1981 ANNUAL REPORT TO SHAREHOLDERS

PLAINTIFF'S EXHIBIT

CT-201

CertainTeed

CTD036538

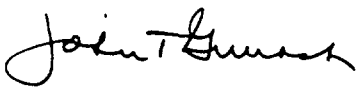
TO OUR SHAREHOLDERS

CertainTeed's 1981 Annual Report has been designed to communicate pertinent financial and other facts about the Company of primary interest to you, our shareholders. It is intended to fulfill your information needs via a more precise presentation prepared in an economical manner.

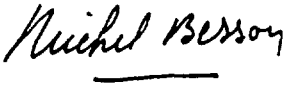
CertainTeed's year-end results for 1981 reflect the general decline in the new residential construction and remodeling markets caused by high interest rates. Net sales were up slightly over the prior year, but operating profit fell substantially. Softness in major markets reduced capacity utilization, which negatively affected profit margins. Profits were impacted further by the inability to raise prices to cover cost increases because of the difficult market conditions.

Throughout the past year, management focused on creating a more productive organization by expanding programs to improve efficiency. This emphasis will be maintained. Inventories, receivables and other working capital items, as well as capital expenditures, are being monitored closely. And, programs are continuing in materials management to reduce purchasing, energy and transportation costs.

CertainTeed has preserved its good financial position. Because of the large capital investment program completed in 1979, capital requirements are minimal and will be targeted for productivity improvement and replacement projects. The Company is poised to participate in the growth forecast for its markets when an economic turnaround occurs.



John T. Gurash
Chairman of the Board



Michel Besson
President and
Chief Executive Officer

February 9, 1982

CERTAINTEED TODAY

From a single roofing plant in 1904, CertainTeed has diversified and grown to become a major producer and distributor of building materials, fiber glass products and piping products.

BUILDING MATERIALS manufactured by CertainTeed include residential and commercial roofing, vinyl building products (siding, accessory items and vinyl profiles for replacement windows), and wood and aluminum doors and windows. The Company also distributes a broad line of building materials in the state of Texas.

The remodeling market is the largest consumer of CertainTeed's building materials. Other markets served are new residential construction, non-residential construction and manufactured housing.

FIBER GLASS PRODUCTS are thermal and acoustical insulation materials, and fiber glass products for reinforced plastics applications.

A full line of thermal insulation materials are sold in the new housing, remodeling, commercial and industrial markets. In addition, acoustical insulation products are manufactured for the automotive industry.

The marine, electrical, appliance and equipment, land transportation, construction and anti-corrosion markets are primary users of CertainTeed's fiber glass reinforcements.

PIPING PRODUCTS consist of the manufacture of PVC and A/C piping for water, sewer, irrigation and electrical conduit; PVC residential water well products; and residential water meters.

This industry segment also includes production of polymer (a raw material used in PVC pipe and siding manufacture) and a network of utility supply wholesale outlets servicing the water and sewer markets.

The Company employs approximately 8,400 people in more than 150 facilities nationwide, including over 30 manufacturing locations.

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SELECTED FINANCIAL DATA

	As Reported for Years Ended December 31,				
	1981	1980	1979	1978	1977
	(Dollars in Thousands, Except for Per Share Amounts)				
Net sales	$891,532	$868,227	$916,204	$895,409	$818,086
Income/(loss) from continuing operations	$ (9,999)	$ 4,496	$ 23,537	$ 54,426	$ 54,183
Depreciation and amortization	$ 55,352	$ 54,490	$ 44,854	$ 32,891	$ 26,410
Cash flow from continuing operations	$ 45,353	$ 58,986	$ 68,391	$ 87,317	$ 80,593
Capital expenditures	$ 29,886	$ 36,996	$ 86,484	$145,514	$ 81,377
Working capital at year-end	$125,085	$100,199	$103,798	$ 97,515	$159,804
Total assets at year-end	$663,726	$693,503	$726,461	$669,671	$611,276
Long-term obligations and redeemable preferred stock at year-end	$208,927	$192,065	$198,798	$175,272	$172,960
Income/(loss) from continuing operations per common share	$(1.07)	—	$1.39	$3.49	$3.68
Cash dividends declared per common share	$.675	$.90	$.90	$.80	$.71

STOCK MARKET INFORMATION

As of December 31, 1981, the Company had 8,652 holders of record of its Common Stock which is principally traded on the New York and Pacific Stock Exchanges. The prices of the Company's Common Stock on the New York Stock Exchange and dividends paid during 1981 and 1980 are as follows:

	1981			1980		
	High	Low	Dividends Declared	High	Low	Dividends Declared
1st Quarter	15⅛	12	$.225	15⅜	11½	$.225
2nd Quarter	17	14	.225	17⅛	12⅛	.225
3rd Quarter	16⅝	11½	.225	17	14½	.225
4th Quarter	12⅜	10⅛	*	14¾	11½	.225

*The Company omitted declaration and payment of a dividend on its Common Stock for the quarter ended December 31, 1981. See also Notes 3 and 10 of the Notes to Consolidated Financial Statements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Summary

Following three years of economic expansion and industry growth, the 1979-81 period was one of sharp contraction for the Company's principal markets. Marked by two recessions and persistently high interest rates, housing starts declined each year and in 1981 fell to their lowest level in 35 years. During this period of market contraction, petroleum and energy costs were rising significantly as were the costs associated with underutilizing the Company's productive capacity. Competition for available business intensified during this period and the Company was unable to fully pass these and other cost increases through to selling price which further eroded the Company's profits. As a result of the deteriorating market conditions, the Company intensified its cost reduction program which has included permanently discontinuing operations at two production facilities and the temporary shutdown of two others during the 1981 period.

1981

Net sales rose 3% in 1981 from 1980. The increase reflects modest increases in both shipping volumes and pricing. The shipping volume increase occurred in a period of declining economic activity as evidenced by housing starts that fell nearly 16% from a year ago. Profit margins were lowered substantially by the Company's inability to fully pass through cost increases to price in business segments where demand remained soft. Costs associated with lower utilization of the Company's capacity also increased as manufacturing operations in the Building Materials and, to a lesser extent, the Piping Products segments, were scaled down due to declining demand. The small increase in sales and lower margins resulted in a pretax loss of $26.5 million, versus a pretax loss of $2.4 million in 1980.

1980

Net sales declined a nominal 5% in 1980 from 1979. However, physical units shipped declined by an estimated 13% due to the economic downturn, which had a particularly severe impact on new residential construction. Production levels were curtailed to shipment levels in 1980 resulting in good inventory control, but led to a less favorable absorption of fixed charges than had occurred in 1979. The lower level of manufacturing activity, coupled with $10 million of higher depreciation charges, served to reduce margins further. Profit margins also were impacted by numerous other cost increases, especially for energy and petroleum-based raw materials, which due to competitive pressures were not fully recovered by higher prices. A pretax loss of $2.4 million was recorded compared to a pretax profit of $23.7 million in 1979.

1979

Net sales in 1979 rose 2% from 1978, but the increase was more than accounted for by price increases of about 7% between the two periods. The Company also experienced sharp raw material and energy cost increases which it was unable to fully pass through in pricing actions due to the competitive environment. As the result of an extensive three-year capital expansion program, largely completed in 1979, plant start-up costs and added depreciation charges were significant factors in the increase in costs over 1978. Interest expense, resulting from borrowings to finance the final stages of the capital expansion program, coupled with higher rates was nearly $9 million over 1978's level. These cost increases, combined with inadequate pricing and overall unit volumes that were lower than those of the previous year, were the main causes of a $65 million decrease in pretax income.

Results of Operations by Segment

Building Materials

Net sales in 1981 declined 4% from 1980, however, shipping volumes were down nearly 10%.

The volume decline reflects 1981's substantial reduction in housing starts from 1980 and lower remodeling activity caused by record-high interest rates. Margins and earnings were sharply lower in 1981, particularly for roofing products, due to lower volumes and rising raw material and energy costs that could not be recovered through pricing actions due to extremely competitive market conditions. During 1981, the East St. Louis, Ill. roofing felt manufacturing facility was closed permanently. In addition, roofing operations were halted temporarily at York, Pa. and Kansas City, Mo. due to softening market conditions.

Net sales in 1980 for the Building Materials segment declined 15% from 1979, predominantly due to a decline in roofing tonnage. The sales decline reflected 1980's lower level of housing construction and remodeling activity.

Roofing margins were lowered substantially by cost increases, particularly for asphalt and energy, unrecovered through increased selling prices.

Fiber Glass Products

Net sales increased approximately 16% in 1981. Both shipping volumes and particularly selling prices increased in 1981. Volumes rose for residential and industrial insulating applications but were lower for automotive applications. Reinforcement shipments were up sharply in 1981 aided by the April start-up of a third furnace. Reinforcement demand, however, has not been sufficient to support operation of all four furnaces at our Wichita Falls facility.

Operating profit in 1981 was up sharply from 1980 due to increased selling prices, improved manufacturing efficiencies and higher capacity utilization.

Net sales in 1980 increased 11% from 1979 due to pricing actions and increased volumes for residential products. The 1980 shipments benefited by a full year's contribution of a new West Coast insulation production facility and a new insulation product, Insul-Safe® II . . . both began full-scale operations in mid-1979. In 1980, product demand supported operations at 50% of capacity at our Wichita Falls reinforcement facility.

Piping Products

Net sales in 1981 declined nearly 4% due mainly to a decrease in net selling prices for PVC piping products and reduced outside sales of PVC resin. The lower net selling price for PVC pipe reflects both the reduction in PVC resin and monomer costs, the principal raw material for producing this product, and competitive conditions. Profit margins in 1981 also were lower due to reduced A/C pipe volumes and lower selling prices for PVC pipe. During 1981, the Ambler, Pa. A/C pipe manufacturing facility was closed permanently due to insufficient demand levels in its shipping area.

Physical volumes in 1980 declined by 15% from 1979 with A/C piping products registering a greater reduction than PVC piping products. The decline for both product lines was attributable to a general slowdown in construction activity.

Liquidity and Capital Resources

Liquidity

The Company's centrally controlled cash and working capital management programs have reduced the demand for cash and facilitated the rapid turnover of working capital. In addition, the Company pays fees to its banks in lieu of compensating balances for its confirmed lines of credit and for most of its purchased noncredit services. As a result, unproductive cash resources and other working capital components have been minimized. The working capital position of the Company at the end of fiscal years 1979 and 1980 fluctuated near the $100 million level and increased to $125 million in 1981.

Seasonal cash requirements are financed from an array of short-term funding options available to the Company, including commercial paper, bankers' acceptances and Euro-dollars. To assure the availability of required funds, the Company maintains contractual revolving credit facilities, exceeding peak seasonal needs for working capital. These agreements provide financial flexibility through immediate access to cash.

Capital Spending and Resources

In 1979, the Company largely completed its major three-year facilities expansion program, which almost doubled its prior investment in property, plant and equipment. In early 1979, $25 million of long-term debt was issued to fund a portion of this program. With the expansion program accomplished, capital expenditures in 1980 and 1981 and those planned for 1982 are lessened considerably to productivity improvements, furnace rebuilding and necessary replacements. Many of the productivity improvement projects increase capacity. Depreciation charges exceeded capital spending levels in 1980 and 1981 by $16.2 and $24.3 million, respectively, and are projected to exceed capital spending levels in 1982 by $22 million.

Inflation

Some of the effects of inflation have been discussed above, principal among which are increases in the cost of materials and other purchased inputs. Because of a very competitive environment, the Company has not been wholly successful in effecting price increases to cover these costs.

In measuring the impact of inflation under Financial Accounting Standards Board ("FASB") Statement No. 33, the Company believes that it compares favorably to many other manufacturers because it employs the LIFO method of accounting for most of its inventories and much of its investment in plant and equipment is new. It also is noteworthy that accelerated methods of depreciation are employed for a significant portion of the Company's fixed assets. More details on the effects of inflation are available on pages 16 and 17.

CONSOLIDATED BALANCE SHEET

CertainTeed Corporation and Consolidated Subsidiaries
December 31, 1981 and 1980

(Dollars in Thousands, Except for Share and Per Share Amounts)

Assets	1981	1980
Current Assets:		
Cash	$ 2,210	$ 2,777
Refundable Federal income taxes	18,917	14,981
Accounts and notes receivable	120,785	131,697
Less: Allowances for doubtful receivables ($2,463 and $3,138) and discounts and allowances	7,175	8,004
	113,610	123,693
Inventories:		
Raw materials and supplies	19,809	24,579
Work in process	9,651	8,875
Finished goods	76,749	71,260
	106,209	104,714
Deferred Federal income taxes	7,700	6,495
Total current assets	248,646	252,660
Prepaid Expenses and Other Assets	10,521	8,878
Investments in Affiliates	15,064	11,927
Property, Plant and Equipment, at cost:		
Land	9,453	9,244
Buildings	129,310	128,528
Equipment	496,623	477,713
Construction in progress	7,712	22,828
	643,098	638,313
Less: Accumulated depreciation	259,208	225,133
	383,890	413,180
Intangible Assets, at amortized cost, principally patents	5,605	6,858
	$663,726	$693,503

Liabilities and Stockholders' Equity	1981	1980
Current Liabilities:		
Trade accounts payable	$ 60,418	$ 78,766
Accrued expenses and sundry liabilities	46,740	49,063
Notes payable and current installments of long-term debt	16,403	24,632
Total current liabilities	123,561	152,461
Long-Term Debt, less current installments	168,927	152,065
Deferred Federal Income Taxes and Other Liabilities	39,923	33,527
Redeemable Preferred Stock:		
Series D, $1 par value, issued and outstanding 1,600,000 shares ($25 per share liquidation preference and mandatory redemption price)	40,000	40,000
Non-Redeemable Preferred Stock:		
Series C Convertible, $1 par value, issued and outstanding 1,000,000 shares (liquidation preference $20,000)	1,000	1,000
Common Stock:		
$1 par value, authorized 20,000,000 shares, issued and outstanding 13,510,334 shares	13,510	13,510
Capital in Excess of Par Value	105,877	105,877
Retained Earnings	170,928	195,063
	$663,726	$693,503

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT OF INCOME

CertainTeed Corporation and Consolidated Subsidiaries
Years ended December 31, 1981, 1980 and 1979

(Dollars in Thousands, Except for Per Share Amounts)

	1981	1980	1979
Net sales	$891,532	$868,227	$916,204
Cost of goods sold	788,010	751,136	776,143
Selling and administrative expenses	110,300	100,179	97,367
Interest expense, net	25,530	23,042	21,576
Other income, net of deductions	(5,779)	(3,713)	(2,562)
	918,061	870,644	892,524
Profit/(loss) before income taxes	(26,529)	(2,417)	23,680
Income tax provision/(credit)	(16,530)	(6,913)	143
Income/(loss) from continuing operations	(9,999)	4,496	23,537
Losses from discontinued operations, net of income taxes	917	4,223	1,289
Net income/(loss)	$ (10,916)	$ 273	$ 22,248
Earnings/(loss) per common share: Continuing operations	$(1.07)	—	$1.39
Net income/(loss)	$(1.14)	$(.31)	$1.30

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

CertainTeed Corporation and Consolidated Subsidiaries
Years ended December 31, 1981, 1980 and 1979

(Dollars in Thousands)

	1981	1980	1979
Funds Provided From:			
Income/(loss) from continuing operations	$ (9,999)	$ 4,496	$ 23,537
Add/(deduct) items not affecting working capital:			
Depreciation	54,199	53,207	43,478
Amortization of patents and other intangibles	1,153	1,283	1,376
Deferred taxes	1,576	2,531	7,916
Unremitted earnings of affiliates	(3,162)	(852)	(671)
Funds provided by continuing operations	43,767	60,665	75,636
Increase in long-term debt	25,013	2,788	31,268
Disposals of property, plant and equipment at net book value	4,977	2,412	5,001
Other changes, net	2,094	(882)	4,150
Total funds provided	75,851	64,983	116,055
Funds Used For:			
Additions to property, plant and equipment	29,886	36,996	86,484
Dividends	13,219	16,565	16,522
Reduction of long-term debt	9,914	9,521	9,744
Discontinued operations	(2,054)	5,500	776
Total funds used	50,965	68,582	113,526
Increase/(Decrease) in Working Capital	$ 24,886	$ (3,599)	$ 2,529
Increase/(Decrease) in Working Capital by Element:			
Cash and short-term investments	$ (567)	$ (4,296)	$ (5,661)
Refundable and deferred Federal income taxes	5,141	4,140	11,596
Accounts and notes receivable	(10,083)	(4,593)	4,954
Inventories	1,495	(9,289)	4,822
Trade accounts payable, accrued expenses and sundry liabilities	20,671	(266)	13,084
Notes payable and current installments of long-term debt	8,229	10,705	(26,266)
Increase/(Decrease) in Working Capital	$ 24,886	$ (3,599)	$ 2,529

The accompanying notes are an integral part of this statement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1981

Note 1 — Significant Accounting Policies

Principles of Consolidation:
The accompanying financial statements include the accounts of CertainTeed Corporation and all subsidiaries. Investments in affiliates include 20%- to 50%-owned entities accounted for on the equity method.

Foreign Currency Translation:
The financial statements of the Company's 39%-owned Mexican affiliate have been translated in accordance with FASB Statement No. 8. Foreign exchange losses have not been significant.

Inventories:
Inventories are stated at the lower of cost, principally last-in, first-out (LIFO), or market. If the first-in, first-out (FIFO) method of inventory valuation had been used by the Company, inventories would be $45.6 million higher at December 31, 1981 and $43.6 million higher at December 31, 1980. During 1981 and 1980, reductions in LIFO quantities carried at prior years' costs favorably affected profit before income taxes by $2.1 million and $3.0 million, respectively.

Depreciation:
Depreciation on plant and equipment is computed by the straight-line and double-declining balance methods based on estimated useful lives of the assets.

Income Taxes:
Deferred income taxes are provided to reflect the results of timing differences in computing income for financial and income tax reporting. The principal timing difference results from computing depreciation for financial reporting primarily by the straight-line method and for income tax reporting by accelerated methods and, beginning in 1981, the accelerated cost recovery system. Investment tax credits are applied, as available, as a reduction of income tax expense.

Intangible Assets:
Costs of purchased patents are being amortized by the straight-line method over the legal lives of the patents. Goodwill of $.9 million is being amortized over the next 5 years. The $1.2 million excess of the Company's carrying amount of investments in affiliates over its equity in their net assets is being amortized over the next 15 years. Preoperating expenses related to new facilities are expensed as incurred.

Interest Cost:
All interest cost has been expensed as incurred through December 31, 1979. Effective January 1, 1980, the Company complied with the provisions of FASB Statement No. 34, "Capitalization of Interest Cost." Accordingly, interest cost incurred to finance the construction of significant assets is capitalized during the construction period. This change increased net income by $.5 million ($.03 per share) during the year ended December 31, 1980.

	1981	1980	1979
	(Dollars in Thousands)		
Gross interest expense	$26,583	$24,895	$22,431
Interest income	(805)	(969)	(855)
Capitalized interest	(248)	(884)	—
	$25,530	$23,042	$21,576

Earnings Per Common Share:
Earnings per common share are computed on the basis of weighted average number of shares outstanding and issuable during each year including common stock equivalents (stock options and Series C Convertible Preferred Stock) after adjustment for the dividend requirements on Series D Preferred Stock. For the years ended December 31, 1981 and 1980, common stock equivalents have not been included in the per share computations because the effect of their inclusion would be antidilutive.

Note 2 — Pension Plans

The Company has several pension plans covering substantially all employees. Total pension expense was $8.0 million in 1981, $7.3 million in 1980 and $6.2 million in 1979. The Company makes annual contributions to the plans equal to the amounts accrued for pension expense, including amortization of past service cost over 30 years. A comparison of accumulated plan benefit information, as estimated by consulting actuaries, and plan net assets is presented below:

	January 1, 1981	1980
Actuarial present value of accumulated plan benefits:	(Dollars in Thousands)	
Vested	$43,243	$47,849
Nonvested	5,887	6,249
	$49,130	$54,098
Net assets available for benefits	$58,599	$46,885

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8.8% in 1981 and 7.2% in 1980, which were based upon rates issued by the Pension Benefits Guaranty Corporation.

Note 3 — Debt

At December 31, 1981, the Company had separate unsecured revolving credit agreements with a number of banks totaling $100 million currently expiring December 31, 1983 with the expiration date automatically extended each quarter and an unsecured revolving credit agreement of $50 million currently expiring December 31, 1982 with the expiration date automatically extended each quarter.

The Company pays commitment fees on the unutilized portions of these lending commitments. No compensatory balances, or fees in lieu of such balances, are required.

Notes payable to banks of $25 million with terms due within one year have been classified as long-term debt at December 31, 1981 in view of the assured availability of long-term funds under revolving credit agreements and the Company's intent to refinance this debt on a long-term basis.

Long-term debt, excluding amounts due within one year, consists of:

	1981	1980
	(Dollars in Thousands)	
Notes payable to insurance companies with average interest at 10.16% payable through 1995	$ 94,800	$102,370
Industrial revenue bonds with average interest at 6.93% payable through 2010	39,295	40,820
Notes payable to banks with average interest at 13.2%	25,000	
Other	9,832	8,875
	$168,927	$152,065

Maturities of long-term debt at December 31, 1981 for each of the five years through 1986 (in thousands): 1982 - $9,900; 1983 - $8,395; 1984 - $8,062; 1985 - $10,218; 1986 - $9,645.

Certain of the Company's loan agreements provide, among other matters, for prepayment options, the maintenance of a prescribed amount of consolidated working capital and certain limitations on the declaration of dividends, other than stock dividends. Under the terms of the most restrictive loan agreement, there were no retained earnings available for payment of dividends on common stock at December 31, 1981.

The net book value of property, plant and equipment pledged as collateral under mortgages and industrial revenue bonds approximated $19.3 million as of December 31, 1981.

Note 4 — Income Taxes

The provision for income taxes applicable to continuing operations consists of:

	1981	1980	1979
	(Dollars in Thousands)		
Current Federal income tax credits	$(18,398)	$(8,935)	$(8,759)
Deferred Federal income taxes	2,168	2,172	7,521
State income taxes	(300)	(150)	1,381
	$(16,530)	$(6,913)	$ 143

Deferred Federal income taxes are the tax effects related to timing differences between amounts allowed for tax purposes and those included in financial reporting as follows:

	1981	1980	1979
	(Dollars in Thousands)		
Depreciation	$4,278	$3,434	$8,174
Investment tax credit	(2,251)		
Self-insurance reserves	247	(821)	(891)
Reserve for doubtful receivables and allowances	117	(589)	(470)
Pension and incentive plans	(117)	278	702
Other, net	(106)	(130)	6
	$2,168	$2,172	$7,521

A reconciliation of Federal income taxes at the statutory rate to the Company's income tax provision follows:

	1981	1980	1979
	(Dollars in Thousands)		
Income tax provision at statutory rate	$(12,203)	$(1,112)	$10,893
Effect of including state income taxes	(162)	(81)	745
Investment tax credit	(2,251)	(5,293)	(11,280)
Income applicable to affiliates	(1,513)	(502)	(349)
Other, net	(401)	75	134
Income tax provision	$(16,530)	$(6,913)	$ 143

The Company maintains a Tax Reduction Act Stock Ownership Plan ("TRASOP") for eligible employees. The investment tax credit above includes $.2 million in 1981, $.5 million in 1980, and $1.1 million in 1979 which represents the extra one percent tax credit allowed under the Tax Reduction Act of 1975 when the related contribution is made to the TRASOP.

Note 5 — Discontinued Operations

	1981	1980	1979
	(Dollars in Thousands)		
Losses under indemnification of certain real estate loans (less applicable income taxes of $846 in 1981 and $1,224 in 1979) (a)	$917		$1,289
Loss in connection with a settlement of all litigation and claims against the Company related to Valley Forge Corporation (less applicable income taxes of $4,500) (b)		$3,000	
Provision for loss on disposal of water and sewer utility assets (less applicable income taxes of $954) (c)		1,223	
	$917	$4,223	$1,289

(a) During 1981 and 1979, the Company sustained losses under an indemnity agreement with a real estate investment trust.

(b) During 1980, the Company settled all of the litigation and claims against it related to Valley Forge Corporation, an unconsolidated subsidiary. Pursuant to the terms of the settlement, the Company paid $7.5 million and surrendered its 66 percent equity interest in Valley Forge Corporation in full and complete settlement of all claims raised, or which could have been raised in the pending lawsuits by Valley Forge Corporation and its creditors. In addition, CertainTeed purchased from Valley Forge Corporation certain assets for $2.5 million.

(c) During 1980, a subsidiary of the Company entered into an agreement to sell its water and sewer assets and provided for the estimated loss which was expected to result upon settlement of the agreement. The transaction was completed during 1981 on the same terms as the 1980 agreement. Revenues and results of operations of this business have not been significant.

Note 6 — Other Income, Net of Deductions

	1981	1980	1979
	(Dollars in Thousands)		
Royalty income	$1,640	$1,399	$1,687
Income applicable to affiliates	4,743	2,740	2,492
Gain/(loss) on disposals of property, plant and equipment, net	2,241	(188)	(853)
Provision for plant shutdown expenses	(2,754)	(353)	(260)
Other, net	(91)	115	(504)
	$5,779	$3,713	$2,562

Note 7 — Investments in Affiliates

Financial information for the Company's unconsolidated affiliates is summarized as follows:

	1981	1980	1979
	(Dollars in Thousands)		
Current assets	$40,823	$33,289	
Noncurrent assets	18,134	13,532	
Current liabilities	20,146	15,402	
Noncurrent liabilities	5,980	4,288	
Net sales	93,075	72,120	$63,103
Gross profit	33,521	27,461	25,310
Net income	9,079	6,966	6,283

The principal investment included above relates to a 39%-owned Mexican affiliate which manufactures fiber cement pipe, sheet and moldings; and plastic pipe.

Note 8 — Stock Options

Changes during 1981 and 1980 pursuant to stock option plans for officers and key employees are as follows:

	Number of Shares	
	1981	1980
Outstanding at beginning of year	19,000	42,250
Options exercised	—	(17,000)
Options lapsed and expired	(5,000)	(6,250)
Outstanding at end of year	14,000	19,000
Options exercisable at end of year	14,000	19,000
Options subject to future grant	122,790	122,790

The outstanding options at December 31, 1981 related to 14,000 shares at $7.01 per share and at December 31, 1980 to 14,000 shares at $7.01 and 5,000 shares at $17.25. The options exercised during 1980 related to 2,000 shares at $7.01 and 15,000 shares at $9.775.

Note 9 — Redeemable Preferred Stock

A total of 4,000,000 shares is authorized collectively for all series of preferred stock. The Series D Preferred Stock is entitled to one vote per share. Dividends are cumulative at an annual rate of $1.91 per share and payable quarterly. The annual mandatory redemption requirements are $4 million commencing on January 1, 1983 through January 1, 1987 and the remaining $20 million on January 1, 1988. The Company's parent, Compagnie de Saint-Gobain ("SG"), owns 880,000 of these shares (55%).

Note 10 — Non-Redeemable Preferred Stock

The Series C Convertible Preferred Stock is entitled to one vote per share, is owned by SG and an affiliated company, and is convertible into 1,250,000 shares of common stock. Dividends on the Series C Stock are cumulative at a rate of $1.40 per year. The Company omitted declaration of a dividend for the fourth quarter of 1981, therefore, the arrearages in the cumulative preferred dividends were $.35 million ($.35 per share) at December 31, 1981. Prior to payment of a dividend on the common stock, any arrearages in the cumulative preferred dividends must be paid. Assuming conversion of this stock, SG ownership would increase to 55% from 54% of the total voting shares of stock.

Note 11 — Common Stock, Capital in Excess of Par Value, and Retained Earnings

Changes in the Company's common stock, capital in excess of par value, and retained earnings for the three years ended December 31, 1981 are shown on page 14. As of December 31, 1981, retained earnings include $7.8 million of undistributed earnings of affiliates.

Note 12 — Industry Segments

Financial information depicting results by industry segment is included on page 15.

Note 13 — Contingencies

(a) In a suit brought by a former sales agent, a jury late in 1979 returned a damage verdict against the Company in the amount of $9.8 million on contract and fraud claims. In January 1981, the Court of Appeals reversed the verdict and remanded for a new trial the issues of liability and damages on these claims. It is anticipated that the new trial will occur in the early part of 1982. It is management's opinion, based in part upon the opinion of the Company's counsel, that the ultimate outcome of this suit will not materially affect the Company's operations or financial position.

(b) The Company is contingently liable in the maximum amount of $2.1 million as the result of an indemnity agreement entered into in 1977 with a real estate investment trust and the settlement of other litigation relating to the trust. It is management's opinion that these matters will not have a material effect on the Company's operations or financial position.

(c) The Company is a party to a number of other legal actions arising in the ordinary course of its business. In the opinion of the Company's management, the Company has adequate legal defenses and/or insurance coverage respecting each of these actions and does not believe that they will materially affect the Company's operations or financial position.

Note 14 — Effects of Inflation (Unaudited)

Supplemental data reflecting the effects of general inflation and specific changes in the resources used by the Company is presented on pages 16 and 17.

Note 15 — Quarterly Data (Unaudited)

Selected financial quarterly data is contained on page 18.

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COMMON STOCK, CAPITAL IN EXCESS OF PAR VALUE, AND RETAINED EARNINGS

	Common Stock Issued	Capital in Excess of Par Value	Retained Earnings
	(Dollars in Thousands)		
Balance at December 31, 1978	$13,487	$105,600	$205,629
Net income			22,248
Exercise of stock options and related tax credits	6	86	
Dividends declared:			
Common Stock ($.90 per share)			(12,072)
Series C Convertible Preferred Stock ($1.40 per share)			(1,400)
Series D Preferred Stock ($1.91 per share)			(3,050)
Balance at December 31, 1979	13,493	105,686	211,355
Net income			273
Exercise of stock options and related tax benefits	17	191	
Dividends declared:			
Common Stock ($.90 per share)			(12,115)
Series C Convertible Preferred Stock ($1.40 per share)			(1,400)
Series D Preferred Stock ($1.91 per share)			(3,050)
Balance at December 31, 1980	13,510	105,877	195,063
Net loss			(10,916)
Dividends declared:			
Common Stock ($.675 per share)			(9,119)
Series C Convertible Preferred Stock ($1.05 per share)			(1,050)
Series D Preferred Stock ($1.91 per share)			(3,050)
Balance at December 31, 1981	$13,510	$105,877	$170,928

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FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The Company's industry segments are Building Materials, Fiber Glass Products and Piping Products. "Building Materials" is comprised of the manufacture and sale of roofing, vinyl siding and millwork products; and the wholesale distribution of these and other materials. "Fiber Glass Products" is comprised of the manufacture and sale of residential, industrial and automotive insulations; and fiber glass reinforcements. "Piping Products" is comprised of the manufacture and sale of PVC and A/C piping and the jobber distribution of pipe and pipe system components.

	1981	1980	1979
		(Dollars in Millions)	
Net Sales:			
Building materials	$329.6	$342.4	$402.8
Fiber glass products	334.6	289.1	259.7
Piping products	239.7	249.3	275.6
Intersegment sales	(12.4)	(12.6)	(21.9)
	$891.5	$868.2	$916.2
Operating Profit:			
Building materials	$ (14.2)	$ 12.9	$ 42.0
Fiber glass products	14.1	2.2	(13.3)
Piping products	4.6	12.2	25.9
	4.5	27.3	54.6
General corporate expenses	(11.3)	(10.4)	(11.9)
	(6.8)	16.9	42.7
Interest Expense, net of interest income	(25.5)	(23.0)	(21.6)
Other Income, net	5.8	3.7	2.6
Profit/(Loss) before income taxes	$ (26.5)	$ (2.4)	$ 23.7
Depreciation and Amortization:			
Building materials	$ 10.7	$ 9.5	$ 6.6
Fiber glass products	36.8	36.9	30.5
Piping products	6.8	7.1	6.7
General corporate	1.1	1.0	1.1
	$ 55.4	$ 54.5	$ 44.9
Capital Expenditures:			
Building materials	$ 6.7	$ 11.8	$ 13.7
Fiber glass products	18.0	18.8	58.7
Piping products	4.4	6.0	12.5
General corporate	.8	.4	1.6
	$ 29.9	$ 37.0	$ 86.5
Identifiable Assets at end of year:			
Building materials	$177.5	$189.7	$169.3
Fiber glass products	301.2	316.5	341.0
Piping products	128.7	136.1	159.7
General corporate	56.3	51.2	56.5
	$663.7	$693.5	$726.5

Classes of Products Representing More Than 10% of Consolidated Company Sales:

	1981	1980	1979
Roofing (Building Materials)	21.1%	23.9%	28.2%
Thermal Insulation (Fiber Glass Products)	31.1%	28.3%	23.0%
PVC and A/C Pipe (Piping Products)	16.5%	16.7%	17.7%

EFFECTS OF INFLATION (UNAUDITED)

The primary financial statements are prepared on the historical cost basis, that is, the prices that were in effect when the transactions occurred. This supplemental information is intended to address two different aspects of an inflationary environment: (1) the effect of a rise in general price level on the purchasing power of the dollars (called "general inflation"), and (2) the specific price changes in the resources used by the Company. This information has been prepared in accordance with the experimental techniques required by FASB Statement No. 33, "Financial Reporting and Changing Prices." No adjustments have been made to the historical basis income tax provisions for purposes of this presentation.

Statement of Income from Continuing Operations Adjusted for Changing Prices

	Year Ended December 31, 1981 (Dollars in Thousands)		
	As Reported in the Primary Statements (Historical Cost)	Adjusted for General Inflation (Constant Dollars)	Adjusted for Changes in Specific Prices (Current Cost)
Net sales	$891,532	$891,532	$891,532
Cost of goods sold, excluding depreciation	736,381	739,626	738,836
Depreciation	54,199	75,802	80,056
Other expenses, net	127,481	127,541	130,027
Income taxes	(16,530)	(16,530)	(16,530)
Total costs and expenses	901,531	926,439	932,389
Loss from continuing operations	$ (9,999)	$ (34,907)	$ (40,857)
Loss per common share - continuing operations	$(1.07)	$(2.91)	$(3.35)
Other Information			
Purchasing power gain from holding net monetary liabilities during the year		$ 19,138	$ 19,138
Increase in general price level of inventories and property, plant and equipment held during the year			$ 66,138
Less effect of increase in specific prices*			60,043
Excess of increase in general price level over increase in specific prices			$ 6,095

*At December 31, 1981, the current cost of inventory and net property, plant and equipment was $151.8 million and $599.4 million, respectively.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

In Average 1981 Dollars	Years Ended December 31,				
	1981	1980	1979	1978	1977
	(Dollars in Thousands, Except for Per Share Amounts)				
Net sales	$891,532	$958,286	$1,147,994	$1,248,257	$1,227,805
Historical cost information adjusted for general inflation					
Income/(loss) from continuing operations	$(34,907)	$(19,769)	$ 9,469		
Income/(loss) from continuing operations per common share	$(2.91)	$(1.83)	$.29		
Net assets at year-end	$508,721	$540,668	$ 586,060		
Current cost information					
Income/(loss) from continuing operations	$(40,857)	$(27,183)	$ 432		
Loss from continuing operations per common share	$(3.35)	$(2.37)	$(.38)		
Net assets at year-end	$535,219	$581,632	$ 625,355		
Other information					
Excess of increase in general price level of inventories and properties over increase in specific prices	$ 6,095	$ 30,886	$ 8,638		
Purchasing power gain from holding net monetary liabilities during the year	$ 19,138	$ 29,894	$ 32,802		
Cash dividends per common share	$.69	$.99	$1.13	$1.11	$1.07
Market price per common share at year-end	$11.25	$12.65	$17.47	$21.48	$34.58
Average consumer price index	272.4	246.8	217.4	195.4	181.5

The effects of general inflation (constant dollars) were compiled by using the Consumer Price Index for All Urban Consumers to adjust historical costs to a constant value, equivalent to average 1981 dollars. The current cost of property and related depreciation expense was primarily calculated by applying various specific indices to the historical book values and, in some cases, direct vendor quotes and estimates were used. Depreciation was computed using the same methods and asset lives as those used in the primary financial statements. The current cost of inventories is based principally on the use of a FIFO assumption of inventory usage. The adjustments made to historical cost of sales under inflation accounting methods are small because LIFO, the principal accounting method used by the Company for valuing inventories, effectively results in current cost of sales. The additional amounts charged to cost of sales under these methods reflect the adjustment of non-LIFO valued inventories and liquidations of LIFO inventories.

Because of the technology used by the Company in its manufacturing operations, the effect of the specific inflation (current cost) on its assets is typically greater than general inflation (constant dollar); during the years 1981 and 1980, however, general inflation increased more than specific inflation. Although the indices used for the current cost computation appear to be compatible with the changing costs experienced by the Company, the actual current costs that will occur upon ultimate replacement of assets in the future could differ significantly. Current tax laws do not allow deductions for current cost depreciation, so the taxes levied on the Company exceed the statutory rate after the data is adjusted for the impact of inflation.

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QUARTERLY DATA (UNAUDITED)

1981	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
	(Dollars in Thousands, Except for Per Share Amounts)			
Net sales	$229,443	$237,178	$239,697	$185,214
Gross profit	$ 26,813	$ 27,022	$ 28,567	$ 21,120
Loss from continuing operations	$ (179)	$ (1,643)	$ (1,912)	$ (6,265)
Net loss	$ (179)	$ (1,643)	$ (2,829)	$ (6,265)
Loss per common share:				
Continuing operations	$(.10)	$(.20)	$(.22)	$(.55)
Net loss	$(.10)	$(.20)	$(.29)	$(.55)

1980	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
	(Dollars in Thousands, Except for Per Share Amounts)			
Net sales	$211,893	$199,480	$238,618	$218,236
Gross profit	$ 28,063	$ 18,644	$ 36,960	$ 33,424
Income/(loss) from continuing operations	$ (87)	$ (2,407)	$ 4,606	$ 2,384
Net income/(loss)	$ (87)	$ (5,407)	$ 3,383	$ 2,384
Earnings/(loss) per common share:				
Continuing operations	$(.09)	$(.26)	$.26	$.09
Net income/(loss)	$(.09)	$(.48)	$.17	$.09

(a) See Note 5 for details of discontinued operations.

(b) During 1981 and 1980, certain inventory quantities were reduced which resulted in the liquidation of inventories carried at prior years' cost. The effect of the reductions was to increase gross profit by $1.9 million in the quarter ended September 30, 1980, $1.1 million in the quarter ended December 31, 1980, and $2.1 million in the quarter ended December 31, 1981.

REPORTS ON FINANCIAL STATEMENTS

Report of CertainTeed Management

To the Shareholders

The management of the Company has prepared the accompanying consolidated financial statements. Their consistency and objectivity are the responsibility of management. These statements were prepared in accordance with generally accepted accounting principles appropriate in the circumstances, based on our best estimates and judgments and giving due consideration to materiality.

The Company maintains internal control systems designed to provide reasonable assurance that the books and records reflect the transactions of the Company and that its assets are protected from loss or unauthorized use. A staff of internal auditors reviews the Company's internal controls and accounting practices.

The Audit Commitee of the Board of Directors, composed solely of non-management directors, meets periodically with the independent auditors, management and internal auditors to review the work of each. The independent auditors have free access to this Committee to discuss the results of their audit work, the adequacy of internal accounting controls and the quality of financial reporting.

Michel Besson

Michel Besson
President and
Chief Executive Officer

J. E. Zimmerman

J. E. Zimmerman
Senior Vice President and
Chief Financial Officer

Valley Forge, Pennsylvania
January 22, 1982

Report of Independent Auditors

Board of Directors
CertainTeed Corporation
Valley Forge, Pennsylvania

We have examined the consolidated balance sheet of CertainTeed Corporation and consolidated subsidiaries as of December 31, 1981 and 1980, and the related consolidated statements of income and of changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of CertainTeed Corporation and consolidated subsidiaries at December 31, 1981 and 1980, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, with which we concur, made as of January 1, 1980 in the method of accounting for interest cost which is described in Note 1 to the consolidated financial statements.

Ernst & Whinney

Philadelphia, Pennsylvania
January 22, 1982

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DIRECTORS AND EXECUTIVE OFFICERS

Directors

John T. Gurash
Chairman of the Board
CertainTeed Corporation

Michel Besson
Vice Chairman of the Board
President and Chief Executive Officer
CertainTeed Corporation

Gabriel Aufaure
Director
Compagnie de Saint-Gobain

Jacques Chevenard
President, Insulation Division
Compagnie de Saint-Gobain

Roger Fauroux
Chairman and Chief Executive Officer
Compagnie de Saint-Gobain

John T. Fey
Chairman of the Board
The Equitable Life Assurance Society
of the United States

Mary J. Head

Philippe Malet
Chairman and Chief Executive Officer
Compagnie Financière de Suez

Roger Martin
Chairman Emeritus
Compagnie de Saint-Gobain

Robert E. McDonald
Consultant
Sperry Corporation

Martin Meyerson
Chairman
University of Pennsylvania Foundation
President Emeritus
University of Pennsylvania

Executive Officers

Michel Besson
President and
Chief Executive Officer

Myron P. Simmons
Senior Vice President
Administration & Law

John E. Zimmerman
Senior Vice President
Chief Financial Officer

John W. Belt Jr.
Vice President
President,
Vinyl Building Products Division

Peter R. Dachowski
Vice President, Planning & Development
and Treasurer

Thomas A. Decker
General Counsel and Secretary

Richard A. DeCoste
Vice President
President, Shelter Materials Group

Clifford J. Demarest
Vice President
President, Utility Supply Group

Thomas A. Dougherty
Vice President
Industrial Relations

Rene Goutte
Vice President
President, Insulation Group

Donald S. Huml
Vice President and
Comptroller

Lester F. Kaas
Vice President
Administration

John D. Keohane
Vice President
Internal Audit

Theodore F. Merkel
Vice President
Information Systems

Glidden D. O'Connor
Vice President
President,
Building Materials Distribution Group

Douglas E. Potter
Vice President
President,
Fiber Glass Reinforcements Division

Henri A. Thibiant
Vice President
International

Fred Timpe
Vice President
President,
Pipe & Plastics Group

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Transfer Agent and Registrar

Manufacturers Hanover Trust Co.
4 New York Plaza
New York, N.Y. 10015

Common Stock Listed

New York Stock Exchange
Pacific Stock Exchange

Annual Meeting

The Annual Meeting of Shareholders will be held on Tuesday, April 27, 1982, at Chemical Bank (Seventh Floor), 277 Park Ave., New York, New York beginning at 10:30 a.m.

10-K Availability

Requests for the Company's Form 10-K filed with the Securities and Exchange Commission, and any other inquiries from individual and institutional investors, should be directed to:

CertainTeed Corporation
Investor Relations Department
P.O. Box 860
Valley Forge, Pa. 19482
(215) 687-5000

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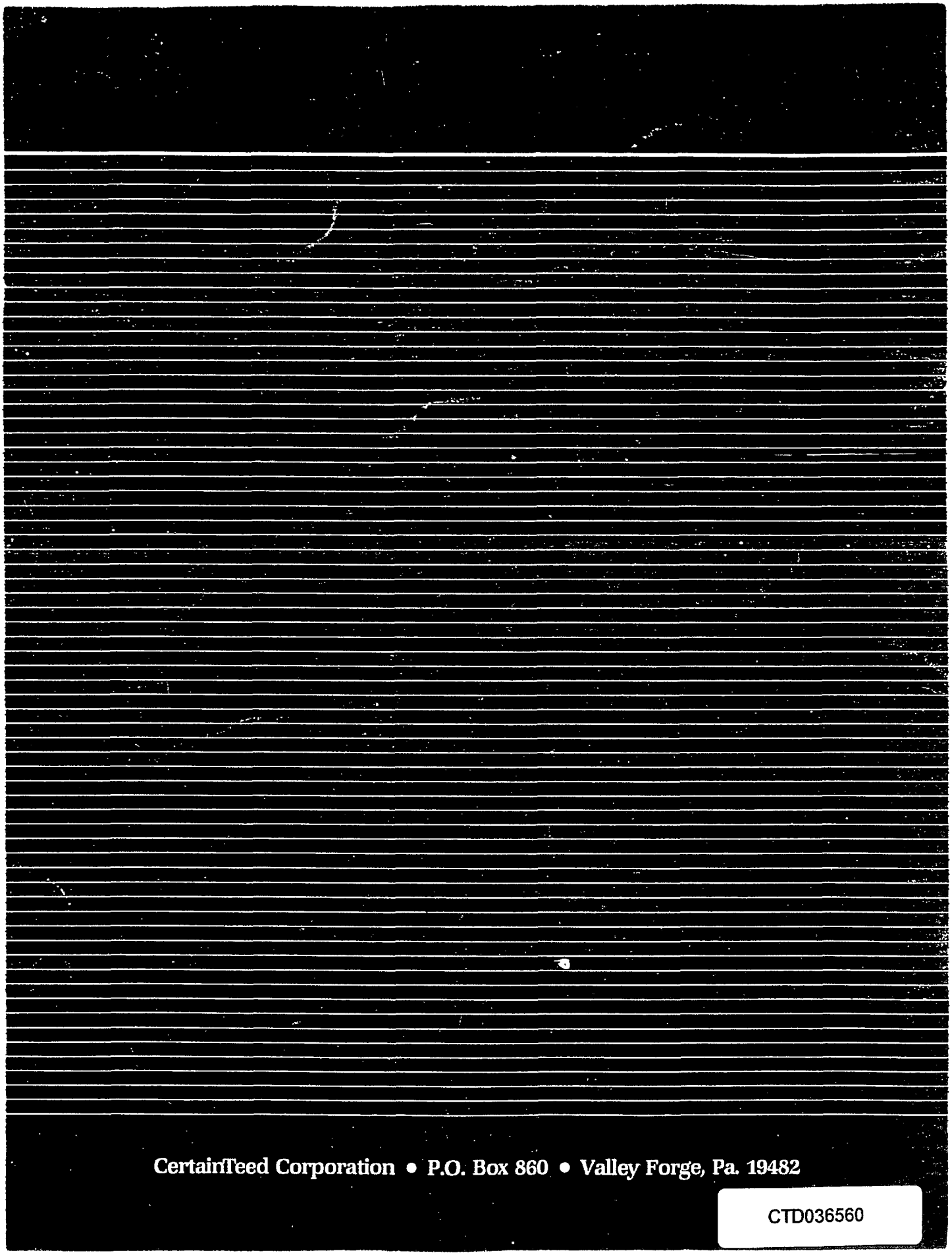

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