

G A F CORPORATION
140 WEST 51 STREET
NEW YORK, NEW YORK 10020

RECEIVED OCT 2 5 1982

JESSE WERNER
CHAIRMAN AND CHIEF EXECUTIVE OFFICER



September 30, 1982

Dear Fellow Shareholder:

Three months have elapsed since we last reported to you concerning our various discussions relating to the future of GAF. This is a further progress report.

Operations:

Our building materials business has shown steady improvement during the past three months. In July our pre-tax operating profit reached breakeven; and we are pleased to report that in August pre-tax operating profit was almost a million dollars.

Our chemicals business has held up well in spite of the economy. For July and August 1982 combined, our worldwide pre-tax operating profit was about 5% above the previous year.

Possible sale of our building materials business:

Discussions with the two companies which initially approached us have terminated. However, two other potential buyers currently appear interested. One is a large American corporation and the other a venture capital firm. Both have signed agreements to facilitate the flow of information, and intensive discussions have been held with them which are continuing.

Morgan Stanley & Co., our investment banker, has sought other possible buyers. They recently advised us of two interested venture capital firms, one of which has signed a facilitation agreement. We will start discussions with them shortly. Morgan Stanley is continuing to seek additional possibilities.

Possible overall merger:

Discussions with the first corporation which approached us have terminated. However, two other companies have indicated interest in exploring a possible acquisition of GAF and have signed facilitation agreements. Discussions have taken place and are further along with one than with the other.

Possible leveraged buyout:

Two venture capital firms have signed facilitation agreements. We have had intensive discussions which have not been concluded.

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Asbestos related potential liabilities:

In 1967, GAF Corporation acquired Ruberoid, which was involved, to a minor extent, in the manufacture and sale of asbestos products. GAF has been named as one of many defendants in approximately 10,000 pending health claim suits, which involve products that have been discontinued. Recently Manville Corporation filed for protection under the bankruptcy laws, ostensibly because of its anticipated liability in asbestos related claims. There are major differences between Manville's situation and GAF's. The cost per claim which Manville has reported is substantially higher than our experience, and Manville has been the subject of punitive damage awards which GAF has not incurred. GAF had a very small portion of the asbestos market in which Manville was, and remains, a major factor. Plaintiffs' recoveries in such cases are generally based on the relative market shares of the defendant companies. In addition, Manville has not been accorded the same defense and indemnification benefits by its insurance carriers as has GAF. Nevertheless, this subject has presented a difficult complication in many of the above-mentioned discussions.

Termination of Pension Plan and Recapture of Excess Funding:

Last week our Board of Directors, after a careful review, decided to terminate our salaried pension plan and replace it with a new plan, which will give our employees certain worthwhile new features. Our old plan was overfunded by more than \$35,000,000 by virtue of excellent money management and because of our redeployment programs. When approval is obtained from the IRS and the Pension Benefit Guaranty Corporation, the overfunding, as then calculated, will become available as cash for corporate purposes such as debt reduction, which would save us almost \$5,000,000 a year in interest costs at present rates.

Dividend Policy:

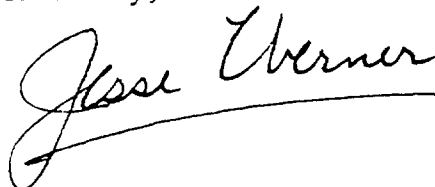
Although our Board found it absolutely necessary to reduce the last quarterly dividend, they have indicated that they plan to consider increasing it if our building materials business continues to improve.

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Although nothing definitive has as yet developed, we are continuing to search for ways to maximize near and long term shareholder values and will keep you informed.

We would like to pay tribute to our employees, who have managed magnificently in these very troubled times. They have gone about their business with a minimum of distraction. We are all very proud of them.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jesse Uerner", with a long horizontal flourish extending to the right.