indicators.

The cost of the Group Savings Plan was recognized in full during the first half of the year, as the subscription period ended 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 the rest of the euro zone – actuarial valuations are updated at the end of June and the related provisions are adjusted accordingly (see Note 6). For the other host countries, actuarial valuations are performed as part of the annual budget procedure and provisions in the interim balance sheet are based on estimates made at the end of the previous year.

CONSOLIDATION

Scope of consolidation

The Group's interim consolidated financial statements include the accounts of Compagnie de Saint-Gobain and of all companies controlled by the Group, 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 2011 are presented in Note 2 and a list of the principal consolidated companies at June 30, 2011 is provided in Note 20.

Consolidation methods

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

Interests in jointly controlled entities are proportionately consolidated. The Group 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, and has maintained the proportionate consolidation method.

Companies over which the Group directly or indirectly exercises significant influence are accounted for by the equity method.

Business combinations

The Group has applied IFRS 3R and IAS 27A on a prospective basis starting from January 1, 2010. As a result, business combinations completed prior to that date are recognized in accordance with the previous versions of IFRS 3 and IAS 27.

- *Goodwill*

When an entity is acquired by the Group, the identifiable assets and 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 within twelve months and retrospectively at the acquisition date.

The final acquisition price (referred to as "consideration transferred" in IFRS 3R), including the estimated fair value of any earn-out payments or other deferred consideration (referred to as "contingent consideration"), is determined in the twelve months following the acquisition. Under IFRS 3R, any adjustments to the acquisition price beyond this twelve-month period are recorded in the income statement. As from January 1, 2010, all costs directly attributable to the business combination, i.e. costs that the acquirer incurs to effect a business combination such as professional fees paid to investment banks, attorneys, auditors, independent valuers and other consultants, are no longer capitalized as part of the cost of the business combination, but are recognized as expenses as incurred.

In addition, starting from January 1, 2010, goodwill is recognized only at the date that control is achieved (or joint control is achieved in the case of proportionately consolidated companies or significant influence is obtained in the case of entities accounted for by the equity method). Any subsequent increase in ownership interest is recorded as a change in equity attributable to the equity holders of the parent without adjusting goodwill. In the case of a business combination achieved in stages, the transaction is allocated globally at the date control is reached.

Goodwill is recorded in the consolidated balance sheet as the difference between the acquisition-date fair value of (i) the consideration transferred plus the amount of any minority interests and (ii) the identifiable net assets of the acquiree. Minority interests are measured either as their proportionate interest in the net identifiable assets or at their fair value at the acquisition date.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the assets and liabilities of the acquired entity. If the cost of the acquisition is less than the fair value of the net assets and liabilities acquired, the difference is recognized directly in the income statement.

- *Step acquisitions and partial disposals*

When the Group acquires control of an entity in which it already held an equity interest, the transaction is treated as a step acquisition (an acquisition in stages), as follows: (i) as a disposal of the previously-held interest, with recognition of any gain or loss in the consolidated financial statements, and (ii) as an acquisition of the entire interest, with recognition of the corresponding goodwill (on both the old and new acquisitions).

When the Group disposes of part of an equity interest, leading to the loss of control (with a minority interest retained), the transaction is also treated as both a disposal and an acquisition, as follows: (i) as a disposal of the entire interest, with recognition of any gain or loss in the consolidated financial statements, and (ii) as an acquisition of the retained non-controlling (minority) interest, measured at fair value.

- *Potential voting rights and share purchase commitments*

Potential voting rights conferred by call options on minority interests (non-controlling interests) are taken into account in determining whether the Group exclusively controls an entity only when the options are currently exercisable.

When calculating its percentage of interest in controlled companies, the Group considers the impact of cross put and call options on minority interests in the companies concerned. This approach gives rise to the recognition in the financial statements of an investment-related liability (included within "Other liabilities") corresponding to the present value of the estimated exercise price of the put option, with a corresponding reduction in minority interests and equity attributable to equity holders of the parent. Any subsequent changes in the fair value of the liability are recognized by adjusting equity.

- *Minority interests*

Up to December 31, 2009, transactions with minority interests were treated in the same way as transactions with parties external to the Group. As from January 1, 2010, changes in minority interests (referred to as "non-controlling interests" in IFRS 3R) are accounted for as equity transactions between two categories of owners of a single economic entity in accordance with IAS 27A. As a result, changes in minority interests that do not lead to a loss of control are recorded in the statement of changes in equity and have no impact on the income statement or balance sheet, except for changes in cash and cash equivalents.

Non-current assets and liabilities held for sale – Discontinued operations

Assets and liabilities that are immediately available for sale and for which a sale is highly probable are classified as non-current assets and liabilities 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 held for sale 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. When the assets held for sale are consolidated companies, deferred tax is recognized on the difference between the consolidated carrying amount of the shares and their tax basis, in accordance with IAS 12.

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

At each balance sheet date, the value of the assets and liabilities is reviewed to determine whether any provision adjustments should be recorded due to a change in their fair value less costs to sell.

Intragroup transactions

All intragroup balances and transactions are eliminated in consolidation.

Translation of the financial statements of foreign companies

The consolidated financial statements are presented in euros, which is Compagnie de Saint-Gobain's functional and presentation currency.

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

The Group's share of any translation gains or losses is included in equity under "Cumulative translation adjustments" until the foreign operations to which they relate are sold or liquidated, at which time they are taken to the income statement if the transaction results in a loss of control or recognized directly in the statement of changes in equity if the change in ownership interest does not result in a loss of control.

Foreign currency transactions

Foreign currency transactions are translated into the Company's functional currency 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. As an exception to this principle, 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

See the section above on business combinations.

Other intangible assets

Other intangible assets primarily include patents, brands, software, and development costs. They are measured at historical cost less accumulated amortization and impairment.

Acquired retail brands and certain manufacturing brands are treated as intangible assets with indefinite useful lives as they have a strong national and/or international reputation. 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.

Costs incurred to develop software in-house – primarily configuration, programming and testing costs – are recognized as intangible assets. Patents and purchased computer software are amortized over their estimated useful lives, not exceeding 20 years for patents and 3 to 5 years for software.

Research costs are expensed as incurred. Development costs meeting the recognition criteria under IAS 38 are included in intangible assets and amortized over their estimated useful lives (not to exceed 5 years) from the date when the products to which they relate are first marketed.

Concerning greenhouse gas emissions allowances, a provision is recorded in the consolidated financial statements to cover any difference between the Group's emissions and the allowances granted.

Property, plant and equipment

Land, buildings and equipment are carried at historical cost less accumulated depreciation and impairment.

Cost may also include incidental expenses directly attributable to the acquisition, such as transfers from equity of any gains/losses on qualifying cash flow hedges of property, plant and equipment purchases.

Expenses incurred in exploring and evaluating mineral resources are included in property, plant and equipment when it is probable that associated future economic benefits will flow to the Group. They include mainly the costs of topographical or geological studies, drilling costs, sampling costs and all costs incurred in assessing the technical feasibility and commercial viability of extracting the mineral resource.

Material borrowing costs incurred for the construction and acquisition of property, plant and equipment are included in the cost of the related asset.

Except for the head office building, which is the Group's only material non-industrial asset, property, plant and equipment are considered as having no residual value, as most items 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 are depreciated using the components approach, on a straight-line basis over the following estimated useful lives, which are regularly reviewed:

- 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 estimated useful lives, based on the quantity of gypsum extracted during the year compared with the extraction capacity.

Provisions for site restoration are recognized as components of assets in the event of a sudden deterioration in site conditions and whenever the Group has a 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 lives of the assets concerned. The component is depreciated over the same useful life as that used for mines and quarries.

Government grants for purchases of property, plant and equipment are recorded under "Other payables" and taken to the income statement over the estimated useful lives of the relevant assets.

Finance leases and operating leases

Assets held under leases that transfer to the Group substantially all of the risks and rewards of ownership (finance leases) are recognized as property, plant and equipment. They are recognized 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.

Property, plant and equipment acquired under finance leases are depreciated on a straight-line basis 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 in the balance sheet net of related interest.

Rental payments under operating leases are expensed as incurred.

Non-current financial assets

Non-current financial assets include available-for-sale and other securities, as well as other non-current assets, which primarily comprise long-term loans and deposits.

Investments classified as "available-for-sale" are carried at fair value. Unrealized gains and losses on these investments are recognized in equity, unless the investments have suffered an other-than-temporary or material decline in value, in which case an impairment loss is recorded in the income statement.

Impairment of property, plant and equipment, intangible assets and goodwill

Property, plant and equipment, goodwill and other intangible assets are tested for impairment on a regular basis. These tests consist of comparing the asset's carrying amount to its recoverable amount. Recoverable amount is 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, an impairment test is performed whenever revenues from the asset decline or the asset generates operating losses due to either internal or external factors, and no improvement is forecast in the annual budget or the business plan.

For goodwill and other intangible assets (including brands with indefinite useful lives), an impairment test is performed at least annually based on the five-year business plan. Goodwill is reviewed systematically and exhaustively at the level of each cash-generating unit (CGU). The Group's reporting segments are its business sectors, which may each include several CGUs. A CGU is a reporting sub-segment, generally defined as a core business of the segment in a given geographical area. It typically reflects the manner in which the Group organizes its business and analyzes its results for internal reporting purposes. A total of 37 main CGUs are monitored each year.

Goodwill and brands are allocated mainly to the Gypsum and Industrial Mortars CGUs and to the Building Distribution CGUs primarily in the United Kingdom, France and Scandinavia.

The method used for these impairment tests is consistent with that employed by the Group for the valuation of companies acquired in business combinations or acquisitions of equity interests. The carrying amount of the CGUs is compared to their value in use, corresponding to 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. For impairment tests of goodwill, normative cash flows (corresponding to cash flows at the mid-point in the business cycle) are then projected to perpetuity using a low annual growth rate (generally 1%, except for emerging markets or businesses with a high organic growth potential where a 1.5% rate may be used). The discount rate applied to these cash flows corresponds to the Group's average cost of capital (7.25% in 2011 and 2010) plus a country risk premium where appropriate depending on the geographic area concerned. The discount rates applied in first-half 2011 and in 2010 for the main operating regions were 7.25% for the euro zone and North America, 8.25% for Eastern Europe and China and 8.75% for South America.

The 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 method's sensitivity are systematically tested using the following parameters:

- 0.5-point increase or decrease in the annual average rate of growth in cash flows projected to perpetuity;
- 0.5-point increase or decrease in the discount rate applied to cash flows.

When the annual impairment test reveals that the recoverable amount of an asset is less than its carrying amount, an impairment loss is recorded.

Based on projections made at December 31, 2010, a 0.5-point decrease in projected average annual growth in cash flows to perpetuity for all the CGUs, excluding Building Distribution in the United States and the Netherlands (for which impairment losses were recognized in 2010) would not lead to any impairment of intangible assets. Similarly, a 0.5-point increase in the discount rate applied to the same CGUs would not lead to any impairment of intangibles.

Impairment losses on goodwill can never be reversed through income. 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. It is generally determined using the weighted-average cost method, and in some cases the First-In-First-Out (FIFO) method. Cost of inventories may also include the transfer from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of raw materials. Net realizable value is the selling price in the ordinary course of business, less estimated costs to completion and costs to sell. No account is taken in the inventory valuation process of the impact of below-normal capacity utilization rates.

Operating receivables and payables

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

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

Net debt

- *Long-term debt*

Long-term debt includes bonds, Medium Term Notes, perpetual bonds, participating securities and all other types of long-term financial liabilities including lease liabilities 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 are classified as debt and not as quasi-equity. At the balance sheet date, long-term debt is measured at amortized cost. Premiums and issuance costs are amortized using the effective interest method.

- *Short-term debt*

Short-term debt includes the current portion of the long-term debt described above, short-term financing programs such as commercial paper or "b*illets de trésorerie*" (French commercial paper), bank overdrafts and other short-term bank borrowings, as well as the fair value of credit derivatives not qualifying for hedge accounting. At the balance sheet date, short-term debt is measured at amortized cost, with the exception of derivatives that are held as hedges of debt. Premiums and issuance costs are amortized using the effective interest method.

- *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 9.

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 the normal course of business.

In accordance with IAS 32 and IAS 39, all of these instruments are recognized in the balance sheet and measured 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 fair value of both 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 (in business income for foreign exchange and commodity derivatives qualifying for hedge accounting, and in net financial expense for all other derivatives). However, in the case of derivatives that qualify as cash flow hedges, the effective portion of the gain or loss arising from changes in fair value is recognized directly in equity, and only the ineffective portion is recognized in the income statement.

- *Fair value hedges*

Most interest rate derivatives used by the Group to swap fixed rates for variable rates are designated and qualify as fair value hedges. These derivatives hedge fixed-rate debts exposed to a fair value risk. In accordance with hedge accounting principles, debt included in a designated fair value hedging relationship is remeasured 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 for derivatives used to fix the cost of future investments in financial assets or property, plant and equipment, future purchases of gas and fuel oil (fixed-for-variable price swaps) and future purchases of foreign currencies (forward contracts). The transactions hedged by these instruments are qualified as highly probable. The application of cash flow hedge accounting allows the Group to 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 when the hedged transaction occurs and the hedged item affects income. 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 swaps; and futures and forward contracts.

Fair value of financial instruments

The fair value of financial assets and financial liabilities quoted in an active market corresponds to their quoted price, classified as Level 1 in the fair value hierarchy defined in IFRS 7. The fair value of financial assets and financial liabilities not quoted in an active market is established by a recognized valuation technique such as reference to the fair value of another recent and similar transaction, or discounted cash flow analysis based on observable market data, classified as Level 2 in the IFRS 7 fair value hierarchy.

The fair value of short-term financial assets and liabilities is considered as being the same as their carrying amount due to their short maturities.

Employee benefits – defined benefit plans

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

In France, employees receive length-of-service awards on retirement based on years of service and the calculation methods prescribed in the applicable collective bargaining agreements.

The Group's obligation for the payment of pensions and length-of-service awards is determined at the balance sheet date by independent actuaries, using a method that takes into account projected final salaries at retirement and economic conditions in each country. These obligations may be financed by pension funds, with a provision recognized in the balance sheet for the unfunded portion. The effect of any plan amendments (past service cost) is recognized on a straight-line basis over the remaining vesting period, or immediately if the benefits are already vested.

Actuarial gains or losses reflect year-on-year changes in the actuarial assumptions used to measure the Group's obligations and plan assets, experience adjustments (differences between the actuarial assumptions and what has actually occurred), and changes in legislation. They are recognized in equity as they occur.

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

Provisions are also set aside on an actuarial basis for other employee benefits, such as jubilees or other long-service awards, deferred compensation, specific welfare benefits, and 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 expected return on plan assets as financial expense or income.

Employee benefits – defined contribution plans

Contributions to defined contribution plans are expensed as incurred.

Employee benefits – share-based payments

- *Stock options*

The cost of stock option plans is calculated using the Black & Scholes option pricing model, based on the following parameters:

- Volatility assumptions that 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. Periods of extreme share price volatility are disregarded.
- Assumptions relating to the average holding period of options, based on observed behavior of option holders.
- Expected dividends, as estimated on the basis of historical information dating back to 1988.
- A risk-free interest rate corresponding to the yield on long-term government bonds.
- The effect of any stock market performance conditions is taken into account in the initial measurement of the plan cost under IFRS 2.

The cost calculated using this method is recognized in the income statement over the vesting period of the options, ranging from three to four years.

For options exercised for new shares, the sum received by the Company when the options are exercised is 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”.

- *Group Savings Plan (“PEG”)*

The method used by Saint-Gobain to calculate the costs of its Group Savings Plan takes into account the fact that shares granted to employees under the plan are subject to a five- or ten-year lock-up. The lock-up cost is measured and deducted from the 20% discount granted by the Group on employee share awards. The calculation parameters are defined as follows:

- The exercise price, as set by the Board of Directors, 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 when the plan’s terms and conditions are announced on the Group’s intranet.
- The interest rate used to estimate the cost of the lock-up feature of employee share awards is the rate that would be charged by a bank to an individual with an average risk profile for a general purpose five- or ten-year consumer loan repayable at maturity.

Leveraged plan costs are calculated under IFRS 2 in the same way as for non-leveraged plans, but also take into account the advantage accruing to employees who have access to share prices with a volatility profile adapted to institutional investors.

The cost of the plans was recognized in full at the end of the subscription period.

- *Performance share grants*

The Saint-Gobain Group set up a worldwide share grant plan in 2009 whereby each Group employee was awarded seven shares, and performance share plans in 2009 and 2010 for certain categories of employees. These plans are subject to eligibility criteria based on the grantee’s period of service with the Group. The plan costs calculated under IFRS 2 take into account the eligibility criteria, the performance criteria – which are described in Note 12 – and the lock-up feature. They are determined after deducting the present value of forfeited dividends on the performance shares and are recognized over the vesting period, which ranges from two to four years depending on the country.

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 a cumulative 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 undistributed earnings of all consolidated companies.

- *Treasury stock*

Treasury stock is measured at cost and recorded 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.

Other current and non-current liabilities and provisions

- *Provisions for other liabilities and charges*

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

If the timing or the amount of the obligation cannot be measured reliably, it is classified as a contingent liability and reported as an off-balance sheet commitment.

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

- *Investment-related liabilities*

Investment-related liabilities correspond to put options granted to minority shareholders of subsidiaries and liabilities relating to the acquisition of shares in Group companies, including additional purchase consideration. They are reviewed on a periodic basis and any subsequent changes in the fair value of minority shareholder puts are recognized by adjusting equity.

INCOME STATEMENT ITEMS

Revenue recognition

Revenue generated by the sale of goods or services is recognized net of rebates, discounts and sales taxes (i) when the risks and rewards of ownership have been transferred to the customer, or (ii) when the service has been rendered, or (iii) by reference to the stage of completion of the services to be provided.

Construction contracts are accounted for using the percentage of completion method, as explained below. 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 recovered. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Construction contract revenues are not material in relation to total consolidated net sales.

Operating income

Operating income is a measure of the performance of the Group's business sectors and has been used by the Group as its key external and internal management indicator for many years. 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 include movements in provisions for claims and litigation and environmental provisions, gains and losses on disposals of assets, impairment losses, restructuring costs incurred upon the disposal or discontinuation of operations and the costs of workforce reduction measures.

Business income

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

Net financial expense

Net financial expense includes borrowing and other financing costs, income from cash and cash equivalents, interest cost for pension and other post-employment benefit plans, net of the return on plan assets, and other financial income and expense such as exchange gains and losses and bank charges.

Income taxes

Current income tax is the estimated amount of tax payable in respect of income for a given period, calculated by reference to the tax rates that have been enacted or substantively enacted at the balance sheet date, plus any adjustments to current taxes recorded in previous financial periods.

Deferred taxes are recorded using the balance sheet liability method for temporary differences between the carrying amount of assets and liabilities and their tax basis. Deferred tax assets and liabilities are measured at the tax rates expected to apply to the period when the asset is realized or the liability settled, based on the tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognized only if it is considered probable that there will be sufficient future taxable income against which the temporary difference can be utilized. They are reviewed at each balance sheet date and written down to the extent that it is no longer probable that there will be sufficient taxable income against which the temporary difference can be utilized.

No deferred tax liability is recognized in respect of undistributed earnings of subsidiaries that are not intended to be distributed.

In accordance with interpretation SIC 21, a deferred tax liability is recognized for brands acquired in a business combination.

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

Earnings per share

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

Diluted earnings per share are calculated by adjusting earnings per share (see Note 15) and the average number of shares in issue for the effects of all dilutive potential common shares, such as stock options and convertible bonds. The calculation is performed using the treasury stock method, which assumes that the proceeds from the exercise of dilutive instruments are assigned on a priority basis to the purchase of common shares in the market.

Recurring net income

Recurring net income corresponds to income after tax and minority interests but before capital gains or losses, asset impairment losses, material non-recurring provisions and the related tax and minority interests.

The method used for calculating recurring net income is explained in Note 14.

PERFORMANCE INDICATORS

EBITDA

EBITDA corresponds to operating income before depreciation and amortization.

The method used for calculating EBITDA is explained in Note 14.

Return on capital employed

Return on capital employed (ROCE) corresponds to annualized operating income adjusted for changes in the scope of consolidation, expressed as a percentage of total assets at the period-end. Total assets include net property, plant and equipment, working capital, net goodwill and other intangible assets, but exclude deferred tax assets arising from non-amortizable brands and land.

Cash flow from operations

Cash flow from operations corresponds to net cash generated from operating activities before the impact of changes in working capital requirement, changes in current taxes and movements in provisions for other liabilities and charges and deferred taxes. Cash flow from operations is adjusted for the effect of material non-recurring provision charges.

The method used for calculating cash flow from operations is explained in Note 14.

Cash flow from operations before tax on capital gains and losses and non-recurring provisions

This item corresponds to cash flow from operations less the tax effect of asset disposals and of non-recurring provision charges and reversals.

The method used for calculating cash flow from operations before tax on capital gains and losses and non-recurring items is explained in Note 14.

SEGMENT INFORMATION

In compliance with IFRS 8, segment information reflects the Group's internal presentation of operating results to senior management. The Group has chosen to present segment information by sector and division, without any further aggregation compared with the internal presentation. There were no changes in the presentation of segment information in first-half 2011 compared with prior periods.

NOTE 2 - CHANGES IN GROUP STRUCTURE

Changes in the number of consolidated companies

	France	Outside France	Total
FULLY CONSOLIDATED COMPANIES			
At January 1, 2011	**179**	**878**	**1,057**
Newly consolidated companies	2	10	12
Merged companies	(3)	(15)	(18)
Deconsolidated companies		(2)	(2)
Change in consolidation method		1	1
At June 30, 2011	**178**	**872**	**1,050**
PROPORTIONATELY CONSOLIDATED COMPANIES			
At January 1, 2011	**2**	**23**	**25**
Newly consolidated companies		1	1
Deconsolidated companies			0
Change in consolidation method			0
At June 30, 2011	**2**	**24**	**26**
COMPANIES ACCOUNTED FOR BY THE EQUITY METHOD			
At January 1, 2011	**7**	**49**	**56**
Newly consolidated companies			0
Merged companies		(2)	(2)
Deconsolidated companies			0
Change in consolidation method		(1)	(1)
At June 30, 2011	**7**	**46**	**53**
Total at June 30, 2011	**187**	**942**	**1,129**

Significant changes in Group structure

First-half 2011

On May 31, 2011, Saint-Gobain announced that it had signed an agreement to acquire Sezal Glass Limited's float glass business in India. The business was consolidated at June 30, 2011.

In first-half 2011, Saint-Gobain signed an agreement for the buy-out of Alver by the Group's Packaging Sector (Verallia). A State-owned company, Alver is one of Algeria's leading glass packaging manufacturers and distributors. It will be consolidated in the second half of 2011.

On June 20, 2011, Saint-Gobain announced the postponement of the initial public offering of a minority interest in Verallia due to very adverse market conditions.

2010

During the first half of 2010, the Group acquired a 43.7% interest in Japanese insulation company MAG from Japan-based Taiheiyo Cement Corporation. Previously consolidated on a proportionate basis, the company has been fully consolidated since April 1, 2010. This transaction was treated as a step acquisition under the provisions of IFRS 3R, the application of which had no material impact on the consolidated balance sheet or income statement. A further 10% stake was acquired in the second half of the year, raising the Group's interest in the company to 97.4%.

In December, the Group acquired a 50% interest in Sage Electrochromics, which has been consolidated by the proportionate method as from December 1. Provisional goodwill has been recognized in the balance sheet pending final allocation of the acquisition price in 2011.

Also in 2010, an agreement was signed for the sale of the advanced ceramics business to US-based CoorsTek, subject to approval of the transaction by the relevant authorities. The business was classified in assets and liabilities held for sale from June 28, 2010, the date when the sale process was announced. The disposal was completed on December 31, 2010 for an amount of approximately USD 245 million, following anti-trust approval.

NOTE 3 – GOODWILL, OTHER INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

(in EUR millions)	**Goodwill**	**Other intangible assets**	**Property, plant and equipment**	**Total**
At January 1, 2011				
Gross value	11,560	4,030	32,824	48,414
Accumulated depreciation and impairment	(530)	(963)	(19,097)	(20,590)
Net	**11,030**	**3,067**	**13,727**	**27,824**
Movements during the period				
Acquisitions		35	645	680
Disposals			(37)	(37)
Translation adjustments	(125)	(47)	(308)	(480)
Depreciation and impairment	(66)	(45)	(775)	(886)
Changes in Group structure and other movements	48	14	137	199
Total movements	**(143)**	**(43)**	**(338)**	**(524)**
At June 30, 2011				
Gross value	11,453	4,000	32,728	48,181
Accumulated depreciation and impairment	(566)	(976)	(19,339)	(20,881)
Net	**10,887**	**3,024**	**13,389**	**27,300**

NOTE 4 – INVENTORIES

(in EUR millions)	June 30, 2011	Dec. 31, 2010
Gross value		
Raw materials	1,603	1,489
Work in progress	286	253
Finished goods	4,984	4,550
Gross inventories	**6,873**	**6,292**
Provisions for impairment in value		
Raw materials	(126)	(125)
Work in progress	(7)	(6)
Finished goods	(315)	(320)
Provisions for impairment in value	**(448)**	**(451)**
Net inventories	**6,425**	**5,841**

The increase in inventories mainly reflects seasonal fluctuations in business.

NOTE 5 – TRADE AND OTHER ACCOUNTS RECEIVABLE AND PAYABLE

(in EUR millions)	June 30, 2011	Dec. 31, 2010
Gross value	6,865	5,530
Provisions for impairment in value	(496)	(492)
Trade accounts receivable	**6,369**	**5,038**
Advances to suppliers	459	476
Prepaid payroll taxes	39	25
Other prepaid and recoverable taxes (other than income tax)	429	385
Other	489	369
Provisions for impairment in value	(4)	(7)
Total other receivables	**1,412**	**1,248**
Trade accounts payable	**5,840**	**5,690**
Customer deposits	646	727
Payable to suppliers of non-current assets	183	354
Grants received	57	60
Accrued personnel expenses	1,060	1,149
Accrued taxes (other than income tax)	582	446
Other	730	659
Total other payables and accrued expenses	**3,258**	**3,395**

The increase in trade accounts receivable is primarily attributable to seasonal fluctuations in business and growth in revenue.

NOTE 6 – PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS

(in EUR millions)	**June 30, 2011**	**Dec. 31, 2010**
Pensions	1,939	2,107
Lenght-of-service awards	234	224
Post-employment healthcare benefits	384	412
Total provisions for pensions and other post-employment benefit obligations	**2,557**	**2,743**
Healthcare benefits	43	49
Long-term disability benefits	27	30
Other long-term benefits	105	108
Provisions for pensions and other employee benefits	**2,732**	**2,930**

The following table shows projected benefit obligations under pension and other post-employment benefit plans and the related plan assets:

(in EUR millions)	**June 30, 2011**	**Dec. 31, 2010**
Provisions for pensions and other post-employment benefit obligations	2,557	2,743
Pension plan surpluses	42	37
Net pension and other post-employment benefit obligations	**2,515**	**2,706**

Description of defined benefit plans

The Group's main defined benefit plans are as follows:

In France, in addition to length-of-service awards, there are three defined benefit plans all of which are final salary plans. These plans were closed to new entrants 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 entrants since 1996.

In the Netherlands, ceilings have been introduced for supplementary pension plans, above which they are converted into defined contribution plans.

In the United Kingdom, 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 entrants since 2001.

In the United States and Canada, the Group's defined benefit plans are final salary plans. Since January 1, 2001, new employees have been offered a defined contribution plan.

Provisions for other long-term employee benefits amounted to €175 million at June 30, 2011 (December 31, 2010: €187 million), and covered all other employee benefits, notably long-service awards in France, jubilees in Germany and employee benefits in the United States. The related projected benefit obligation is generally calculated on an actuarial basis using the same rules as for pension obligations.

Measurement of pension and other post-employment benefit obligations

Pensions and other post-employment benefit obligations are determined on an actuarial basis using the projected unit credit method, based on estimated final salaries.

Plan assets

For defined benefit plans, plan assets have been progressively built up by contributions, primarily in the United States, the United Kingdom and Germany. Contributions paid by the Group totaled €375 million in 2010.

Actuarial assumptions used to measure projected benefit 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.

The assumptions used in 2010 and first-half 2011 in the countries with the main plans were as follows:

	France	Other European countries		United States
(in %)		Euro zone	United Kingdom	
Discount rate	4.75%	4.75%	5.45%	5.50%
Salary increases	2.40%	1,90% to 2,70%	3.70%	3.00%
Expected return on plan assets	5.00%	4,15% to 5,25%	6.20%	8.75%
Inflation rate	1.80%	1,50% to 1,90%	3.20%	2.00%

In light of interest rate trends, which were substantially similar to the Group's projections, the discount rates used to calculate pension obligations remained unchanged at June 30, 2011. Similarly, the assumed inflation rates were not adjusted.

Expected rates of return on plan assets are estimated by country and by plan, taking into account the different classes of assets held by the plan and the outlook in the various financial markets. The estimated return on plan assets was a positive €205 million in first-half 2011. In light of the markets' performance during the period and the non-material impact of changes in actuarial assumptions used to calculate the net pension obligation, no adjustments were made at June 30, 2011.

Sensitivity calculations were not updated at June 30, 2011; if they had been, the results would have been substantially similar to the analyses presented in the 2010 Annual Report (in Note 14 to the consolidated financial statements).

Actuarial gains and losses

In 2006, the Group elected to apply the option available under IAS 19 to record in equity actuarial gains and losses as well as the change in the asset ceiling (see Note 1). As a result, deferred actuarial gains and losses now relate only to the effects of plan adjustments (past service cost).

Plan surpluses and the asset ceiling

When plan assets exceed the projected benefit obligation, the excess is recognized in other non-current assets under “Plan surplus” provided that it corresponds to future economic benefits. The change in the asset ceiling is recognized in equity.

Contributions to insured plans

This item, which represented €29 million at December 31, 2010, corresponded to amounts payable in the future to insurance companies under the externally funded pension plans for Group employees in Spain. These amounts were fully repaid at June 30, 2011.

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

(in EUR millions)	**Net pension obligations**
At January 1, 2011	
Net pension and post-employment benefit obligations	**2,706**
Movements during the period	
Service cost	77
Interest cost	15
Actuarial gains and losses recognized during the period*	(17)
Contributions to plan assets and benefit payments	(171)
Changes in Group structure	0
Other (reclassifications and translation adjustments)	(95)
Total movements	**(191)**
At June 30, 2011	
Net pension and post-employment benefit obligations	**2,515**

* The total positive impact on equity was €17 million before tax (€15 million after tax).

NOTE 7 – CURRENT AND DEFERRED TAXES

The pre-tax income of combined companies is as follows:

(in EUR millions)	First-half 2011	First-half 2010
Net income	810	538
Less:		
Share in net income of associates	4	3
Income taxes	(352)	(279)
Pre-tax income of consolidated companies	**1,158**	**814**

Income tax expense breaks down as follows:

(in EUR millions)	First-half 2011	First-half 2010
Current taxes	**(348)**	**(307)**
France	(48)	(35)
Outside France	(300)	(272)
Deferred taxes	**(4)**	**28**
France	(20)	(8)
Outside France	16	36
Total income tax expense	**(352)**	**(279)**

The effective tax rate breaks down as follows:

(in %)	First-half 2011	First-half 2010
Tax rate in France	34.4	34.4
Impact of tax rates outside France	(2.8)	(1.8)
Capital gains and losses and asset impairments	1.3	1.2
Provisions for deferred tax assets	0.6	(0.1)
Effect of changes in future tax rates	(0.7)	(0.8)
Research tax credit	(0.7)	(1.1)
Other deferred and miscellaneous taxes	(1.7)	2.5
Effective tax rate	**30.4**	**34.3**

In the balance sheet, changes in net deferred tax liabilities break down as follows:

(in EUR millions)	**Net deferred tax liabilities**
At January 1, 2011	**209**
Deferred tax expense/ (benefit)	4
Changes in deferred taxes on actuarial gains and losses recognized in accordance with IAS 19 (note 6)	2
Translation adjustments	25
Impact of changes in Group structure and other	(4)
At June 30, 2011	**236**

NOTE 8 – OTHER CURRENT AND NON-CURRENT LIABILITIES AND PROVISIONS

(in EUR millions)	**Provisions for claims and litigation**	**Provisions for enviro-nmental risks**	**Provisions for restructu-ring costs**	**Provisions for personnel costs**	**Provisions for customer warranties**	**Provisions for other contin-gencies**	**Total provisions for other liabilities**	**Invest-ment related liabilities**	**Total**
At January 1, 2011									
Current portion	100	37	117	45	100	113	512	15	527
Non-current portion	1,338	137	120	47	157	286	2,085	143	2,228
Total	**1,438**	**174**	**237**	**92**	**257**	**399**	**2,597**	**158**	**2,755**
Movements during the period									
Additions	73	6	21	18	28	43	189		189
Reversals	0	(2)	(14)	(6)	(12)	(17)	(51)		(51)
Utilizations	(50)	(3)	(58)	(11)	(36)	(24)	(182)		(182)
Changes in Group structure	0	0	0	0		(2)	(2)	13	11
Other (reclassifications and translation adjustments)	(28)	(4)	(11)	(4)	(11)	12	(46)	(27)	(73)
Total movements	**(5)**	**(3)**	**(62)**	**(3)**	**(31)**	**12**	**(92)**	**(14)**	**(106)**
At June 30, 2011									
Current portion	94	35	85	42	109	139	504	19	523
Non-current portion	1,339	136	90	47	117	272	2,001	125	2,126
Total	**1,433**	**171**	**175**	**89**	**226**	**411**	**2,505**	**144**	**2,649**

NOTE 9 – NET DEBT

Long- and short-term debt

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

(in EUR millions)	June 30, 2011	Dec. 31, 2010
Bond issues and Medium-Term Notes	5,820	7,104
Perpetual bonds and participating securities	203	203
Other long-term debt including finance leases	402	332
Debt recognized at fair value under the fair value option	156	157
Fair value of interest rate hedges	0	26
Total long-term debt (excluding current portion)	**6,581**	**7,822**
Current portion of long-term debt	**1,595**	**1,094**
Short term financing programs (US CP, Euro CP, b*illets de trésorerie*)	913	0
Bank overcrafts and other short-term bank borrowings	837	684
Securitizations	408	327
Fair value of derivatives not qualified as hedges of debt	(4)	3
Short-term debt and bank overdrafts	**2,154**	**1,014**
TOTAL GROSS DEBT	**10,330**	**9,930**
Cash and cash equivalents	(1,275)	(2,762)
TOTAL NET DEBT, INCLUDING ACCRUED INTEREST	**9,055**	**7,168**

The fair value of gross long-term debt (including the current portion) managed by Compagnie de Saint-Gobain amounted to €7.9 billion at June 30, 2011, for a carrying amount of €7.5 billion. The fair value of bonds corresponds to the market price on the last day of the period. For other borrowings, fair value is considered as being equal to the amount repayable.

Long-term debt repayment schedule

Long-term debt at June 30, 2011 can be analyzed as follows by maturity:

(in EUR millions)	Currency	Within 1 year	1 to 5 years	Beyond 5 years	Total
Bond issues and Medium-Term Notes	EUR	1,249	3,063	2,095	6,407
	GBP			662	662
Perpetual bonds and participating securities	EUR			203	203
Other long-term debt including finance leases	All currencies	145	269	128	542
Debt recognized at fair value under the fair value option	EUR		156		156
Fair value of interest rate hedges	EUR	22			22
TOTAL, EXCLUDING ACCRUED INTEREST		**1,416**	**3,488**	**3,088**	**7,992**

At June 30, 2011, future interest payments on gross long-term debt (including the current portion) managed by Compagnie de Saint-Gobain were due as follows:

(in EUR millions)	Within 1 year	1 to 5 years	Beyond 5 years	Total
Future interest payments on gross long-term debt	390	976	376	1,742

Interest on perpetual bonds and participating securities is calculated through to 2024.

Bond issues

On May 31 2011, Compagnie de Saint-Gobain redeemed a €777 million bond issue that had reached maturity.

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 Euribor. These securities are not redeemable and the interest paid on them is reported under “Borrowing costs”.

At June 30, 2011, 18,496 perpetual bonds had been bought back and canceled, and 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 non-voting participating securities indexed to the average bond rate (TMO) and 194,633 non-voting participating securities indexed to Euribor (minimum). These securities are not redeemable and the interest paid on them is reported under “Borrowing costs”.

Some of these securities have been bought back on the market. At June 30, 2011, there were 606,883 TMO-indexed securities and 77,516 Euribor-indexed securities outstanding, representing an aggregate face value of €170 million.

Interest on the 606,883 TMO-indexed securities consists of a fixed portion and a variable portion based on the Group's earnings, subject to a cap of 1.25 times the TMO. Interest paid on the 77,516 Euribor-indexed securities comprises (i) a fixed portion of 7.5% per year applicable to 60% of the security, 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.

Financing programs

The Group has a number of medium and long-term financing programs (Medium Term Notes) and short-term financing programs (Commercial Paper and "*Billets de Trésorerie*").

At June 30, 2011, issuance under these programs was as follows:

Programs (in millions of currency units)	Currency	Maturities	Authorized program at June 30, 2011	Outstanding issues at June 30, 2011	Outstanding issues at Dec. 31, 2010
Medium Term Notes	EUR	1 to 30 years	12,000	6,201	6,201
US Commercial Paper	USD	Up to 12 months	1,000*	45	0
Euro Commercial Paper	USD	Up to 12 months	1,000*	0	0
Billets de Trésorerie	EUR	Up to 12 months	3,000	882	0

* Equivalent to €692 million based on the exchange rate at June 30, 2011.

In accordance with market practices, *Billets de Trésorerie*, Euro Commercial Paper and US Commercial Paper are generally issued with maturities of one to six months. They are treated as variable-rate debt, because they are rolled over at frequent intervals.

Syndicated lines of credit

Compagnie de Saint-Gobain has various confirmed syndicated lines of credit that are intended to provide a secure source of financing for the Group (including as additional backing for its US Commercial Paper, Euro-Commercial Paper and *Billets de Trésorerie* programs). They include:

- A €2.5 billion syndicated line of credit obtained in June 2009. Renegotiated in April 2010, this facility was extended until June 2013 and reduced to €1 billion.
  The facility agreement includes a covenant stipulating that the Group's net debt/EBITDA ratio, as measured annually at December 31, must at all times represent less than 3.75.
  This ratio was complied with at December 31, 2010.

- A €3 billion syndicated line of credit expiring in December 2015 was obtained in December 2010. The facility is not subject to any covenants based on financial ratios.

Neither of these confirmed lines of credit was drawn down at June 30, 2011.

Syndicated line of credit for Verallia

Verallia and Compagnie de Saint-Gobain have signed a credit agreement according to which Saint-Gobain will cover Verallia's financing needs as from the date Verallia's shares are listed on the NYSE Euronext Paris regulated market. Verallia has also signed a facility agreement with a syndicate of international banks designed to replace at any time all or part of the financing under the abovementioned credit agreement (Compagnie de

Saint-Gobain can at any time, at its sole discretion, request the repayment of the credit agreement and the repayment is automatic in the event of a change of control). Verallia signed both agreements on May 31, 2011.

The release of the funds under these agreements is subject to the listing of Verallia's shares on NYSE Euronext Paris.

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.

Receivables securitization programs

The Group has set up two securitization programs through its US subsidiary, Saint-Gobain Receivables Corporation, and its UK subsidiary, Jewson Ltd. Neither of the programs transfers the credit risk to the financial institution.

The US program amounted to €242 million at June 30, 2011 (€153 million at December 31, 2010).

The difference between the face value of the sold receivables and the sale proceeds is treated as a financial expense, and amounted to €1.3 million in first-half 2011 (first-half 2010: €3.3 million).

The UK program amounted to €166 million at June 30, 2011 (€174 million at December 31, 2010), and the financial expense came to €0.8 million in the first half of 2011 (first-half 2010: €1.1 million).

Collateral

At June 30, 2011, €49.5 million of Group debt was secured by various non-current assets (real estate and securities).

NOTE 10 - FINANCIAL INSTRUMENTS

Derivatives

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

(in EUR millions)	Fair value at June 30, 2011			Fair value at Dec. 31, 2010	Nominal value broken down by maturity at June 30, 2011			
	Derivatives recorded in assets	Derivatives recorded in liabilities	Total		Within 1 year	1 to 5 years	Beyond 5 years	Total
Fair value hedges								
Interest rate swaps	0	0	0	19				**0**
Fair value hedges - total	**0**	**0**	**0**	**19**	**0**	**0**	**0**	**0**
Cash flow hedges								
Forward foreign exchange contracts	1	(3)	(2)	2	127	21		**148**
Currency swaps				0				**0**
Currency options				0				**0**
Interest rate swaps		(22)	(22)	(45)	1,250			**1,250**
Energy and commodity swaps	8	(1)	7	1	53			**53**
Cash flow hedges - total	**9**	**(26)**	**(17)**	**(42)**	**1,430**	**21**	**0**	**1,451**
Derivatives not qualifying for hedge accounting								
Interest rate swaps	1	0	1	2		155		**155**
Currency swaps	11	(8)	3	(6)	2,077	1		**2,078**
Energy and commodity swaps	0	0	0	0				**0**
Forward foreign exchange contracts	2	(1)	1	0	135	12		**147**
Derivatives not qualifying for hedge accounting - total	**14**	**(9)**	**5**	**(4)**	**2,212**	**168**	**0**	**2,380**
TOTAL	**23**	**(35)**	**(12)**	**(27)**	**3,642**	**189**	**0**	**3,831**
"o/w derivatives used to hedge net debt"	12	(30)	(18)	(29)				0

- *Interest rate swaps*

The Group uses interest rate swaps to convert part of its fixed (variable) rate bank debt and bond debt to variable (fixed) rates.

- *Currency swaps*

The Group uses currency swaps for day-to-day cash management purposes and, in some cases, to permit the use of euro-denominated funds to finance foreign currency assets.

- *Forward foreign exchange contracts and currency options*

Forward foreign exchange contracts and currency options are used to hedge foreign currency transactions, particularly commercial transactions (purchases and sales) and investments.

- *Energy and commodity swaps*

Energy and commodity swaps are used to hedge the risk of changes in the price of certain purchases used in the subsidiaries' operating activities, particularly energy (fuel oil, natural gas and electricity) purchases.

Impact on equity of financial instruments qualifying for hedge accounting

At June 30, 2011, the cash flow hedging reserve carried in equity in accordance with IFRS had a debit balance of €17 million, mainly breaking down as follows:

- €22 million unrealized loss corresponding to the remeasurement at fair value of interest rate swaps designated as cash flow hedges that are used to fix the interest rate on bonds.
- €5 million unrealized gain corresponding to the remeasurement at fair value of other cash flows hedges to be reclassified to income when the hedged items affect income.

The ineffective portion of gains and losses on cash flow hedges is not material.

Impact on income of financial instruments not qualifying for hedge accounting

The fair value of derivatives classified as financial assets and liabilities at fair value through profit or loss had a €5 million positive impact on income at June 30, 2011 (December 31, 2010: negative impact of €4 million).

Embedded derivatives

Saint-Gobain regularly analyzes its contracts in order to separately identify financial instruments classified as embedded derivatives under IFRS. At June 30, 2011, no embedded derivatives deemed to be material at Group level were identified.

Group debt structure

The weighted average interest rate on total debt under IFRS, after hedging (using currency swaps and interest rate swaps), was 4.9% at June 30, 2011 versus 4.8% at December 31, 2010.

The average internal rates of return for the main components of long-term debt before hedging were as follows in first-half 2011 and in 2010:

Internal rate of return on long-term debt (in %)	June 30, 2011	Dec. 31, 2010
Bonds and Medium Term Notes	5.47	5.35
Perpetual bonds and participating securities	4.90	3.97

The table below presents the breakdown by currency and by interest rate (fixed or variable) of the Group's gross debt at June 30, 2011, after giving effect to interest rate swaps and currency swaps.

Gross debt denominated in foreign currencies *(in EUR millions)*	**After hedging**		
	Variable rate	**Fixed rate**	**Total**
EUR	1,456	6,496	7,952
GBP	(285)	663	378
USD	222	10	232
NOK, SEK and DKK	627	3	630
CNY	194	0	194
Other currencies	489	207	696
TOTAL	**2,703**	**7,379**	**10,082**
	27%	73%	100%
Fair value of related derivatives			18
Accrued interest			230
TOTAL GROSS DEBT			**10,330**

Interest rate repricing schedule for debt

The table below shows the interest rate repricing schedule at June 30, 2011 for gross debt after hedging:

(in EUR millions)	**Within 1 year**	**1 to 5 years**	**Beyond 5 years**	**Total**
Gross debt	4,283	3,254	2,793	10,330
Impact of interest rate swaps	0			0
GROSS DEBT AFTER HEDGING	**4,283**	**3,254**	**2,793**	**10,330**

NOTE 11 – BUSINESS INCOME BY EXPENSE TYPE

(in EUR millions)	First-half 2011	First-half 2010
Net sales	**20,875**	**19,529**
Personnel costs:		
Salaries and payroll taxes	(4,050)	(3,962)
Share-based payments [(a)]	(20)	(22)
Pensions	(93)	(89)
Depreciation and amortization	(759)	(775)
Other [(b)]	(14,233)	(13,236)
Operating income	**1,720**	**1,445**
Other business income [(c)]	21	9
Negative goodwill recognized in income	0	0
Other business income	**21**	**9**
Restructuring costs [(d)]	(52)	(105)
Provisions and expenses relating to claims and litigation [(e)]	(94)	(80)
Impairment of assets and other business expenses [(f)]	(135)	(59)
Other	(4)	(9)
Other business expense	**(285)**	**(253)**
Business income	**1,456**	**1,201**

(a) Details of share-based payments are provided in Note 12.

(b) This corresponds to the cost of goods sold by the Building Distribution Sector and transport costs, raw materials costs, and other production costs for the other Sectors. This item also includes net foreign exchange gains or losses, representing a net loss of €1 million in first-half 2011 (first-half 2010: net loss of €2 million). In first-half 2011, research and development costs recorded under operating expenses amounted to €214 million (first-half 2010: €210 million).

(c) In the first half of 2011, other business income included capital gains on disposals of property, plant and equipment and intangible assets.

(d) Restructuring costs in first-half 2011 mainly consisted of employee termination benefits in an amount of €30 million (first-half 2010: €67 million).

(e) In the periods presented, provisions and expenses relating to claims and litigation corresponded for the most part to asbestos-related litigation and the provision for the competition litigation discussed in Notes 18.

(f) In first-half 2011, impairment of assets and other business expense included impairment losses of €66 million on goodwill (first-half 2010: €7 million) and €61 million on property, plant and equipment and intangible assets (first-half 2010: €48 million). The balance corresponds to impairment losses on financial assets and current assets.

NOTE 12 – SHARE-BASED PAYMENTS

Stock option plans

Compagnie de Saint-Gobain has stock option plans available to certain employees. No stock options were granted in the first half of 2011. Under IFRS 2, the expense attributable to the amortization of stock options granted under previous plans totaled €4.8 million for the period, versus €13.2 million in the first half of 2010.

Group Savings Plan ("PEG")

The PEG Group Savings Plan is an employee stock purchase plan open to all Group employees in France and in most other countries where the Group does business. Eligible employees must have completed a minimum of three months' service with the Group. The purchase price of the shares, as set by the Chairman and Chief Executive Officer of Saint-Gobain on behalf of its Board of Directors, corresponds to the average of the opening share prices quoted over the 20 trading days preceding the pricing date.

In the first half of 2011, the Group issued 4,497,772 new shares with a par value of €4 (2010: 4,993,989 shares) to members of the PEG, for a total of €150 million (2010: €143 million).

In some years, as well as the standard plans, leveraged plans are offered to employees in countries where this is allowed under local law and tax rules.

Standard plans

Under the standard plans, eligible employees are offered the opportunity to invest in Saint-Gobain stock at a 20% discount. The stock is subject to a five or ten-year lock-up, except following the occurrence of certain events. The compensation cost recorded in accordance with IFRS 2 is measured by reference to the fair value of a discount offered on restricted stock (i.e. stock subject to a lock-up). The cost of the lock-up for the employee is defined as the cost of a two-step strategy that involves first selling the restricted stock forward five or ten years and then purchasing the same number of shares on the spot market and financing the purchase with debt. The borrowing cost is estimated at the rate that would be charged by a bank to an individual with an average risk profile for a general purpose five- or ten-year consumer loan repayable at maturity (see Note 1 for details of the calculation).

The standard plan cost recorded in the income statement amounted to €6.7 million in first-half 2011 (2010: €2.8 million), net of the lock-up cost for employees of €20.6 million (2010: €21.1 million).

The following table shows the main features of the standard plans, the amounts invested in the plans and the valuation assumptions applied in 2011, and 2010.

		2011	2010
	Plan characteristics		
	Grant date	March 28	March 29
	Plan duration (in years)	5 or 10	5 or 10
	Benchmark (in EUR)	41.77	35.87
	Purchase price (in EUR)	33.42	28.70
	Discount (in %)	20.00%	20.00%
(a)	Total discount on the grant date (in %)	22.50%	20.12%
	Employee investments (in EUR millions)	150.3	143.3
	Total number of shares purchased	4,497,772	4,993,989
	Valuation assumptions		
	Interest rate paid by employees **(1)**	6.50%	6.33%
	5-year risk-free interest rate	2.86%	2.29%
	Repo rate	0.40%	0.25%
(b)	Lock-up discount (in %)	16.97%	17.73%
	Total cost to the Group (in %) **(a-b)**	5.53%	2.39%

(1) A 0.5-point decline in borrowing costs for the employee would have an impact of €2.2 million on the first-half 2011 cost as calculated in accordance with IFRS 2.

Leveraged plan

No leveraged plans were set up in 2010 or first-half 2011.

Performance share plans

Various performance share plans were set up in 2009 and 2010. In the first half of 2011, no new plans were launched and the expense recognized in respect of 2009 and 2010 share grants amounted to €8.7 million (first-half 2010: €5.8 million).

NOTE 13 – NET FINANCIAL EXPENSE

Breakdown of other financial income and expense

(in EUR millions)	**First-half 2011**	**First-half 2010**
Interest cost - pension and other post-employment benefit obligations	(220)	(231)
Return on plan assets	205	176
Interest cost - pension and other post-employment benefit obligations - net	**(15)**	**(55)**
Other financial expense	(48)	(70)
Other financial income	9	8
Other financial income and expense	**(54)**	**(117)**

NOTE 14 – EBITDA – RECURRING NET INCOME – CASH FLOW FROM OPERATIONS

EBITDA amounted to €2,479 million in first-half 2011 (first-half 2010: €2,220 million), calculated as follows:

(in EUR millions)	**First-half 2011**	**First-half 2010**
Operating income	1,720	1,445
Depreciation and amortization	759	775
EBITDA	**2,479**	**2,220**

Recurring net income totaled €902 million in first-half 2011 (first-half 2010: €580 million). Based on the weighted average number of shares outstanding at June 30 (526,306,335 shares in 2011 and 509,735,208 shares in 2010), recurring earnings per share amounted to €1.71 in first-half 2011 and €1.14 in first-half 2010. The difference between net income and recurring net income (attributable to equity holders of the parents) corresponds to the following items:

(in EUR millions)	**First-half 2011**	**First-half 2010**
Net income attributable to equity holders of the parent	**768**	**501**
Less:		
Gains and disposals of assets	21	9
Other business expense and impairment of assets	(135)	(59)
Provision for competition litigation and other non-recurring provision charges	(43)	(41)
Impact of minority interests	(1)	0
Tax impact	24	12
Recurring net income attributable to equity holders of the parent	**902**	**580**

Cash flow from operations for first-half 2011 amounted to €1,721 million (first-half 2010: €1,431 million). Excluding tax on capital gains and losses and non-recurring provisions, cash flow from operations came to €1,697 million in first-half 2011 (first-half 2010: €1,419 million). These amounts are calculated as follows:

(in EUR millions)	**First-half 2011**	**First-half 2010**
Net income attributable to equity holders of the parent	**768**	**501**
Minority interests in net income	42	37
Share in net income of associates, net of dividends received	(1)	(1)
Depreciation, amortization and impairment of assets	886	830
Gains and losses on disposals of assets	(21)	(9)
Non-recurring charges to provisions	43	41
Unrealized gains and losses and non-recurring charges to provisions	4	32
Cash flow from operations	**1,721**	**1,431**
Tax on gains and losses and non-recurring charges to provisions	(24)	(12)
Cash flow from operations before tax on capital gains and losses and non-recurring charges to provisions	**1,697**	**1,419**

NOTE 15 – EARNINGS PER SHARE

The calculation of earnings per share is shown below.

	Adjusted net income attributable to equity holders of the parent (in EUR millions)	Number of shares	Earnings per share (in EUR)
First-half 2011			
Weighted average number of shares outstanding	**768**	526,306,335	**1.46**
Weighted average number of shares assuming full dilution	**768**	531,187,152	**1.45**
First-half 2010			
Weighted average number of shares outstanding	**501**	509,735,208	**0.98**
Weighted average number of shares assuming full dilution	**501**	511,538,221	**0.98**

The weighted average number of shares outstanding is calculated by deducting treasury stock (7,785,988 shares at June 30, 2011) from the average number of shares outstanding during the period.

The weighted average number of shares assuming full dilution is calculated based on the weighted average number of shares outstanding, assuming conversion of all dilutive instruments. The Group's dilutive instruments include stock options corresponding to a weighted average of 3,375,551 shares in first-half 2011 and performance share grants corresponding to a weighted average of 1,505,266 shares in first-half 2011.

NOTE 16 – COMMITMENTS

The main changes in commitments over the first six months of the year are described below:

Obligations under finance leases

During the first half of 2011, future minimum lease payments due under finance leases fell by €29 million.

Obligations under operating leases

The Group leases equipment, vehicles and office, manufacturing and warehouse space under various non-cancelable operating leases. Lease terms generally range from 1 to 9 years. The leases contain rollover options for varying periods of time and some include clauses covering the payment of real estate taxes and insurance. In most cases, management expects that these leases will be rolled over or replaced by other leases in the normal course of business.

In first-half 2011, obligations under operating leases rose by €167 million, primarily reflecting an increase of €96 million for land and buildings and of €80 million for vehicles, machinery and equipment.

Non-cancelable purchase commitments

Non-cancelable purchase commitments include commitments to purchase raw materials and services, including vehicle leasing commitments, and firm orders for property, plant and equipment.

In first-half 2011, non-cancelable purchase commitments rose by €170 million, mainly due to new capital expenditure programs in progress during the period.

Guarantee commitments

In some cases, the Group grants seller's warranties to the buyers of divested businesses. A provision is set aside whenever a risk is identified and the related cost can be estimated reliably.

The Group also receives guarantees, amounting to €105 million at June 30, 2011 (December 31, 2010: €95 million).

Commercial commitments

Security for borrowings amounted to €35 million at June 30, 2011 versus €37 million at December 31, 2010. Other commitments given were down by €18 million at the period-end.

At June 30, 2011, pledged assets amounted to €207 million (December 31, 2010: €70 million) and mainly concerned fixed assets in India.

Guarantees given to the Group in respect of receivables amounted to €96 million at June 30, 2011 (December 31, 2010: €100 million).

Other commitments

Greenhouse gas emissions allowances granted to Group companies under the 2008-2012 plan represent approximately 6.9 million metric tons of CO_2 emissions per year. The first-half 2011 allowances are above the greenhouse gas emissions for that period and, consequently, no provision has been recorded in this respect in the Group accounts.

NOTE 17 – RELATED-PARTY TRANSACTIONS

There were no changes during the period in transactions with related parties as defined in Note 28 to the 2010 consolidated financial statements.

NOTE 18 – LITIGATION

Asbestos-related litigation in France

In France, further individual lawsuits were filed in first-half 2011 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 in this respect. A total of 735 such lawsuits have been issued against the two companies since 1997.

At June 30, 2011, 658 of these 735 lawsuits had been completed in terms of both liability and quantum. In all of these cases, the employers were held liable on the grounds of "inexcusable fault".

Everite and Saint-Gobain PAM were held liable to pay a total amount of less than €1.3 million in compensation in settlement of these lawsuits.

Concerning the 77 lawsuits outstanding against Everite and Saint-Gobain PAM at June 30, 2011, the merits of 13 have been decided but the compensation awards have not yet been made, pending issue of medical reports or Appeal Court rulings. In all these cases except one, the Social Security authorities were ordered to pay compensation for the victims for procedural reasons (non-opposability). A further 33 of these 77 lawsuits have been completed in terms of both liability and quantum, but liability for the payment of compensation has not yet been assigned.

Of the 31 remaining lawsuits, at June 30, 2011 the procedures relating to the merits of 28 cases were at different stages, with five being investigated by the French Social Security authorities and 23 pending before the Social Security courts. The final three suits have been withdrawn by the plaintiffs who can ask for them to be re-activated at any time within a two-year period.

In addition, as of June 30, 2011, 151 suits based on inexcusable fault had been filed by current or former employees of 12 other French companies in the Group (excluding Saint-Gobain Desjonquères and Saint-Gobain Vetrotex, which have been sold), in particular involving circumstances where equipment containing asbestos had been used to protect against heat from furnaces.

At that date, 103 lawsuits had been completed. In 36 of these cases, the employer was held liable for inexcusable fault.

For the 48 suits outstanding at June 30, 2011, arguments were being prepared by the French Social Security authorities in two cases, 40 were being investigated – including 32 pending before the Social Security courts and eight before the Courts of Appeal – and six had been completed in terms of liability but the quantum has not yet been determined and liability for the payment of compensation has not yet been assigned.

Asbestos-related litigation in the United States

In the United States, several companies that once manufactured products containing asbestos such as asbestos-cement pipes, roofing products, specialized insulation or gaskets, are facing legal action from persons other than their employees or former employees. These claims for compensatory – and in some cases punitive – damages are based on alleged exposure to the products, although in many instances the claimants cannot demonstrate any specific exposure to one or more products, or any specific illness or physical disability. The vast majority of these claims are made simultaneously against many other non-Group entities that have been manufacturers, distributors, installers or users of products containing asbestos.

The estimated number of new asbestos-related claims filed against CertainTeed in the United States in the first half of 2011 came to approximately 2,000. On a rolling 12 month basis, new claims remain stable at approximately 5,000 at end-June 2011 compared to 5,000 end-December 2010 and 4,000 end-June 2010.

Some 4,000 claims were resolved in the first six months of 2011. Some 54,000 claims were outstanding at June 30, 2011 – slightly below December 31, 2010 (56,000) and a large decrease versus December 31, 2008 (64,000).

An additional estimated provision of €48.5 million (USD 68 million) was recorded in the consolidated financial statements for the first half of 2010 in relation to CertainTeed's asbestos claims. As in every year since 2002, a precise assessment of the provision required for the full year will be performed at the year-end.

Total compensation paid during the twelve-month period ending June 30, 2011 for claims against CertainTeed (including claims settled prior to June 30, 2010 but only paid during the past twelve months), as well as compensation paid (net of insurance coverage) during the twelve-month period ending June 30, 2011 by other U.S. Group businesses involved in asbestos litigation, amounted to about €68 million (USD 96 million), versus €78 million (USD 103 million) in 2010.

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In Brazil, former Group employees suffering from asbestos-related occupational illness are offered either exclusively financial compensation or lifetime medical assistance combined with financial compensation. Only a small number of asbestos-related lawsuits brought by former employees (or persons claiming through them) were outstanding at June 30, 2011, and they do not currently represent a material risk for the companies concerned.

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Ruling by the European Commission following the investigation into the automotive glass industries

In the November 12, 2008 decision concerning its investigation into automotive glass manufacturers, the European Commission held that Saint-Gobain Glass France, Saint-Gobain Sekurit France and Saint-Gobain Sekurit Deutschland Gmbh had violated Article 81 of the Treaty of Rome and fined them €896 million. Compagnie de Saint-Gobain was held jointly and severally liable for the payment of this amount.

The companies concerned believe the fine is excessive and disproportionate, and have appealed the decision before the General Court of the European Union.

The European Commission has granted them a stay of payment until the appeal has been heard, in exchange for a bond covering the €896 million fine and the related interest, calculated at the rate of 5.25% from March 9, 2009. The necessary steps were taken to set up this bond within the required timeframe.

The provision set aside to cover the fine, the late interest, the cost of the above bond and the related legal costs amounted to €1,048 million at June 30, 2011.

The appeal against the November 12, 2008 decision is currently pending before the General Court of the European Union in Luxembourg.

NOTE 19 – SEGMENT INFORMATION

Segment information by sector and division

Segment information is presented as follows:

- Innovative Materials (IM) Sector
  - Flat Glass
  - High-Performance Materials (HPM)
- Construction Products (CP) Sector
  - Interior Solutions: Insulation and Gypsum
  - Exterior Solutions: Industrial Mortars, Pipe and Exterior Fittings
- Building Distribution Sector
- Packaging Sector

Management uses several different internal 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 financial reporting requirements. Intragroup ("internal") sales are generally carried out on the same terms as sales to external customers and are eliminated in consolidation. The accounting policies used are the same as those applied for consolidated financial reporting purposes, as described in Note 1.

First-half 2011	INNOVATIVE MATERIALS				CONSTRUCTION PRODUCTS				BUILDING DISTRIBUTION	PACKAGING	Other *	**Total**
(in EUR millions)	Flat Glass	High Performance Materials	Intra-segment eliminations	Total	Interior Solutions	Exterior Solutions	Intra-segment eliminations	Total				
External sales	2,745	2,019		4,764	2,426	2,824		5,250	9,041	1,818	2	20,875
Internal sales	19	63	(19)	63	295	193	(25)	463	2	0	(528)	0
Net sales	2,764	2,082	(19)	4,827	2,721	3,017	(25)	5,713	9,043	1,818	(526)	20,875
Operating income/(loss)	261	341		602	216	336		552	327	226	13	1,720
Business income/(loss)	189	286		475	195	309		504	267	220	(10)	1,456
Share in net income/(loss) of associates	0	0		0	3	0		3	0	1	0	4
Depreciation and amortization	160	80		240	158	93		251	135	121	12	759
Impairment of assets	31	26		57	13	13		26	43	0	1	127
Capital expenditure	253	72		325	88	59		147	71	92	10	645
Cash flow from operations	285	315		600	287	137		424	252	261	184	1,721
EBITDA	421	421		842	374	429		803	462	347	25	2,479

* "Other" corresponds to a) the elimination of intragroup transactions for internal sales and b) holding company transactions for the other captions.

First-half 2010	INNOVATIVE MATERIALS				CONSTRUCTION PRODUCTS				BUILDING DISTRIBUTION	PACKAGING	Other *	Total
(in EUR millions)	Flat Glass	High Performance Materials	Intra-segment eliminations	Total	Interior Solutions	Exterior Solutions	Intra-segment eliminations	Total				
External sales	2,518	1,949		4,467	2,263	2,717		4,980	8,320	1,760	2	19,529
Internal sales	19	61	(12)	68	272	186	(16)	442	2		(512)	0
Net sales	2,537	2,010	(12)	4,535	2,535	2,903	(16)	5,422	8,322	1,760	(510)	19,529
Operating income/(loss)	199	272		471	173	376		549	197	227	1	1,445
Business income/(loss)	153	229		382	122	361		483	160	217	(41)	1,201
Share in net income/(loss) of associates		1		1				0		2	0	3
Depreciation and amortization	153	91		244	168	94		262	139	117	13	775
Impairment of assets	3	23		26	11	1		12	13	4		55
Capital expenditure	116	35		151	43	54		97	66	114	7	435
Cash flow from operations				463				403	149	250	166	1,431
EBITDA	352	363		715	341	470		811	336	344	14	2,220

* "Other" corresponds to a) the elimination of intragroup transactions for internal sales and b) holding company transactions for the other captions.

Information by geographic area

(in EUR millions)	France	Other Western European countries	North America	Emerging countries and Asia	Internal sales	Total
First-half 2011						
Net sales	6,138	8,828	2,772	4,149	(1,012)	**20,875**
Capital expenditure	82	191	113	259		**645**

(in EUR millions)	France	Other Western European countries	North America	Emerging countries and Asia	Internal sales	Total
First-half 2010						
Net sales	5,786	8,161	2,846	3,631	(895)	**19,529**
Capital expenditure	79	134	66	156		**435**

NOTE 20 – PRINCIPAL FULLY CONSOLIDATED COMPANIES

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

INNOVATIVE MATERIALS SECTOR

Flat Glass		
Saint-Gobain Glass France	France	100.00%
Saint-Gobain Sekurit France	France	100.00%
Saint-Gobain Glass Logistics	France	100.00%
Saint-Gobain Sekurit Deutschland GmbH & CO Kg	Germany	99.92%
Saint-Gobain Glass Deutschland GmbH	Germany	99.92%
SG Deutsche Glas GmbH	Germany	99.92%
Saint-Gobain Glass Benelux	Belgium	99.81%
Saint-Gobain Sekurit Benelux SA	Belgium	99.92%
Saint-Gobain Autover Distribution SA	Belgium	99.92%
Koninklijke Saint-Gobain Glass	Netherlands	100.00%
Saint-Gobain Glass Polska Sp Zoo	Poland	99.92%
Saint-Gobain Sekurit Hanglas Polska Sp Zoo	Poland	97.55%
Cebrace Cristal Plano Ltda	Brazil	50.00%
Saint-Gobain Do Brazil Ltda	Brazil	100.00%
Saint-Gobain Cristaleria SA	Spain	99.83%
Solaglas Ltd	United Kingdom	99.97%
Saint-Gobain Glass UK Limited	United Kingdom	99.97%
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	90.11%
Saint-Gobain Glass India	India	98.69%
Saint-Gobain Glass Mexico	Mexico	99.83%
High Performance Materials		
Saint-Gobain Abrasifs	France	99.93%
Société Européenne des Produits Réfractaires	France	100.00%
Saint-Gobain Abrasives Gmbh	Germany	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%
SG Abrasives Canada Inc.	Canada	100.00%
Saint-Gobain Abrasivi	Italy	99.93%
SEPR Italia	Italy	100.00%
Saint-Gobain Abrasivos Brasil Ltda	Brazil	100.00%
Saint-Gobain Abrasives BV	Netherlands	100.00%
Saint-Gobain Abrasives Ltd	United Kingdom	99.97%
Saint-Gobain Vertex SRO	Czech Republic	100.00%

CONSTRUCTION PRODUCTS SECTOR

Interior Solutions

Saint-Gobain Isover	France	100.00%
Saint-Gobain Isover G+H AG	Germany	99.91%
Saint-Gobain Gyproc Belgium NV	Belgium	100.00%
CertainTeed Corporation	United States	100.00%
Saint-Gobain Isover AB	Sweden	100.00%
Saint-Gobain Ecophon Group	Sweden	100.00%
Saint-Gobain Construction Product Russia Insulation	Russia	100.00%
BPB Plc	United Kingdom	100.00%
Certain Teed Gypsum & Ceillings USA	United States	100.00%
Certain Teed Gypsum Canada Inc.	Canada	100.00%
Saint-Gobain Gyproc South Africa	South Africa	100.00%
Saint-Gobain Placo Iberica	Spain	99.83%
Saint-Gobain PPC Italia S.p.a	Italy	100.00%
British Gypsum Ltd	United Kingdom	100.00%
Gypsum Industries Ltd	Irland	100.00%
Placoplatre SA	France	99.75%
Rigips GmbH	Germany	100.00%
Thai Gypsum Products PLC	Thaïland	99.66%
Mag Japan	Japan	99.74%

Exterior Solutions

Saint-Gobain Weber	France	99.99%
Saint-Gobain Do Brazil Ltda	Brazil	100.00%
Saint-Gobain Weber Cemarksa SA	Spain	99.83%
Maxit Group AB	Sweden	100.00%
Saint-Gobain Weber AG	Switzerland	100.00%
Saint-Gobain Weber Germany	Germany	99.99%
CertainTeed Corporation	United States	100.00%
Saint-Gobain PAM SA	France	100.00%
Saint-Gobain PAM Deutschland GmbH	Germany	100.00%
Saint-Gobain PAM UK Limited	United Kingdom	99.97%
Saint-Gobain PAM España SA	Spain	99.83%
Saint-Gobain PAM Italia S.p.a	Italy	100.00%
Saint-Gobain Canalizaçao Ltda	Brazil	100.00%
Saint-Gobain Xuzhou Pipe Co Ltd	China	100.00%
SG Pipelines Co Ltd	China	100.00%

BUILDING DISTRIBUTION SECTOR

Distribution Sanitaire Chauffage	France	100.00%
Lapeyre	France	100.00%
Point.P	France	100.00%
Saint-Gobain Distribucion Construccion, S.L	Spain	99.83%
Saint-Gobain Building Distribution Deutschland GmbH	Germany	100.00%
Saint-Gobain Building Distribution Ltd	United Kingdom	99.97%
Saint-Gobain Distribution The Netherlands B.V	Netherlands	100.00%
Saint-Gobain Distribution Nordic Ab	Sweden	100.00%
Optimera As	Norway	100.00%
Saint-Gobain Distribution Denmark	Denmark	100.00%
Sanitas Troesch Ag	Switzerland	100.00%
Norandex Building Material Distribution Inc.	United States	100.00%

PACKAGING SECTOR

Saint-Gobain Emballage	France	100.00%
Saint-Gobain Vidros SA	Brazil	100.00%
Saint-Gobain Oberland Ag	Germany	96.67%
Saint-Gobain Vicasa SA	Spain	99.75%
Saint-Gobain Containers Inc.	United States	100.00%
Saint-Gobain Vetri S.p.a	Italy	99.99%

NOTE 21 – SUBSEQUENT EVENTS

Not applicable.

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