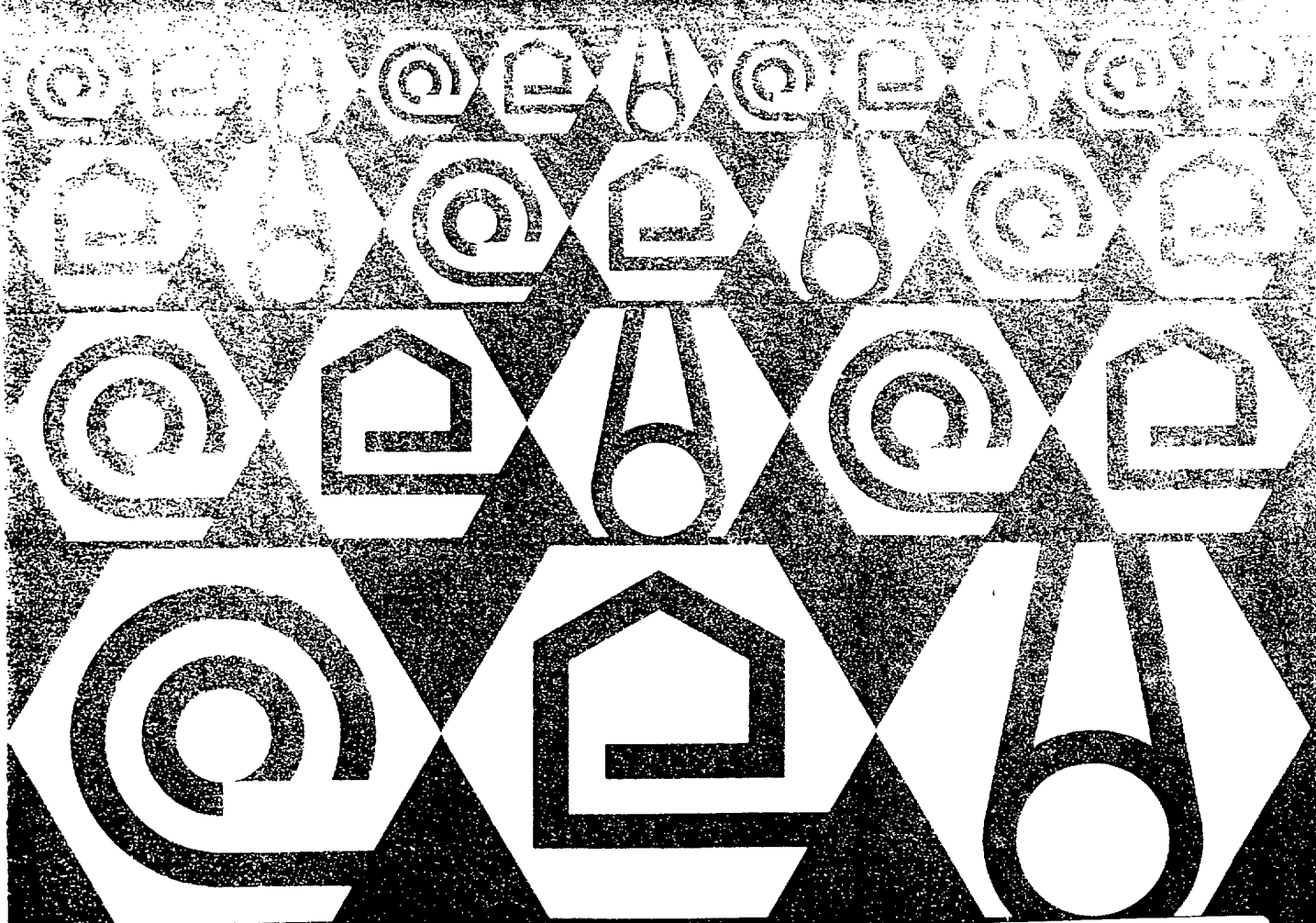


1979 Annual Report

CertainFeed

PLAINTIFF'S EXHIBIT

CT-212



CTD036824

Financial Highlights

Operating Data (Continuing Operations)	1979	1978
Net Sales	\$916,204,000	\$895,409,000
Income From Continuing Operations	23,537,000	54,426,000
Cash Flow From Continuing Operations	68,391,000	87,317,000
Capital Expenditures	86,484,000	145,514,000
Per Common Share		
Primary and Fully Diluted Earnings From Continuing Operations	\$1.39	\$3.49
Dividends Paid	.90	.80
Year-End Book Value	23.26	22.84

On the Cover

Graphic symbols depict CertainTeed's industry segments described below.



BUILDING MATERIALS include roofing, vinyl siding and millwork products; and the wholesale distribution of these and other building materials.



FIBER GLASS PRODUCTS are residential, industrial and automotive insulations; as well as fiber glass reinforcements.



PIPING PRODUCTS are comprised of PVC and A/C pipe, and the distribution of pipe and pipe system components.

Operations Summary

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Letter to Shareholders

Sales dollars for 1979 showed improvement over 1978, however, income from continuing operations declined. During the year, emphasis was directed toward concluding your company's three-year, \$310 million capital expansion program, while concentrating on current business in a period of considerable economic uncertainty.

Approximately \$100 million of additional production capacity was brought on stream in 1979 including three important start-up projects during the first half of the year. In March, the third furnace for fiber glass reinforcement production began operation at Wichita Falls, Texas. The following month, a second line for the manufacture of fiber glass bonded mat was completed at Athens, Georgia. In May, a new fiber glass insulation plant at Chowchilla, California, experienced a very successful start-up.

Also, during the year, full-scale production of Insul-Safe II, our new, proprietary blown-in residential insulation product, began at Kansas City, Kansas, and Athens, Georgia, and a major expansion was completed at our Hillsboro, Texas, A/C pipe plant. Other noteworthy manufacturing enhancements in progress last year included preparation for a fourth furnace at Wichita Falls, Texas, and increased capacity and installation of new technology for pipe insulation at Kansas City, Kansas.

Throughout the Company, rapidly-rising petroleum-based raw material costs, which we were unable to offset with price increases, were of particular significance. For example, in the roofing area, margin pressures were severe due to an increase of almost 30 percent in asphalt prices. The scenario was similar in piping and fiber glass products as escalating raw material costs, far in excess of the national inflation rate, greatly impacted manufacturing costs. These costs resulted in substantial additions to our LIFO reserves.

Interest expenses further reduced company profits before taxes. These charges in 1979 increased nearly \$10 million over the prior year. In the fiber glass products industry segment, depreciation costs, which rose \$11.2 million over 1978, had a significant impact on results.

Severe weather conditions affected performance as well. In particular, the devastating tornado which hit Wichita Falls, Texas, in April caused considerable disruption to our fiber glass reinforcements plant.

Finally, demand factors influencing 1979 performance included seasonal softness, more severe than experienced in recent years, in markets for fiber glass products and decreased housing activity in Texas affecting our building materials distribution business there.

Overall, building materials sales continued on an upward trend. Vinyl siding performed exceptionally well. Vinyl is a preferred siding material because of its maintenance-free characteristic, improved product performance and its cost competitiveness with energy-intensive aluminum. The decline in our building materials distribution business in the Southwest is attributable to

weather conditions and availability of mortgage funds affected by usury laws in Texas. In the roofing area, physical volume was comparable to 1978. We continued to adapt our roofing facilities to provide the ability to produce high performance fiber glass-based products in addition to the traditional felt-based materials.

Piping products industry segment dollar sales were up, but unit volume was down slightly from 1978. While there was a decline in A/C pipe sales, all-time high volume and profit levels were accomplished in 1979 in PVC pipe. The polymer operation at Lake Charles, Louisiana, continued to operate in a highly profitable manner exceeding previous production records. A strong performance also was achieved by our utility supply distribution business which turned in record profits.

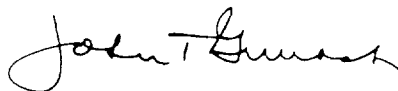
Softness in demand for residential insulation products, primarily related to reinsulation, early in the year contributed to lower fiber glass sales. And, while residential insulation business improved as anticipated during the latter part of the year, fiber glass reinforcements began to experience a cyclical decline in demand in the fourth quarter. This weakness, still apparent, is because of downswings in the automotive, marine and construction markets which account for over 60 percent of industry sales. Automotive industry production curtailment also impacted shipments for our acoustical insulation products sold exclusively to this market. Throughout 1979, the process of replacing industrial pipe insulation capacity lost with the sale of our Shelbyville, Indiana, facility, as ordered by the Department of Justice, continued. This will be completed by mid-1980. The restored capacity and improved technology, which is being installed simultaneously, will place CertainTeed in a better competitive position. Inadequate capacity in 1979, however, limited sales and profits in this area.

In February, 1979, Mary J. Head, former chairman and currently on the board of AMTRAK, was elected a CertainTeed director. Following the sudden death in February, 1979, of Marcel Lévecque, president and chief executive officer, Gabriel Aufaure, a member of CertainTeed's board of directors since 1972, was designated to succeed Mr. Lévecque and Franklin R. Winnert, executive vice president, was appointed chief operating officer.

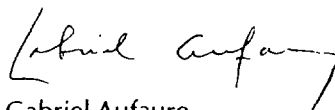
The Company has geared its operations to cope with the current unsettled environment. Because of the unfavorable economic outlook, we do not view 1980 optimistically. A further decline of 20 percent is projected in 1980 housing starts because of high interest rates and the unavailability of mortgage money. This, if it occurs, will adversely affect the entire building materials industry. CertainTeed's results in 1980 also will be influenced by other external factors such as softness in other key markets and continuing escalation in raw material prices that will result in significant additions to LIFO reserves. In addition, we will not experience the level of investment tax credit reported in 1979 and we anticipate that interest expense will be higher. Improvement is expected, however, in the fiber glass residential insulation business.

We look beyond 1980 for full realization of the benefits to be derived from our capital expansion program concluded in 1979.

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John T. Gurash
Chairman of the Board



Gabriel Aufaure
President and
Chief Executive Officer

February 7, 1980

CTD036828

The Year in Review

Building materials sales were up 7 percent over 1978, but rapidly-rising petroleum costs, competitive pricing pressures and softness in the Southwest market affecting our distribution business there caused a decline in profits compared to the prior year.

Roofing Turns in Solid Performance

The asphalt roofing business paralleled last year's physical volume levels even though new residential construction declined about 15 percent. The slack was picked up by re-roofing activity and growing demand for fiber glass-based products.

Fiber glass-based products, both shingles and commercial products, continued to obtain a larger portion of industry sales. The lighter weight and fire safety characteristics of fiber glass-based roofing products account for their increasing acceptance. CertainTeed is continuing its research and development effort in this area and in 1979 more than doubled its capacity to produce fiber glass bonded mat used as a base material in the manufacture of these products.

A major undertaking in 1979 was the conversion of the Dallas, Texas, roofing plant from standard-size shingles to metric. This enabled CertainTeed to introduce the "Big Bonus" Shingle to the Southwestern market. Eventually, all of the Company's roofing production will be switched to the new size. Because the metric shingles are bigger, there are fewer shingles per square. This allows contractors and consumers to realize labor cost reductions in excess of 15 percent. CertainTeed was the first national manufacturer to implement this size change. It has been well-received in the marketplace.

Growth Continues in Vinyl Building Products

Vinyl siding continued its strong growth and set records in sales and operating profits. At the same time, production was at an all-time high.

Although the total siding market was down because of the drop in new construction, the remodeling segment of the business, the major outlet for vinyl siding, remained strong.

Vinyl building products highlights during the year included initial siding shipments to the mobile home industry and the introduction of two products—an all-vinyl replacement window profile for the home improvement market and a 12-inch vinyl soffit. A ninth vinyl siding color was added, giving CertainTeed the broadest color line in the industry.

Since its entry into the vinyl siding business in 1969, the Company has made continued progress and has assumed a leading role in this growth industry.

Building Materials Distribution Business Down

A decline in new construction of about 20 percent in Texas impacted Cameron Wholesale, our building materials distribution operation in the Southwest, during 1979. Sales and profits for the year fell below the record results achieved in 1978. Cameron markets wood doors and windows and a variety of millwork products provided by the Ideal Division. It also distributes more than 180 other building product lines, including CertainTeed insulation and roofing.

Its business was affected further by extremely poor weather conditions in the first half of the year, an unfavorable usury limit on home mortgages in Texas and profit margins that were impacted by increased competition for the new construction market.

Ideal millwork introduced several new products in 1979, including a line of decorative entrance doors and an energy-efficient patio door system.

Results of the fiber glass products industry segment in 1979 were below levels of performance achieved the prior year.

Energy Costs Affect Insulation Business

The fiber glass insulation industry, after experiencing two years when demand exceeded capacity, entered a soft market situation in 1979. CertainTeed business was down substantially in the first six months but made a strong recovery in the second half. A boost in retrofit activity arising from escalating fuel costs produced additional sales demand.

CertainTeed's position in the residential insulation market was enhanced by the opening of the Chowchilla, California, fiber glass insulation plant and the introduction of Insul-Safe II.

Chowchilla came on stream in May and represents the latest in manufacturing and environmental control technology. The plant utilizes the Super-Tel fiberizing process, which provides efficiency and cost benefits over the standard Tel process.

Insul-Safe II, a proprietary blown insulation product, has been well-accepted in all sections of the country. It is the first fiber glass product specifically designed for pneumatic installation in attics. It has a thermal performance that exceeds conventional fiber glass blowing wools. Insul-Safe II is being produced at Athens, Georgia, and Kansas City, Kansas, and in 1980 will be manufactured at Chowchilla.

Limited pricing activity and rapidly escalating raw material costs had a negative impact on residential insulation. The cost of bonding resin, a petrochemical derivative, increased more than 30 percent in 1979. Furthermore, freight and utility cost increases were substantial.

Industrial insulation operations were unfavorable. As in the residential area, pricing and cost pressures were detrimental. Inadequate pipe insulation capacity further hindered performance. Production lost by the forced sale of the Shelbyville, Indiana, plant in 1978 was not replaced totally in 1979 as planned. The pipe insulation modernization and upgrading program was not completed on schedule because of a delay in equipment design. When completed in 1980, the new, advanced technology and added capacity will place CertainTeed in a strong competitive position.

Automotive insulation sales volume and operating profit declined in 1979 due to the severe conditions affecting the automotive industry during the second half of the year. Large inventories caused sizable production curtailments by all major auto producers.

Emphasis on New Reinforcement Products

Demand for fiber glass reinforcement products fell about 4 percent below the 1978 level. While industry sales were up 13 percent over the prior year during the first half of 1979, a substantial decrease in comparison with 1978 occurred during the latter part of the year. This softness, expected to continue into 1980, resulted in a decision to reduce our operation to two furnaces. The Company's reinforcements product sales results in 1979 exceeded the industry's performance and market share improvement continued.

Emphasis was directed at the development of products for high-performance applications in reinforced thermoset and thermoplastic resins. During the year, new products were introduced for reinforcement of thermoplastic polyester, polypropylene and polycarbonate resin systems. In addition, a direct roving product, R-099, was made available for use in filament winding and woven roving applications.

During 1979, construction at the Wichita Falls, Texas, facility was completed.

Piping products dollar sales increased over 1978's record results but profits declined modestly. Unit volumes were similar to the prior year.

Strong Performance in PVC Pipe

PVC pipe showed improvement despite an escalation of over 30 percent in the price for resin and monomer, important raw materials.

PVC municipal water pipe, sewer pipe and electrical conduit all showed substantial sales gains during the year.

The production of large diameter PVC sewer and irrigation pipe in 18-, 21- and 24-inch sizes and introduction of well products for testing purposes last year were significant events. These new product capabilities offer promising prospects. CertainTeed is the only United States producer with the capability to manufacture PVC pipe in diameters greater than 18 inches.

The Company's polymer plant in Lake Charles, Louisiana, operated well above design capacity and set new production records.

Softness Experienced in A/C Pipe Markets

A general softness appeared in A/C pipe markets during 1979. Bad weather in the Northeast, long-lasting rains in the Southwest and a fiber strike impacting West Coast production also influenced A/C performance last year.

Strength was apparent in the A/C storm drain market, particularly on the West Coast. In 1979, CertainTeed became a major factor in this market and benefitted by solid sales and profit gains.

A vinyl seal-coat lining for A/C pressure pipe was made available for the first time. It is used in areas such as the Northeast where highly-acidic waters can affect a pipe's structural integrity. This capacity should trigger growth in water pipe shipments into New England and other selected markets.

Because of shifting markets for A/C pipe, the St. Louis, Missouri, manufacturing facility was closed. Expansion at the Hillsboro, Texas, plant was completed, doubling that plant's A/C pipe capacity and providing the capability to better service the growing Southwestern market.

CertainTeed made inroads in the international marketplace, an area that is expected to represent about 15 percent of the Company's A/C pipe sales by 1985. To improve service in the export market, a new, economical epoxy lining capability was developed.

Utility Supply Business Favorable

The Company's national network of wholesale supply operations for water and sewer systems performed extremely well, registering record profits. A slight tightening of the market was felt at year-end since much of this business is tied to housing starts.

Restructuring of operations to allow increased penetration in strong market areas and consolidation of administrative functions contributed to the outstanding results.

Precision Meters, Inc., the successful joint venture in water meters with Pont-à-Mousson, had a significant increase in sales and profits.

Futures

Most markets in which CertainTeed participates are projected to experience above average growth over the next five years. Emphasis on remodeling, energy conservation and clean water augur well for our businesses.

A healthy level of housing activity is forecast for the coming decade and is cause for optimism. Throughout the 1970s, housing starts averaged 1.7 million units per year. Based upon demographic factors, it is estimated that the annual average over the next 10 years will be about 2 million.

Economic constraints will challenge businesses in 1980. Beyond that, CertainTeed expects to resume its upward movement and benefit from the technological improvements and increased capacity resulting from the major capital program completed in 1979.

Building Materials

An annual growth rate of nearly 3 percent has been projected for the roofing industry through 1985. Opportunities for CertainTeed's growth in this business, however, are more substantial. This is due to the continuing trends toward superior performance top-of-the-line and fiber glass-based products, in addition to consumer preference for the new, labor-saving, metric-size shingle. CertainTeed's leadership in innovative roofing designs and Saint-Gobain's technological expertise in fiber glass position the Company well in this industry. In addition, eventual conversion of existing facilities companywide to metric shingles will increase capacity, enabling CertainTeed to meet the requirements anticipated during the decade of the '80s.

Cameron Wholesale, our building materials distribution business, is situated in the fastest growing region in the country—the Southwest. We expect strong performance from Cameron in the '80s.

Vinyl siding continues to expand its share of the industry and the outlook for the next several years is bullish with 15 percent growth predicted annually. Vinyl is gaining market share at the expense of energy-intensive aluminum products. In 1980, it is expected that vinyl siding will experience an increase in shipments of about 10 percent, while aluminum is forecast to decline. Capacity has been added at company facilities in McPherson, Kansas, and Hagerstown, Maryland, to keep pace with this rapid movement.

Potential in vinyl building products has been magnified by the introduction in 1979 of vinyl profiles for replacement windows. The energy-conserving, acoustical and maintenance-free features of this new product contribute to the annual industry growth rate in excess of 25 percent expected through 1985. Other additions to the vinyl building products line are planned as acceptable innovations are developed and market conditions allow.

Fiber Glass Products

Revived interest in energy conservation to effect dollar-savings as well as to reduce U.S. dependence on oil imports will positively influence demand for insulation products. In the residential sector, government incentives, federal agency reinsurance programs and increased recommended levels of thermal efficiency will sustain growth in this market through the '80s. Application of upgraded thermal efficiency recommendations alone would serve to almost double insulation requirements per unit. CertainTeed's new, unique Insul-Safe II with superior thermal and fire safety performance will provide the Company with a competitive edge.

While slower growth is foreseen in non-residential construction, industrial and commercial insulation will be spurred by a rise in reinsurance activity. Medium- and high-temperature industrial insulation requirements, in particular, are predicted to expand as a result of greater payback based upon spiraling energy costs.



Commercial insulation products are expected to experience an annual growth rate exceeding 7 percent over the next five years.

Despite the trend toward smaller cars for energy efficiency, it is estimated that renewed activity in automotive sales will prompt an 8 percent increase per year in automotive insulation needs through 1985. Smaller cars require greater acoustical treatment because of the use of smaller, high-speed engines and the proximity of passengers to noise sources.

Continued fiber glass reinforcements product line expansion, especially in the area of engineered products and filament wound applications, will open new avenues for CertainTeed sales in 1980 and beyond. CertainTeed's development efforts in 1979 will result in the introduction of additional high performance products in 1980, including a second generation chopped strand for nylon reinforcement, products for filament winding of polyester resin systems and a sheet molding compound roving designed specifically for automotive applications.

Following a slight decline in the fiber glass reinforcements market in 1980, a strong recovery is predicted in 1981. The fastest growing consumer of fiber glass reinforced products (FRP) is the land transportation industry. FRP usage in this market segment is forecast to triple by 1985. The construction and marine markets also are important growth areas. Overall, a 10 percent annual industry expansion rate is anticipated over the next four years.

Piping Products

A/C and PVC piping products have advanced at an accelerated pace, supplanting higher cost, more traditional materials.

The domestic market for A/C pipe is mature and stable with modest growth forecast. Export opportunities, however, are sizable and are presently being developed. PVC pipe is slated to move ahead substantially. An exciting new business for CertainTeed is in the water well markets—farm, irrigation, industrial and municipal. During the first half of 1980, CertainTeed will begin full-scale production of its new line of PVC well products. Large diameter irrigation and sewer pipe will open new markets and represent other important opportunities. PVC pipe is a high-growth market forecast to expand at the rate of 10 percent per year for the six-year period ending in 1985. Export potential for PVC pipe also is considerable.

CertainTeed—An Optimistic Future

The future remains the focal point toward which company activities are being directed. Market research, technological advancements, and product development and innovations will result in CertainTeed being a growth company in the '80s. We will continue to give priority to strengthening our core businesses and providing our customers with quality products developed to meet ever-changing market needs.

Financial Summary

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Key Statistics

	1969	1970	1971	1972	1973	1974
Continuing Operations:						
(All Dollars in Millions)						
Net sales	\$223.5	\$253.6	\$328.0	\$391.6	\$476.2	\$559.1
Income from continuing operations	\$ 6.7	\$ 4.0	\$ 15.2	\$ 22.9	\$ 26.5	\$ 13.4
Depreciation and amortization	\$ 5.4	\$ 8.7	\$ 9.3	\$ 11.1	\$ 13.3	\$ 16.7
Cash flow from continuing operations	\$ 12.1	\$ 12.7	\$ 24.5	\$ 34.0	\$ 39.8	\$ 30.1
Capital expenditures	\$ 11.8	\$ 9.6	\$ 12.9	\$ 19.8	\$ 56.3	\$ 58.2
Dollars Per Common Share (A):						
Primary earnings from continuing operations	\$.67	\$.36	\$ 1.53	\$ 2.05	\$ 2.31	\$ 1.04
Cash dividends	\$.40	\$.40	\$.40	\$.43	\$.53	\$.60
Book value (B)	\$ 9.92	\$ 9.56	\$10.81	\$13.81	\$15.22	\$13.74
Year-End Financial Position:						
(All Dollars in Millions)						
Property, plant and equipment—net	\$ 56.6	\$ 80.3	\$ 83.8	\$ 93.3	\$139.5	\$178.6
Total assets	\$155.1	\$189.1	\$221.9	\$272.8	\$370.9	\$391.7
Total interest-bearing debt	\$ 16.1	\$ 45.3	\$ 50.8	\$ 47.4	\$107.4	\$124.6
Stockholders' equity (C)	\$109.9	\$106.6	\$120.9	\$175.1	\$198.3	\$206.1
Performance Data:						
(Continuing operations)						
Return on sales	3.0%	1.6%	4.6%	5.8%	5.6%	2.4%
Return on beginning equity (C)	6.3%	3.6%	14.2%	18.9%	15.1%	6.8%
Return on invested capital (D)	6.0%	4.3%	10.9%	14.2%	13.5%	6.8%
Stockholders and Shares (A):						
Stockholders of record—year-end	8,762	9,941	8,769	8,768	10,123	10,690
Average common shares outstanding and equivalents (in thousands)	8,773	8,993	9,462	10,845	11,235	11,946
Common share price range	18¼-9½	13¾-6%	24¼-11¼	30¾-19½	22¾-12½	19¾-6%

(A) Adjusted for 2:1 stock split consummated August 1, 1972.

(B) Stockholders' Equity less liquidation preference of the Preferred shares divided by Common shares outstanding and issuable at year-end.

(C) Stockholders' Equity for 1977 and subsequent years includes \$40 million of Redeemable Preferred Stock. Return on beginning equity is 17.7% in 1978 and 6.3% in 1979 when Redeemable Preferred Stock is excluded from Stockholders' Equity.

(D) Income from continuing operations adjusted for net interest expense divided by Stockholders' Equity plus total interest-bearing debt at beginning of year.

1975	1976	1977	1978	1979
\$553.0	\$665.0	\$818.1	\$895.4	\$916.2
\$ 29.6	\$ 36.6	\$ 54.2	\$ 54.4	\$ 23.6
\$ 18.0	\$ 20.1	\$ 26.4	\$ 32.9	\$ 44.9
\$ 47.6	\$ 56.7	\$ 80.6	\$ 87.3	\$ 68.5
\$ 30.9	\$ 60.7	\$ 81.4	\$145.5	\$ 86.5
\$ 2.08	\$ 2.51	\$ 3.68	\$ 3.49	\$ 1.39
\$.60	\$.65	\$.71	\$.80	\$.90
\$15.03	\$17.01	\$20.22	\$22.84	\$23.26
\$190.4	\$232.1	\$287.5	\$395.8	\$433.8
\$428.9	\$474.8	\$611.3	\$669.7	\$720.3
\$127.4	\$134.3	\$137.4	\$144.3	\$194.1
\$216.4	\$245.7	\$330.5	\$368.1	\$373.9
5.4%	5.5%	6.6%	6.1%	2.6%
14.4%	16.9%	22.1%	16.5%	6.4%
10.8%	12.4%	15.9%	12.9%	6.8%
10,957	9,569	9,944	9,987	9,819
13,962	14,559	14,666	14,739	14,758
16½- 7½	22- 15½	28½- 19%	24½- 16	19- 14½

	Compounded Annual Growth Rates	
Continuing Operations:	10 Year	5 Year
	1969-1979	1974-1979
Net sales	15.2%	10.4%
Income from continuing operations	13.4%	12.0%
Depreciation and amortization	23.6%	21.9%
Cash flow from continuing operations	18.9%	17.9%
Capital expenditures	22.0%	8.3%
Dollars Per Common Share:		
Primary earnings from continuing operations	7.6%	6.0%
Cash dividends	8.5%	8.5%
Book value	8.9%	11.1%
Year-End Financial Position:		
Property, plant and equipment—net	22.6%	19.4%
Total assets	16.6%	13.0%
Total interest-bearing debt	28.3%	9.3%
Stockholders' equity	13.0%	12.7%

F-3

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Management's Discussion and Analysis of the Summary of Operations

Net sales rose 2% in 1979 from 1978. The increase is more than accounted for by pricing actions between the two periods.

For the fiber glass segment, there were significant volume increases in residential insulation in the second half of the year as demand for these products was very strong; however, soft demand for these same products in the first half of 1979 contributed to the lower sales dollars.

Shipments were aided in 1979 by the opening of a new insulation manufacturing facility on the West Coast in May and the introduction of full-scale production of Insul-Safe at two plants. A major reason for the fiber glass sales decline was volume decline of higher priced industrial insulation products due to the discontinuance of an insulation resale agreement related to the 1978 Shelbyville sale and demand softness for automotive insulating products. Shipments of fiber glass reinforcements increased in 1979 although the market was weak in the fourth quarter.

Demand for the Company's manufactured building materials products increased slightly in 1979 due primarily to record vinyl siding shipments. Roofing material volumes generally held 1978 levels while housing starts declined approximately 13% nationally. The Company's building materials distribution business in Texas was adversely affected by weather conditions and availability of mortgage funds due to Texas usury laws.

Overall piping products volumes were approximately equal in 1979. Record PVC pipe shipments were offset by softer demand for A/C pipe products and the closing of a manufacturing facility in St. Louis. In addition, volumes were down for our jobber distribution business due to lower construction activity.

Net sales in 1978 increased 9% from 1977 due primarily to higher prices and supported by higher volumes. Selling price increases in 1978 were generally pass-throughs of higher raw material and production costs. Volumes improved due to 1978's brisk construction activity.

Cost of goods sold as a percent of sales increased about 5% from 1978. Competitive pressures did not allow a full pass-through of raw material cost increases and were a primary cause for the increase. Costs for petroleum-based materials used by the Company were

most noticeably above the 1979 inflation rate. Since the Company uses LIFO to value its inventories, the current costs are charged against current sales. Higher depreciation costs associated with new manufacturing facilities, particularly in the fiber glass products segment, increased 1979 production costs by more than 1% as a percent of sales. In addition, start-up costs associated with these new facilities adversely affected production costs.

In 1978 the cost of goods sold increased as a percent of sales from 1977 due to raw material and product cost increases not fully offset by pricing. Work stoppages at key insulation and roofing facilities coupled with plant downtime required to expand fiber glass capacity resulted in a lower absorption of 1978's fixed costs. Another factor increasing cost as a percent of sales was a substantial increase in depreciation costs due to the start-up of new manufacturing facilities.

Selling and administrative expenses increased 7% in 1979 from 1978 and were up 1% as a percent of sales. The increase reflects inflation and more marketing and direct selling activity while markets being serviced were generally weaker. Interest expense increased nearly \$10 million from 1978 when expenses were partially offset by short-term interest income from funds designated for upcoming capital programs. A substantially higher interest rate in 1979 on a higher borrowing level than in 1978 further contributed to the increased expense.

Other income in 1978 included a gain realized from the sale of an insulation facility in Shelbyville, Indiana, as required by the U.S. Justice Department. Excluding this transaction, other income was virtually unchanged from 1978.

The Company's provision for income taxes includes current and deferred income taxes, less the effect of investment tax credits. The effective rate in 1979 declined from 1978 due to substantially lower earnings and a slightly higher investment tax credit. This rate in 1978 declined from 1977 primarily due to an increase in investment tax credit.

Adversely affecting profits in both years were provisions made for losses associated with discontinued operations.

Additional comments regarding 1979 operations and results may be found in the Letter to the Shareholders and other sections of this report.

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Stock Market Information

		1979			1978		
		High	Low	Dividends Paid	High	Low	Dividends Paid
The prices of the Company's Common Stock on the New York Stock Exchange and dividends paid during 1979 and 1978 are as follows:	1st Quarter	18 3/8	16	\$.225	23 3/8	18 3/8	\$.20
	2nd Quarter	17 1/8	15 1/4	\$.225	24 1/2	19 3/8	\$.20
	3rd Quarter	18 3/4	16	\$.225	22 7/8	19 1/8	\$.20
	4th Quarter	19	14 1/8	\$.225	24 7/8	16	\$.20

CTD036837

Five Year Summary of Operations

Consolidated Summary of Operations
Five years ended December 31, 1979
Dollars in thousands, except for per share data

	1975	1976	1977	1978	1979
Net sales	<u>\$552,980</u>	<u>\$665,045</u>	<u>\$818,086</u>	<u>\$895,409</u>	<u>\$916,204</u>
Cost of goods sold	<u>427,691</u>	<u>517,221</u>	<u>629,758</u>	<u>714,857</u>	<u>776,143</u>
Selling and administrative expenses	<u>63,934</u>	<u>72,480</u>	<u>80,827</u>	<u>90,016</u>	<u>97,367</u>
	<u>491,625</u>	<u>589,701</u>	<u>710,585</u>	<u>804,873</u>	<u>873,510</u>
	<u>61,355</u>	<u>75,344</u>	<u>107,501</u>	<u>90,536</u>	<u>42,694</u>
Interest expense	<u>(13,632)</u>	<u>(13,149)</u>	<u>(13,924)</u>	<u>(13,801)</u>	<u>(22,431)</u>
Interest income	<u>1,295</u>	<u>1,194</u>	<u>1,402</u>	<u>1,838</u>	<u>855</u>
	<u>(12,337)</u>	<u>(11,955)</u>	<u>(12,522)</u>	<u>(11,963)</u>	<u>(21,576)</u>
Other income, net	<u>2,218</u>	<u>4,663</u>	<u>2,422</u>	<u>10,403</u>	<u>2,562</u>
Income from continuing operations before income taxes	<u>51,236</u>	<u>68,052</u>	<u>97,401</u>	<u>88,976</u>	<u>23,680</u>
Income taxes	<u>21,589</u>	<u>31,419</u>	<u>43,218</u>	<u>34,550</u>	<u>143</u>
Income from continuing operations	<u>29,647</u>	<u>36,633</u>	<u>54,183</u>	<u>54,426</u>	<u>23,537</u>
Losses from discontinued operations, net of income taxes	<u>(10,153)</u>			<u>(3,548)</u>	<u>(1,289)</u>
Net income	<u>19,494</u>	<u>36,633</u>	<u>54,183</u>	<u>50,878</u>	<u>22,248</u>
Dividend requirements on preferred stock ..	<u>560</u>		<u>144</u>	<u>3,050</u>	<u>3,050</u>
Net income applicable to Common Stock and equivalents	<u>\$ 18,934</u>	<u>\$ 36,633</u>	<u>\$ 54,039</u>	<u>\$ 47,828</u>	<u>\$ 19,198</u>
Earnings per common share:					
Primary:					
Income from continuing operations ...	<u>\$2.08</u>	<u>\$2.51</u>	<u>\$3.68</u>	<u>\$3.49</u>	<u>\$1.39</u>
(Loss) from discontinued operations ...	<u>(.72)</u>			<u>(.24)</u>	<u>(.09)</u>
Net income	<u>\$1.36</u>	<u>\$2.51</u>	<u>\$3.68</u>	<u>\$3.25</u>	<u>\$1.30</u>
Fully diluted:					
Income from continuing operations ...	<u>\$1.99</u>	<u>\$2.51</u>	<u>\$3.68</u>	<u>\$3.49</u>	<u>\$1.39</u>
(Loss) from discontinued operations ...	<u>(.68)</u>			<u>(.24)</u>	<u>(.09)</u>
Net income	<u>\$1.31</u>	<u>\$2.51</u>	<u>\$3.68</u>	<u>\$3.25</u>	<u>\$1.30</u>
Cash dividends per common share	<u>\$.60</u>	<u>\$.65</u>	<u>\$.71</u>	<u>\$.80</u>	<u>\$.90</u>

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CTD036838

Consolidated Statement of Changes in Financial Position

CertainFeed Corporation and Consolidated Subsidiaries
Years ended December 31, 1979 and 1978

	1979	1978
Funds Provided From:		
Income from continuing operations	\$23,537,000	\$ 54,426,000
Add/(deduct) items not affecting working capital:		
Depreciation	43,478,000	31,416,000
Amortization of patents and other intangibles	1,376,000	1,475,000
Deferred taxes	7,521,000	(1,016,000)
Other	(671,000)	2,647,000
Funds provided by continuing operations	75,241,000	88,948,000
Net book value of insulation plant sold		7,800,000
Increase in long-term debt	31,268,000	13,132,000
Exercise of Common Stock options and related tax credits	92,000	1,756,000
Net book value of property, plant and equipment disposals	5,001,000	1,589,000
Decrease/(increase) in other assets	2,063,000	(2,544,000)
Other changes, net	1,995,000	163,000
Total funds provided	115,660,000	110,844,000
Funds Used For:		
Additions to property, plant and equipment	86,484,000	145,514,000
Dividends	16,522,000	15,128,000
Reduction of long-term debt	9,744,000	10,943,000
Losses from discontinued operations	776,000	1,548,000
Total funds used	113,526,000	173,133,000
Increase/(Decrease) in Working Capital	\$ 2,134,000	\$(62,289,000)
Increase/(Decrease) in Working Capital by Element:		
Cash and short-term investments	\$ (5,661,000)	\$(68,212,000)
Refundable Federal income taxes	11,201,000	
Accounts and notes receivable	4,954,000	14,185,000
Inventories	4,822,000	6,088,000
Accounts payable, accrued expenses and sundry liabilities	11,917,000	(28,829,000)
Accrued Federal income taxes	1,167,000	19,087,000
Notes payable and current installments of long-term debt	(26,266,000)	(4,608,000)
Increase/(Decrease) in Working Capital	\$ 2,134,000	\$(62,289,000)

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The accompanying notes are an integral part of this statement.

CTD036839

Consolidated Statement of Income

CertainTeed Corporation and Consolidated Subsidiaries
Years ended December 31, 1979 and 1978

	1979	1978
Net sales	<u>\$916,204,000</u>	<u>\$895,409,000</u>
Cost of goods sold	776,143,000	714,857,000
Selling and administrative expenses	97,367,000	90,016,000
Interest expense (\$22,431,000 and \$13,801,000), net of interest income	21,576,000	11,963,000
Gain on sale of insulation plant		(7,815,000)
Other income, net of deductions	<u>(2,562,000)</u>	<u>(2,588,000)</u>
	<u>892,524,000</u>	<u>806,433,000</u>
Profit before income taxes	23,680,000	88,976,000
Income tax provision	<u>143,000</u>	<u>34,550,000</u>
Income from continuing operations	23,537,000	54,426,000
Losses from discontinued operations, net of income taxes—Note 2	<u>1,289,000</u>	<u>3,548,000</u>
Net income	<u>\$ 22,248,000</u>	<u>\$ 50,878,000</u>
Primary and fully diluted earnings per common share—Note 1:		
Continuing operations	<u>\$1.39</u>	<u>\$3.49</u>
Net income	<u>\$1.30</u>	<u>\$3.25</u>

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The accompanying notes are an integral part of this statement.

CTD036840

Consolidated Balance Sheet

CertainTeed Corporation and Consolidated Subsidiaries
at December 31, 1979 and 1978

	1979	1978
ASSETS		
Current Assets:		
Cash	\$ 6,748,000	\$ 7,678,000
Short-term investments, at cost (approximate market)	325,000	5,056,000
Refundable Federal income taxes—Note 4	11,201,000	
Accounts and notes receivable	134,889,000	128,568,000
Less: Allowances for doubtful receivables (\$2,174,000 and \$2,151,000) and discounts and allowances	6,603,000	5,236,000
	<u>128,286,000</u>	<u>123,332,000</u>
Inventories—Note 1:		
Raw materials and supplies	31,678,000	26,765,000
Work in process	9,719,000	9,348,000
Finished goods	72,606,000	73,068,000
	<u>114,003,000</u>	<u>109,181,000</u>
Total current assets	<u>260,563,000</u>	<u>245,247,000</u>
Investments in Affiliates	<u>11,085,000</u>	<u>10,311,000</u>
Noncurrent Receivables, Deferred Charges and Other Assets	<u>6,740,000</u>	<u>8,937,000</u>
Property, Plant and Equipment, at cost—Notes 1 and 3:		
Land	9,239,000	8,895,000
Buildings	121,994,000	105,305,000
Equipment	445,723,000	334,171,000
Construction in progress	40,905,000	97,444,000
	<u>617,861,000</u>	<u>545,815,000</u>
Less: Accumulated depreciation	<u>184,064,000</u>	<u>150,023,000</u>
	<u>433,797,000</u>	<u>395,792,000</u>
Intangible Assets, at amortized cost, principally patents	<u>8,141,000</u>	<u>9,384,000</u>
	<u>\$720,326,000</u>	<u>\$669,671,000</u>

The accompanying notes are an integral part of this statement.

CTD036841

	1979	1978
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	\$ 78,661,000	\$ 96,105,000
Accrued Federal income taxes	5,581,000	6,748,000
Accrued expenses and sundry liabilities	39,003,000	33,476,000
Notes payable and current installments of long-term debt—Note 3	<u>35,337,000</u>	<u>9,071,000</u>
Total current liabilities	<u>158,582,000</u>	<u>145,400,000</u>
Long-Term Debt, less current installments—Note 3	<u>158,798,000</u>	<u>135,272,000</u>
Deferred Federal Income Taxes	<u>20,256,000</u>	<u>10,734,000</u>
Other Noncurrent Liabilities	<u>8,824,000</u>	<u>10,217,000</u>
Contingencies and Commitments—Note 10		
Redeemable Preferred Stock—Note 7		
Series D, \$1 par value, issued and outstanding 1,600,000 shares (\$25 per share liquidation preference and mandatory redemption price)	<u>40,000,000</u>	<u>40,000,000</u>
Non-Redeemable Preferred Stock—Note 8		
Series C Convertible, \$1 par value, issued and outstanding 1,000,000 shares (liquidation preference \$20,000,000)	<u>1,000,000</u>	<u>1,000,000</u>
Common Stock—Notes 6, 8 and 9		
\$1 par value, authorized 20,000,000 shares, issued 13,453,334 and 13,407,334 shares and issuable 40,000 and 80,000 shares	<u>13,493,000</u>	<u>13,487,000</u>
Capital in Excess of Par Value—Notes 6 and 9	<u>105,686,000</u>	<u>105,600,000</u>
Retained Earnings—Notes 3 and 9	<u>213,687,000</u>	<u>207,961,000</u>
	<u>\$720,326,000</u>	<u>\$669,671,000</u>

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CTD036842

Notes to Consolidated Financial Statements

Note 1—Significant Accounting Policies:

Principles of Consolidation

The accompanying financial statements include the accounts of CertainTeed Corporation and all significant subsidiaries. Investments in affiliates include 20% to 50% owned entities carried on the equity method.

Inventories

Inventories are stated at the lower of cost, principally last-in, first-out (LIFO), or market. If inventories were shown at current cost (determined principally by the average cost method) rather than at LIFO, inventories would have been \$37,688,000 and \$26,828,000 higher than reported at December 31, 1979 and 1978, respectively.

Depreciation

Depreciation on plant and equipment, including depreciation of capitalized leased assets, is computed by the straight-line and double-declining balance methods based on estimated useful lives of the assets which are generally 3 to 20 years for equipment and 10 to 45 years for buildings and improvements.

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 principally by the straight-line method and for income tax reporting by accelerated methods. Useful lives used in the computations are approximately the same for both financial and income tax reporting. 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 \$1,225,000 is being amortized over the next 7 years. The \$1,360,000 excess of the Company's carrying amount of investments in affiliates over its equity in their net assets is being amortized over the next 17 years. Preoperating expenses related to new facilities and research and development costs are expensed as incurred.

Interest Cost

All interest cost has been expensed as incurred through December 31, 1979.

Pension Plans

The Company has several pension plans covering substantially all employees. Charges to income for pension costs were \$6,200,000 in 1979 and \$6,700,000 in 1978, and include amortization of past service costs over 30 years. The cost for 1978 includes the cost of early retirements of participants in the Executive Retirement Plan. The unfunded past service costs of the principal pension plans aggregate \$17,600,000 at December 31, 1979. At such date, the actuarially computed value of vested benefits under these plans exceeded the pension plan assets and balance sheet accrual by \$6,000,000. It is the Company's policy to fund pension costs accrued, except for costs under the Executive Retirement Plan.

Earnings Per Common Share

Primary and fully diluted 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.

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 asbestos-cement piping and the jobber distribution of pipe and pipe system components.

Reference is made to the separate schedule included in this report on page F-18 entitled "Financial Information About Industry Segments". The information included in that schedule for 1979 and 1978 is an integral part of the financial statements.

Note 2—Discontinued Operations:

	1979	1978
Provision for additional loss on disposition of real estate operations discontinued in a prior year (less applicable income taxes of \$3,548,000)(a)		\$3,548,000
Loss under indemnification of certain real estate loans (less applicable income taxes of \$1,224,000) (b)	\$1,289,000	
	<u>\$1,289,000</u>	<u>\$3,548,000</u>

(a) The 1975 consolidated financial statements of the Company included a provision for estimated loss on disposition of real estate development operations which were subsequently sold in 1976. As a condition of the sale, the Company was obligated to guarantee certain liabilities of the buyer. The buyer's business and its ability to finance its operations were not as successful as anticipated and the Company recorded a loss under these guarantees in 1978.

(b) During 1979 the Company sustained losses under an agreement with Builders Investment Group as explained in Note 10 (a).

Note 3—Debt:

At December 31, 1979, the Company had \$131,000,000 of unsecured evergreen lines of credit available to support its commercial paper and to ensure the availability of funds.

Of this amount \$31,000,000 consists of separate agreements with 13 banks which renew annually unless terminated by either party. The balance consists of separate agreements with 10 banks of \$10,000,000 each, in which credit is available for two years after written notice of termination by a participating bank. Five of these agreements were entered into in 1978 and an additional five in 1979. During 1979 the Company terminated a 1973 revolving credit agreement for \$50,000,000. There have been no borrowings under any of these arrangements during the two years ended December 31, 1979.

In February 1979, the Company entered into note agreements with two insurance companies and issued its 9.95% promissory notes in the aggregate principal amount of \$25,000,000 due in 1994, requiring prepayments of \$2,500,000 annually beginning in 1985.

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

	1979	1978
Notes payable with interest at 9.95% to 10.25%—payable through 1995	\$109,440,000	\$ 91,010,000
Obligations under capital leases with interest at 5.25% to 8.875%—payable through 2007	21,505,000	22,833,000
Other, payable through 2009	27,853,000	21,429,000
	<u>\$158,798,000</u>	<u>\$135,272,000</u>

The following summarizes the calculation of the obligations under capital leases of \$21,505,000 shown above:

Net minimum lease payments	
Year ending December 31:	
1980	\$2,864,000
1981	2,696,000
1982	2,903,000
1983	2,509,000
1984	2,096,000
Later Years	24,588,000
Total minimum lease payments	37,656,000
Less: Amount representing estimated executory costs (such as taxes, maintenance and insurance), including profit thereon, included in total minimum lease payments	125,000
Net minimum lease payments	37,531,000
Less: Amount representing interest	14,788,000
	22,743,000
Current installments	1,238,000
Present value of net minimum payments (excluding current installments)	<u>\$21,505,000</u>

Leased equipment under capital leases amounted to \$32,394,000 and \$32,268,000 as of December 31, 1979 and 1978, respectively. The related accumulated depreciation amounted to \$13,597,000 and \$9,888,000.

Required principal payments on long-term debt (excluding capital leases) through 1984 approximate:

During the year:	
1980	\$7,799,000
1981	8,214,000
1982	8,172,000
1983	6,961,000
1984	6,973,000

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. At December 31, 1979, consolidated retained earnings of approximately \$24,614,000 were not restricted as to payments of dividends on Common Stock.

The net book value of property, plant and equipment pledged as collateral under mortgages approximated \$9,705,000 as of December 31, 1979.

Note 4—Income Taxes:

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

	1979	1978
Current Federal income taxes	\$2,521,000	\$40,596,000
Deferred Federal income taxes	7,521,000	(1,016,000)
Investment tax credit	(11,280,000)	(9,857,000)
State income taxes	1,381,000	4,827,000
	<u>\$ 143,000</u>	<u>\$34,550,000</u>

The deferred Federal income taxes applicable to continuing operations primarily result from the excess of tax over book depreciation, the tax effect of which was \$8,174,000 and \$3,368,000 in 1979 and 1978, respectively. However, in 1978 this provision was reduced as a result of prior years' tax deductions disallowed by the IRS which will be deducted in future years and charges for estimated costs not currently deductible for tax purposes. A reconciliation of Federal corporate income taxes at the statutory rate to the Company's income tax provision follows:

	1979	1978
Income tax provision at statutory rate	\$10,893,000	\$42,708,000
Effect of including state income taxes	745,000	2,510,000
Investment tax credit	(11,280,000)	(9,857,000)
Other, net	(215,000)	(811,000)
Income tax provision	<u>\$ 143,000</u>	<u>\$34,550,000</u>

The Company maintains a Tax Reduction Act Stock Ownership Plan ("TRASOP") for eligible employees. The investment tax credit above includes \$1,094,000 in 1979 and \$917,000 in 1978 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.

The Company was eligible for an income tax refund under the investment tax credit carryback provisions of the Federal income tax code in the amount of \$11,201,000 at December 31, 1979.

Note 5—Other Income, Net of Deductions:

	1979	1978
Royalty income	\$1,687,000	\$2,698,000
Income applicable to affiliates	2,492,000	1,313,000
Loss on disposals of property, plant and equipment, net	(853,000)	(301,000)
Provision for shutdown expenses of pipe plant	(260,000)	(2,670,000)
Gain/(loss) on sale of investment in affiliate	(128,000)	1,111,000
Other, net	(376,000)	437,000
	<u>\$2,562,000</u>	<u>\$2,588,000</u>

Note 6—Stock Options:

Changes during 1979 and 1978 pursuant to stock option plans for officers and key employees are as follows:

	Number of Shares	
	1979	1978
Outstanding at beginning of year	53,250	192,290
Options exercised	(6,000)	(109,300)
Options lapsed and expired	(5,000)	(29,740)
Outstanding at end of year	<u>42,250</u>	<u>53,250</u>
Options exercisable at end of year	<u>42,250</u>	<u>53,250</u>
Options subject to future grant	<u>122,790</u>	<u>122,790</u>

Per share prices of outstanding options ranged from \$7.01 to \$17.25 as of December 31, 1979 and 1978. Per share prices of options exercised in 1979 were \$13.60 and ranged from \$7.01 to \$18.25 in 1978.

Outstanding nonqualified stock options included above with option prices equal to 85% of market value on the date of grant are for 31,000 shares and 37,000 shares as of December 31, 1979 and 1978, respectively.

Note 7—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 \$4,000,000 commencing on January 1, 1983 through January 1, 1987, and the remaining \$20,000,000 on January 1, 1988. The Company's parent, Compagnie de Saint-Gobain-Pont-à-Mousson ("SGPM"), owns 880,000 of these shares (55%).

Note 8—Non-Redeemable Preferred Stock:

The Series C Convertible Preferred Stock is entitled to one vote per share, is owned by SGPM 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. Assuming conversion of this stock, SGPM ownership would increase to 55% from 54% of the total voting shares of stock.

Note 9—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 two years ended December 31, 1979 are as follows:

	Common Stock Issued and Issuable	Capital in Excess of Par Value	Retained Earnings
Balance at December 31, 1977	\$13,378,000	\$103,953,000	\$172,211,000
Net income			50,878,000
Tax credits related to stock options		386,000	
Exercise of stock options	109,000	1,261,000	
Dividends declared:			
Common stock (\$.80 per share)			(10,678,000)
Series C Convertible Preferred Stock (\$1.40 per share)			(1,400,000)
Series D Preferred Stock (\$1.91 per share)			(3,050,000)
Balance at December 31, 1978	13,487,000	105,600,000	207,961,000
Net income			22,248,000
Tax credits related to stock options		11,000	
Exercise of stock options	6,000	75,000	
Dividends declared:			
Common stock (\$.90 per share)			(12,072,000)
Series C Convertible Preferred Stock (\$1.40 per share)			(1,400,000)
Series D Preferred Stock (\$1.91 per share)			(3,050,000)
Balance at December 31, 1979	<u>\$13,493,000</u>	<u>\$105,686,000</u>	<u>\$213,687,000</u>

In a prior year the Company acquired certain patents, patent applications and related license agreements from SGPM in exchange for 780,000 shares of the Company's Common Stock. As of December 31, 1979, 40,000 of these shares are issuable on December 31, 1980.

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Note 10—Contingencies, Commitments and Other Matters

(a) During 1977, the Company entered into an agreement with Builders Investment Group ("BIG") to settle a legal action and various other claims between BIG and the Company. Pursuant to its terms, the Company agreed to indemnify BIG against specified losses it may sustain in connection with certain real estate loans. The Company's maximum exposure under the indemnity is limited to \$6,500,000 and would be funded, if and as required, by the issuance prior to January 1981 of the Company's long-term subordinated 10% debentures. The Company has issued debentures for \$2,003,000 and provided a reserve for an additional \$510,000 representing uncontested claims under this indemnity agreement at December 31, 1979. In connection with the settlement of other litigation related to BIG, the Company may also be required to issue up to \$600,000 of debentures. It is management's opinion that the remaining contingencies will not have a material effect on the Company's operations or financial position.

(b) In 1977, suits were filed against the Company on behalf of Valley Forge Corporation ("VFC"), an unconsolidated subsidiary. In the complaints, VFC seeks an accounting from the Company for debts and losses of at least \$88,000,000 incurred by VFC allegedly by reason of the Company's operations of VFC's business and financial affairs for its own purposes; rescission of VFC's 1972 acquisition of Housing Securities, Inc. from the Company and certain of its former officers or, alternatively, damages of \$24,000,000; an accounting of \$2,500,000 from the Company for funds allegedly diverted for the benefit of the Company; divestiture of the VFC stock owned by the Company and certain other relief. In addition, the Company is a defendant in a suit by a bank creditor of VFC claiming \$2,800,000 plus accrued interest and punitive damages. It is management's opinion, based in part upon the opinion of the Company's counsel, that these actions will not materially affect the Company's operations or financial position.

(c) 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 \$9,800,000 on contract and fraud claims. It is the opinion of the Company's outside counsel in this matter that the verdict is not supportable and will be reversed or, alternatively, that a new trial will be required. 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.

(d) 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.

(e) As of December 31, 1979, approved additions to and replacements of property, plant and equipment approximate \$30,000,000.

(f) In January 1978, in settlement of a civil antitrust suit, the Company sold its industrial fiber glass insulation plant in Shelbyville, Indiana, for \$16,500,000 cash. The transaction resulted in a pre-tax gain of approximately \$7,815,000 which was reflected in the first quarter of 1978 for financial reporting purposes.

Note 11—Effects of Inflation (Unaudited):

As inflation erodes the purchasing power of the dollar, the number of dollars required to replace the Company's existing assets increases. Similarly, the current payment of long-term obligations requires the use of dollars having less purchasing power than those at the time the obligation was incurred. To estimate the effect that general inflation has had on the Company, the following information has been developed by adjusting the related historical amounts by the Consumer Price Index. 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 General Inflation

For the year ended December 31, 1979
(In Average 1979 Dollars)

Income from continuing operations, as reported in the consolidated statement of income ..	\$23,537,000
Adjustments to restate costs for the effect of general inflation:	
Cost of goods sold	\$ 4,205,000
Depreciation	11,775,000
	<u>15,980,000</u>
Income from continuing operations adjusted for general inflation	<u>\$ 7,557,000</u>
Gain from decline of purchasing power of net amounts owed	<u>\$26,179,000</u>

The Company uses the LIFO method to report the principal portion of inventory. The adjustment for the effect of general inflation on cost of goods sold relates to those portions of inventory not reported on the LIFO method.

Five Year Comparison of Selected Supplementary
Financial Data Adjusted for the Effects of General Inflation
(In Average 1979 Dollars)
(Dollars in thousands, except for per share data)

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	Years Ended December 31				
	1975	1976	1977	1978	1979
Net sales	<u>\$745,425</u>	<u>\$847,591</u>	<u>\$979,449</u>	<u>\$995,764</u>	<u>\$916,204</u>
Historical cost information, adjusted for general inflation:					
Income from continuing operations					<u>\$ 7,557</u>
Income from continuing operations per common share					<u>\$.23</u>
Net assets at year-end					<u>\$471,318 (a)</u>
Gain from decline in purchasing power of net amounts owed					<u>\$ 26,179</u>
Cash dividends per common share	<u>\$.81</u>	<u>\$.83</u>	<u>\$.85</u>	<u>\$.89</u>	<u>\$.90</u>
Market price per common share at year-end	<u>\$19.77</u>	<u>\$26.65</u>	<u>\$27.59</u>	<u>\$17.15</u>	<u>\$13.97</u>
Average consumer price index	<u>161.2</u>	<u>170.5</u>	<u>181.5</u>	<u>195.4</u>	<u>217.3 *</u>

(a) The comparable amount on the historical cost basis is \$333,866.

* Estimated

The information above does not necessarily reflect the cost to replace the Company's productive capacity or the effect that such replacement would have on operations. Existing assets would not normally be replaced with identical assets, since matters such as technological and demographic changes would affect their replacement. Due primarily to the effect of inflation on long-lived assets, the replacement of productive capacity would require substantially greater capital investment than was required to purchase the existing assets. The Company's annual report to the Securities and Exchange Commission on Form 10-K (a copy of which is available upon request) contains specific information with respect to the replacement cost of inventories and productive capacity and the approximate effect which these costs would have on operations.

CTD036848

Note 12—Quarterly Data (Unaudited):

	Three Months Ended			
	March 31, 1978	June 30, 1978	September 30, 1978	December 31, 1978
Net sales	<u>\$202,631,000</u>	<u>\$236,859,000</u>	<u>\$241,275,000</u>	<u>\$214,644,000</u>
Gross profit	<u>\$ 40,328,000</u>	<u>\$ 50,792,000</u>	<u>\$ 46,495,000</u>	<u>\$ 42,937,000</u>
Income from continuing operations	<u>\$ 14,672,000(a)</u>	<u>\$ 14,488,000</u>	<u>\$ 12,891,000</u>	<u>\$ 12,375,000</u>
Net income	<u>\$ 14,672,000(a)</u>	<u>\$ 14,488,000</u>	<u>\$ 12,891,000</u>	<u>\$ 8,827,000</u>
Primary and fully diluted earnings per common share:				
Continuing operations	<u>\$.94(a)</u>	<u>\$.93</u>	<u>\$.83</u>	<u>\$.79</u>
Net income	<u>\$.94(a)</u>	<u>\$.93</u>	<u>\$.83</u>	<u>\$.55</u>

	Three Months Ended			
	March 31, 1979	June 30, 1979	September 30, 1979	December 31, 1979
Net sales	<u>\$196,631,000</u>	<u>\$225,288,000</u>	<u>\$263,693,000</u>	<u>\$230,592,000</u>
Gross profit	<u>\$ 30,957,000</u>	<u>\$ 35,240,000</u>	<u>\$ 38,827,000</u>	<u>\$ 35,037,000</u>
Income from continuing operations	<u>\$ 2,186,000</u>	<u>\$ 4,562,000</u>	<u>\$ 8,443,000</u>	<u>\$ 8,346,000</u>
Net income	<u>\$ 2,186,000</u>	<u>\$ 4,300,000</u>	<u>\$ 8,443,000</u>	<u>\$ 7,319,000</u>
Primary and fully diluted earnings per common share:				
Continuing operations	<u>\$.08</u>	<u>\$.26</u>	<u>\$.53</u>	<u>\$.52</u>
Net income	<u>\$.08</u>	<u>\$.24</u>	<u>\$.53</u>	<u>\$.45</u>

(a) The gain resulting from the sale of an insulation plant in January 1978 increased net income by \$4,400,000 and earnings per share by \$.30.

(b) Differences between estimated annualized effective tax rates used during the year and the final effective tax rate resulted in an income tax credit of \$2,228,000 (\$.15 per share) in the quarter ended December 31, 1979.

(c) Although the LIFO reserves increased during the quarter ended December 31, 1979, liquidation of certain inventories at lower costs increased net income by \$706,000 (\$.05 per share).

(d) See Note 2 for details of discontinued operations.

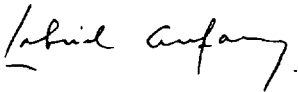
Report of CertainTeed Management

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 Committee 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.



Gabriel Aufaure
President and
Chief Executive Officer



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

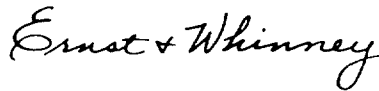
Valley Forge, Pennsylvania
January 18, 1980

Report of Ernst & Whinney, Independent Auditors

To the 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, 1979 and 1978, and the related consolidated statements of income and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the consolidated financial position of CertainTeed Corporation and consolidated subsidiaries at December 31, 1979 and 1978, and the consolidated results of their operations and consolidated changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



New York, New York
January 18, 1980

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Financial Information About Industry Segments

	1975	1976	1977	1978	1979
(Dollars in Millions)	—Unaudited—				
Net Sales:					
Building materials	\$257.8	\$306.8	\$353.6	\$376.7	\$402.8
Fiber glass products	159.4	198.6	258.0	280.2	259.7
Piping products	140.3	166.8	216.5	254.7	275.6
Intersegment sales	(4.5)	(7.2)	(10.0)	(16.2)	(21.9)
	<u>\$553.0</u>	<u>\$665.0</u>	<u>\$818.1</u>	<u>\$895.4</u>	<u>\$916.2</u>
Operating Profit:					
Building materials	\$ 29.3	\$ 37.7	\$ 45.5	\$ 45.8	\$ 42.0
Fiber glass products	29.2	33.1	54.1	31.5	(13.3)
Piping products	8.8	11.9	18.5	27.9	25.9
	<u>67.3</u>	<u>82.7</u>	<u>118.1</u>	<u>105.2</u>	<u>54.6</u>
General corporate expenses	(6.0)	(7.4)	(10.6)	(14.7)	(11.9)
	<u>61.3</u>	<u>75.3</u>	<u>107.5</u>	<u>90.5</u>	<u>42.7</u>
Interest expense, net of interest income	(12.3)	(11.9)	(12.5)	(11.9)	(21.6)
Other income, net	2.2	4.7	2.4	10.4	2.6
Profit before income taxes	<u>\$ 51.2</u>	<u>\$ 68.1</u>	<u>\$ 97.4</u>	<u>\$ 89.0</u>	<u>\$ 23.7</u>
Depreciation and Amortization:					
Building materials	\$ 3.9	\$ 4.2	\$ 4.4	\$ 5.6	\$ 6.6
Fiber glass products	8.1	9.0	13.9	19.3	30.5
Piping products	5.6	6.3	7.0	7.1	6.7
General corporate	.4	.6	1.1	.9	1.1
	<u>\$ 18.0</u>	<u>\$ 20.1</u>	<u>\$ 26.4</u>	<u>\$ 32.9</u>	<u>\$ 44.9</u>
Capital Expenditures:					
Building materials	\$ 5.0	\$ 12.4	\$ 20.8	\$ 15.3	\$ 13.7
Fiber glass products	17.2	38.3	49.6	118.1	58.7
Piping products	6.7	3.4	6.7	8.7	12.5
General corporate	2.0	6.6	4.3	3.4	1.6
	<u>\$ 30.9</u>	<u>\$ 60.7</u>	<u>\$ 81.4</u>	<u>\$145.5</u>	<u>\$ 86.5</u>
Identifiable Assets at end of year:					
Building materials	\$112.1	\$126.9	\$145.7	\$170.1	\$169.3
Fiber glass products	136.1	169.5	218.6	307.6	341.0
Piping products	109.8	116.1	131.3	146.1	159.7
General corporate (includes short-term investments)	70.9	62.3	115.7	45.9	50.3
	<u>\$428.9</u>	<u>\$474.8</u>	<u>\$611.3</u>	<u>\$669.7</u>	<u>\$720.3</u>

*See Note 1 to the Notes to Consolidated Financial Statements.

"Intersegment sales" are fiber glass and piping products (PVC resins).

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

	1975	1976	1977	1978	1979
Building Materials:					
Roofing	27.6%	26.2%	24.5%	25.7%	28.2%
Fiber Glass Products:					
Thermal Insulation	25.0%	25.1%	26.3%	26.0%	23.0%
Piping Products:					
Asbestos-cement and PVC pipe	15.4%	14.7%	15.9%	17.4%	17.7%

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Directors

John T. Gurash
Chairman of the Board
CertainTeed Corporation

Roger Martin
Vice Chairman of the Board
CertainTeed Corporation
Chairman of the Board
Saint-Gobain-Pont-à-Mousson

Gabriel Aufaure
President & Chief Executive Officer
CertainTeed Corporation

Roger Fauroux
President & Chief Executive Officer
Saint-Gobain-Pont-à-Mousson

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

François Grandpierre
Director of Corporate Planning
Saint-Gobain-Pont-à-Mousson

Mary J. Head
Director of AMTRAK

Philippe Malet
President & Chief Executive Officer
Compagnie Financière de Suez

Robert E. McDonald
Vice Chairman
Sperry Corporation

Martin Meyerson
President
University of Pennsylvania

Corporate Officers

Gabriel Aufaure
President & Chief Executive Officer

Franklin R. Winnert
Executive Vice President &
Chief Operating Officer

Myron P. Simmons
Senior Vice President,
General Counsel & Secretary

John E. Zimmerman
Senior Vice President &
Chief Financial Officer

Donald S. Alvin
Vice President
President, Fiber Glass
Reinforcements Division

John H. Ashenfelter
Vice President
Management Resources

Donald S. Huml
Vice President & Treasurer

Lester F. Kaas
Vice President
Administration

John D. Keohane
Vice President
Information Systems

Joseph G. LaCroix
Vice President
President, Shelter Materials Group

Frank J. Marcucci
Vice President
Planning

Jack H. McDowell
Vice President
President, Building Materials
Distribution Group

Theodore F. Merkel
Vice President & Comptroller

Henri A. Thibiant
Vice President
International

Marc Blanchard
Assistant Vice President
Internal Audit

Ronald D. Boldt
Assistant Vice President
Employee Relations

Lawrence J. Mellon, M.D.
Assistant Vice President
Medical Director

John F. Mencer
Assistant Vice President
Taxes

Walfried R. Werner
Assistant Vice President
Government Relations

Michael J. Walsh
Assistant Treasurer

William D. Boyle
Assistant Comptroller

Joseph M. Corr
Assistant Secretary

Thomas A. Decker
Assistant Secretary

Rusch O. Dees
Assistant Secretary

Curtis M. Pontz
Assistant Secretary

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Group Officers

Building Materials

John W. Belt
Clement C. Carfrey
G. Robert Claypool
Allan J. Cunningham
Harold Ewaldsen
V. Dean Fuller
William H. Gates
George A. Hoffmann
William C. Kinsey
Joseph G. LaCroix
James H. Long
Jack H. McDowell
Edward L. Mongold
John A. Rohana
Leonard X. Sadosky
Adrian L. Shaffer
T. G. Smith
John W. Walker
Joseph E. Walker
Gerald M. Waters
Kenneth G. Winnert



Fiber Glass Products

Donald S. Alvin
Jacques Ampolini
Robert E. Boyce
Robert L. Britton
Rene Goutle
Thomas S. Hacklerman
Joseph D. Heim
Paul E. Lenor
A. Peter Norton
Jean Phiquepal
William W. Pitkin
Douglas E. Potter
Carl C. Rue
David E. Sharpe
George E. Warshel
George B. Zurheide



Piping Products

Lloyd C. Ambler
Curtis E. Arnold
Andrew J. Buford
Clifford J. Demarest
Thomas A. Dougherty
Richard B. Herman
Clark A. Huddleston
K. T. Krantz
John P. McGinley
Kenneth E. McKown, Jr.
Glidden O'Connor
Jack B. Tichenor
Fred Timpe
James M. Wait
Neal Woolston



Transfer Agent & Registrar

Manufacturers Hanover Trust Company
4 New York Plaza
New York, New York 10015

Common Stock Listed

New York Stock Exchange
Pacific Stock Exchange

Annual Meeting

The Annual Meeting of Shareholders will be held in April, 1980. Information concerning the date, time and place for the meeting will be provided in the notice of the Annual Meeting.

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:

Assistant Treasurer

CertainFeed Corporation
P. O. Box 860
Valley Forge, PA 19482
(215) 687-5000



CertainTeed Corporation
P.O. Box 860
Valley Forge, PA 19482

CTD036855