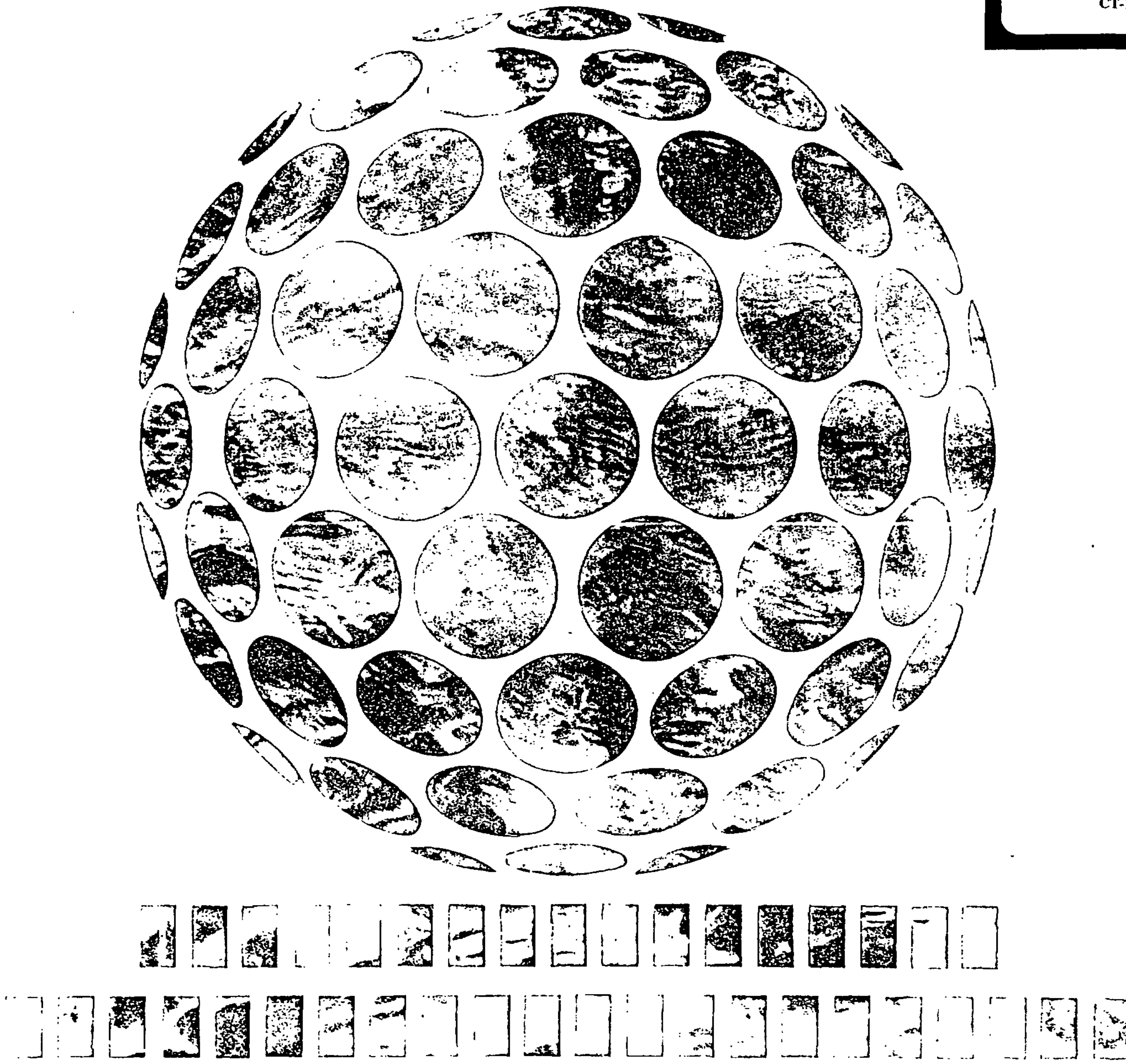


CERTAIN-TEED PRODUCTS CORPORATION
ANNUAL REPORT 1967

CERTAINTEED

TO OUR SHAREHOLDERS:

We enter 1968 with a more optimistic outlook than we had a year ago. The economic climate for the building industry has considerably improved over the conditions at the start of 1967. The full impact of the decline in homebuilding was felt by the company during the first half of 1967 and it was not until the third quarter that operations began to show improvement over the previous year. Some of the progress which the company has experienced was attributable to a recovery in the remodeling and replacement field which had also been depressed by a shortage of money. Slow to recover from such a serious setback, the homebuilding industry now shows signs of returning to the normal growth pattern which our society requires.

An important development took place during the year toward improving the glass fiber operations of the company. Arrangements were concluded with Compagnie de Saint-Gobain (Paris, France) for the formation of a jointly-held company to manufacture and market a full range of thermal and acoustical insulations including glass fiber and foam products. The assets and business of Certain-teed related to this field were transferred to Certain-teed Saint Gobain Insulation Corporation (CSG) in exchange for preferred stock. The French firm is the recognized technical leader in the field of glass wool manufacture and its processes are used throughout the world. Saint Gobain has granted to CSG the rights to the use of patents and advanced technology for the manufacture of glass fiber and foam products, and CSG is proceeding with its plans for the installation of new equipment and processes utilizing this technology.

Looking ahead, all divisions of the company are forecasting improved operating results for 1968, based on continued improvement in the money markets for consumers of our building materials and pipe products. There seems to be a growing awareness at all levels of government of the importance of homeownership and homebuilding in the solution of some of the problems of our cities, and in the transition to a peacetime economy when the military emphasis lessens. As this awareness translates into action programs, our industry should enjoy years of growth and prosperity.

During the year, E. A. Diefenbach was elected as a Director, and both Mr. Diefenbach and Harold McNabb were elected to the Executive Committee. Harold McNabb was elected Executive Vice President, to be responsible for the operations of the Divisions. Mr. Diefenbach was elected to the office of Comptroller, in addition to his duties as Vice President of Finance. J. L. Strickland was elected to the office of Treasurer, in addition to his duties as Assistant Secretary; N. J. Mueger was made Assistant to the President; T. F. Merkel, Assistant Comptroller; and Harold Barnard, Assistant Secretary. Three Certain-teed Products Corporation officers transferred to Certain-teed Saint Gobain Insulation Corporation and have become officers of that company: B. F. Leaman, Vice President; J. V. Mannino, Vice President and Comptroller; and Tom G. Warren, Secretary and Treasurer.

We wish to express our appreciation of the cooperation of our stockholders, customers and friends; and to commend the efforts of our employees, all of whom have contributed much in 1967, and whose continued cooperation is essential to our success in the future.

Respectfully submitted,

Rawson G. Lizars, Chairman of the Board

Malcolm Meyer, President

Ardmore, Pennsylvania
February 20, 1968

CTD036425

OPERATIONS IN 1967

Sales, Earnings and Dividends

Sales in 1967 were $167,176,426 as compared with $165,372,708 in 1966. Net earnings after taxes for the year were $3,034,156 as compared with $4,185,056 for 1966. Earnings per share of Common Stock (stated before and after conversion of the Series A Convertible Preferred Stock and exercise of Common Stock Warrants and Options) were 53¢ and 64¢ as compared with 90¢ and 88¢ for 1966. Results of operations for 1967 reflect the exclusion commencing July 1, 1967 of certain sales, costs and expenses of our associated company, Certain-teed Saint Gobain Insulation Corporation, which theretofore had been included in Certain-teed's reported operations (see Note 6e to Notes to Financial Statements).

Whereas the year to year comparison of monthly operating results was clearly on the decline at the end of 1966, this trend was reversed in the third quarter of 1967 reflecting the improving conditions in the housing industry. Sales volume, which had lagged behind the previous year in the first six months, showed improvement in the last half of the year. As a result, sales volume and dollar sales for the year moved ahead of 1966. Lower selling prices for several of the company's major product lines took a severe toll on profits during the year, but sales prices have shown gradual improvement during the last half. Further price increases are expected, and are required to restore margins necessary for a satisfactory return on invested capital.

On the belief that the adverse conditions in the housing industry were temporary, the directors authorized the continuance of quarterly dividend payments at the same rates paid in 1966. Dividend payments on Common Stock during 1967 amounted to $2,541,150 or 80¢ per share. Dividend payments on Series A Convertible Preferred Stock during 1967 amounted to $1,336,286 or 90¢ per share.

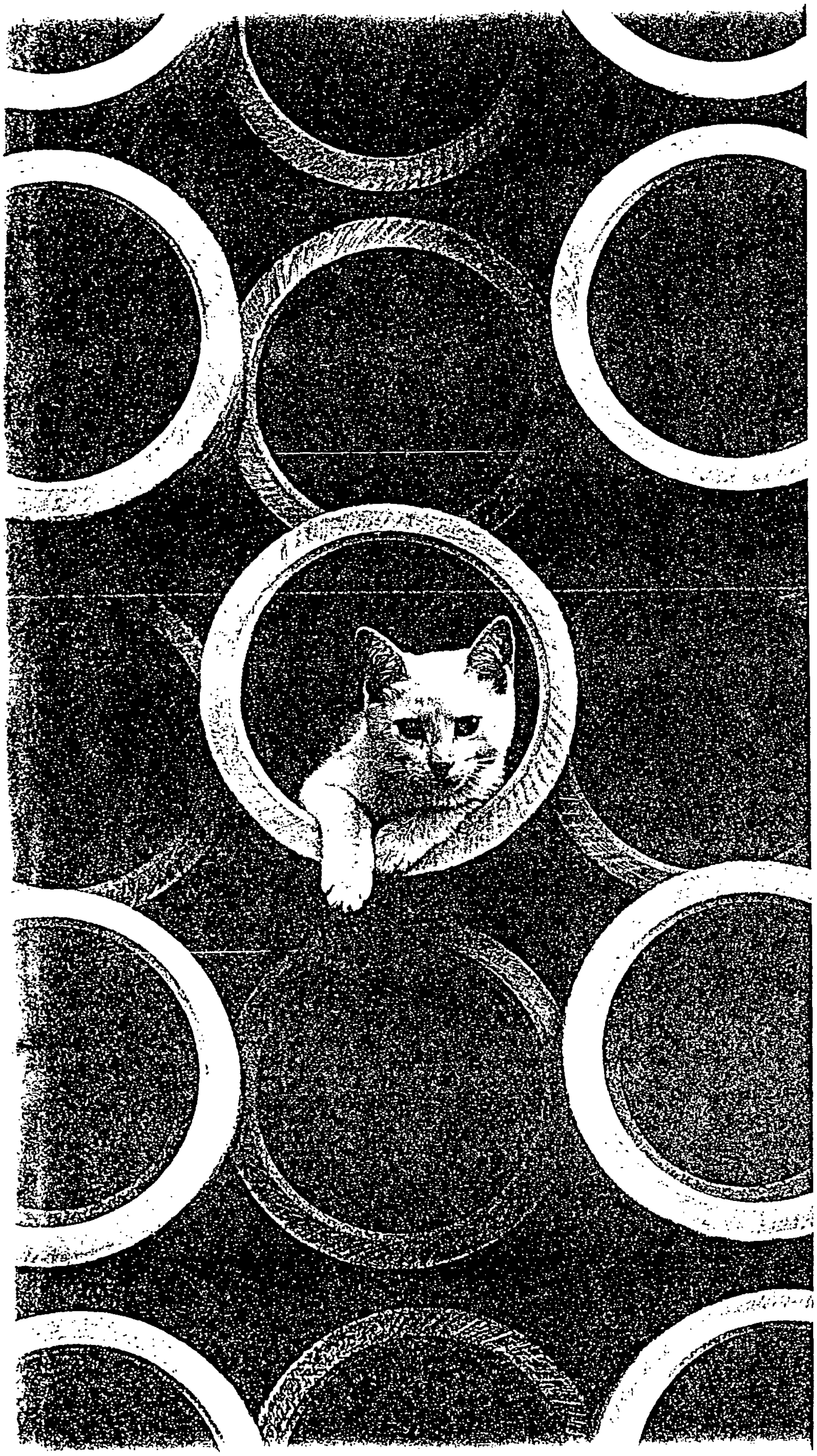
Financial Position

When it appeared in 1966 that the housing industry could be headed for a decline, steps were taken to prepare the company for this uncertainty by a curtailment of capital expenditures, arrangements for additional long term money, and emphasis within the company on increased liquidity. During 1967 capital expenditures were reduced to $4.1 million from $6.9 million in 1966, and $6.27 million was received under a loan agreement arranged in 1966. As a result of these moves, working capital increased to $44,848,665 at the end of 1967 from $36,675,012 at the close of 1966. The composition of working capital showed an increase in liquidity with cash and short term investments rising to $15,639,665 in 1967 compared to $4,194,832 in 1966.

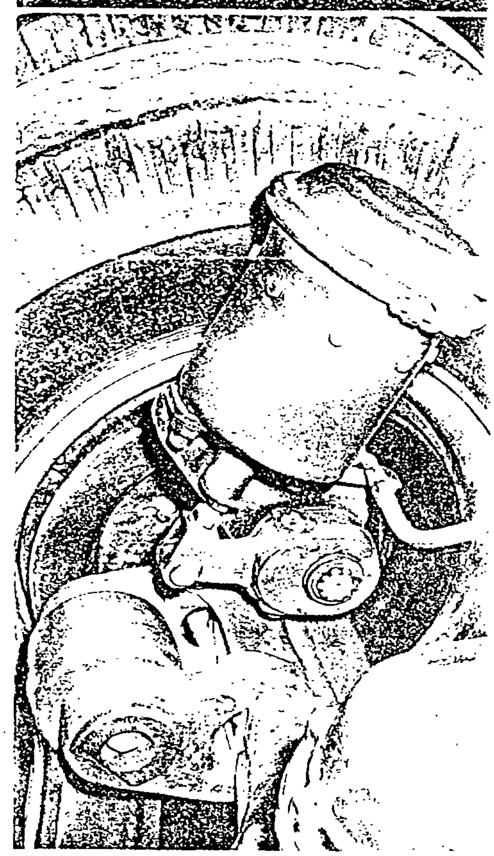
Looking Ahead

The conditions in the economy at the present time are much more encouraging for the markets in which the company is engaged than was the case a year ago. Management is now of the opinion that selective investment in manufacturing facilities to increase capacity and lower costs is appropriate.

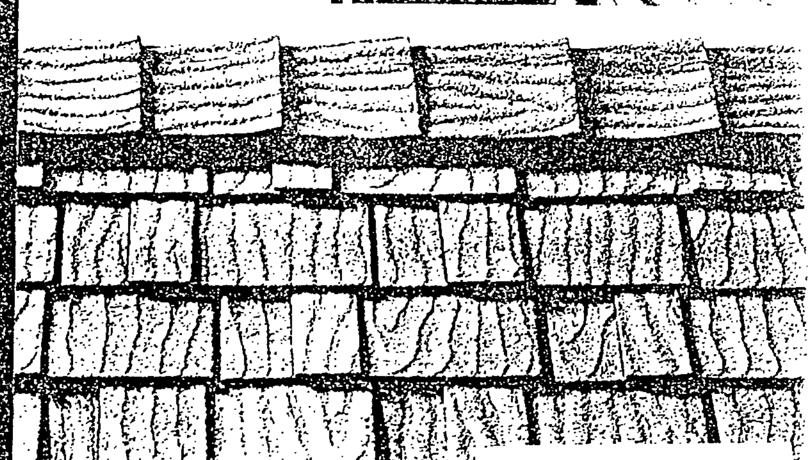
Recent price increases have been announced for certain of the company's principal products, and volume increases from an expanding housing and replacement market hold promise of a favorable growth pattern for our company.

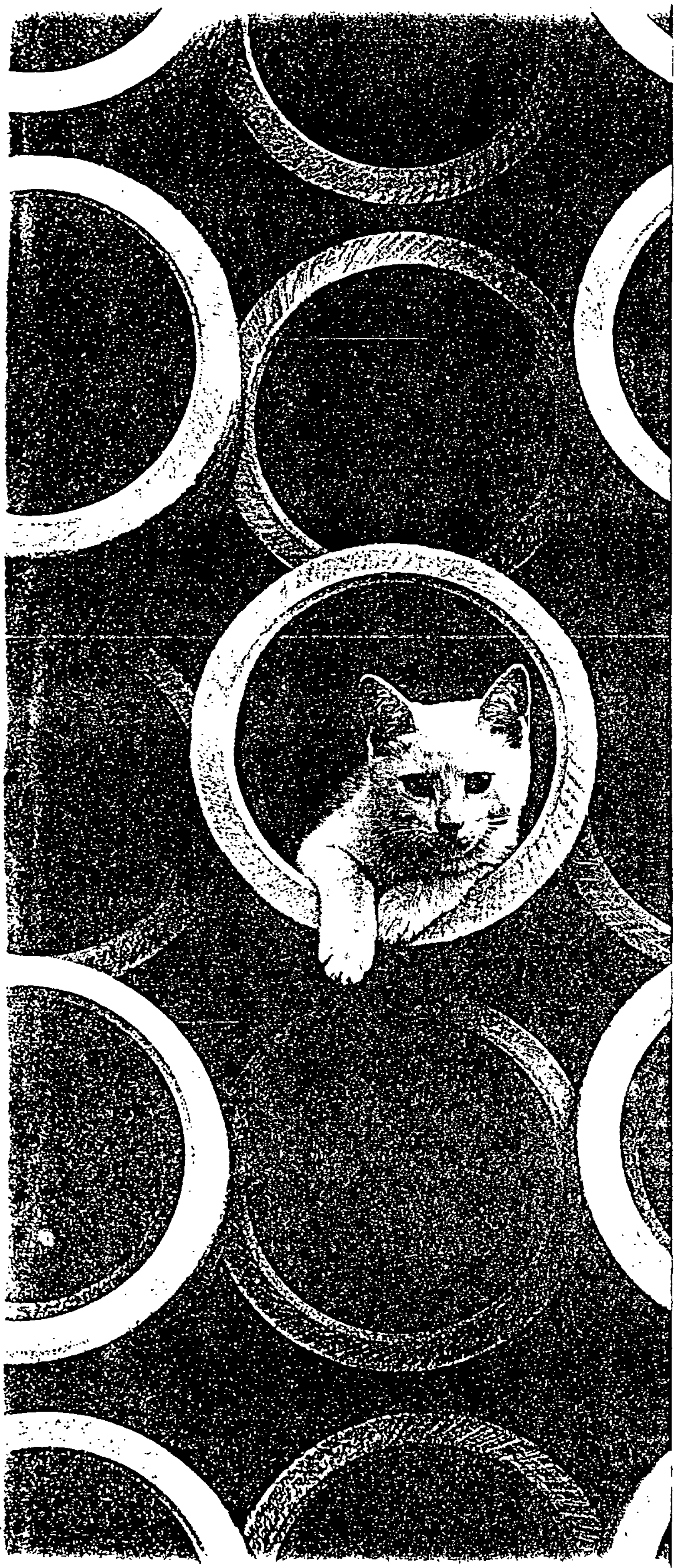


Certain-teed—a contraction of the slogan, "Quality made *Certain,* Satisfaction Guaran*teed*"—was founded in 1904 and consisted of a single plant at East St. Louis, Illinois. Today, Certain-teed Products Corporation operates 5 divisions with 20 manufacturing plants and sales distribution throughout the United States and Puerto Rico. The company has grown over the years through a number of significant acquisitions. The Cameron Division, Pipe Division, Plastics Division and Gustin-Bacon Division are examples of acquisitions which were added to the original building materials company.



Certain-teed is in a unique position to supply a wide variety of products and services for today's expanding markets of home building, industrial and commercial construction and urban redevelopment. By improving our products through research and development and by relating corporate expansion to the needs of our economy, we have geared ourselves to benefit from the growth of our nation.





CERTAIN-TEED DIVISIONS

Building Materials Division—Home Office: Ardmore, Pa.

Certain-teed is one of the nation's largest roofing manufacturers. The Building Materials Division developed the exciting new Hallmark Shingle which combines the life and fire resistance of a ceramic-rock surfaced asphalt shingle with the textural beauty of hand split shakes. The division manufactures a wide variety of shingles including the well known Woodtex, Tuftab and Sealdon Shingles. It also manufactures Dual 80 Built-Up Roofing Systems and a complete line of accessory products used in the roofing industry. Other products marketed by the Building Materials Division under the Certain-teed label are fiber glass home insulation, acoustical ceiling tiles and panels, sound deadening board, and roof insulation board.

Gustin-Bacon Division—Home Office: Kansas City, Kansas

The Gustin-Bacon Division serves many markets with a diversity of products . . . fiber glass insulations and acoustical ceiling products for the construction and manufacturing industries; fiber glass reinforcements for the plastics industry; erosion control blankets; padding and insulation for the automotive market; piping products; and a broad line of specialty products for the railroad and trucking industry. Trade names such as Ultrastrand, Ultralite, Ultracoustic Ceiling Panels and Ultracheck are recognized as quality products. Amberlite and Satinaire serve thermal, acoustical and padding needs of the automotive industry.

The nation's railroads are served with air-brake gaskets and cylinder release valves, pistons and air hoses. Maxibrake, a spring activated safety brake, has found immediate success in the automotive industry.

Pipe Division—Home Office: Ambler, Pa.

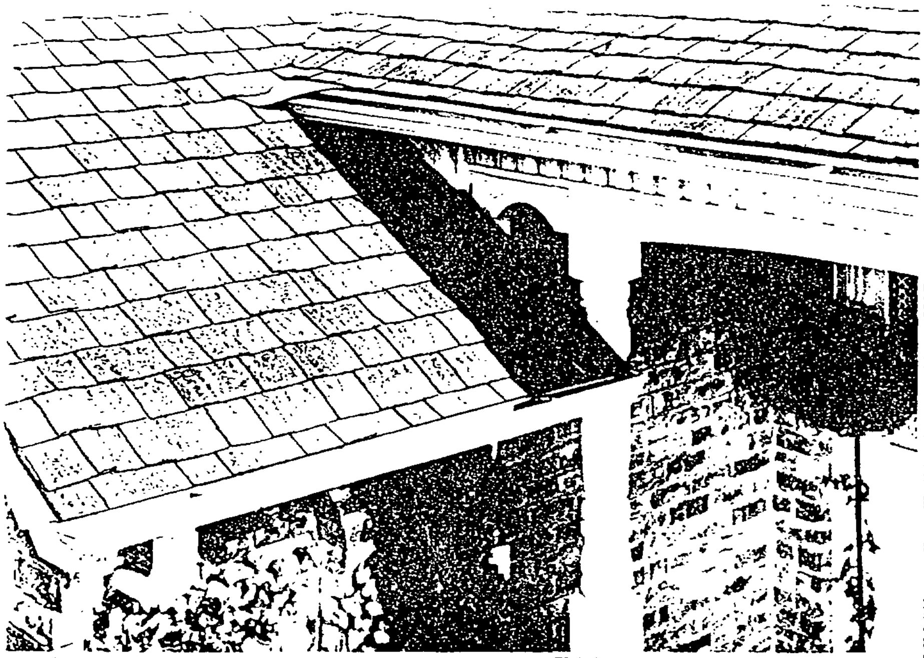
The population growth in America has produced a vast potential market for piping of all kinds. The Certain-teed Pipe Division is serving this need by marketing a wide range of asbestos cement pipe in all sizes and shapes for water mains, sewer systems, and irrigation lines. Recently, the Division has completed development of an extrusion process for asbestos cement products used in the pipe and building materials industries.

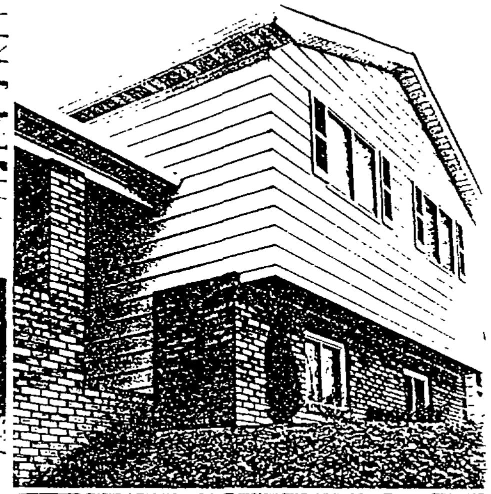
Plastics Division—Home Office: McPherson, Kansas

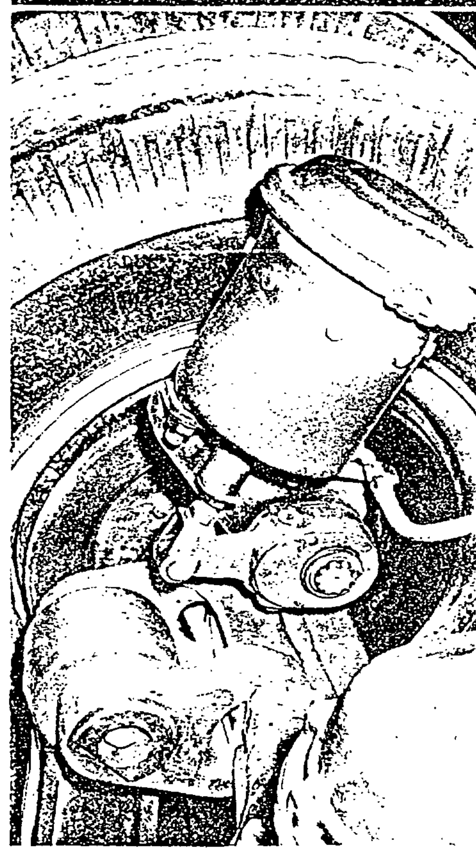
Polyvinylchloride pipe (PVC) non-corrosive, light in weight and economical, is finding wide acceptance. Certain-teed's Plastics Division manufactures PVC piping for water and gas transmission, irrigation, electrical conduit and residential draining, water disposal and venting. It also produces plastic pipe for processing and oil lines. The Division has recently utilized its research facilities to develop plastic industrial and building materials including a new vinyl siding for home construction.

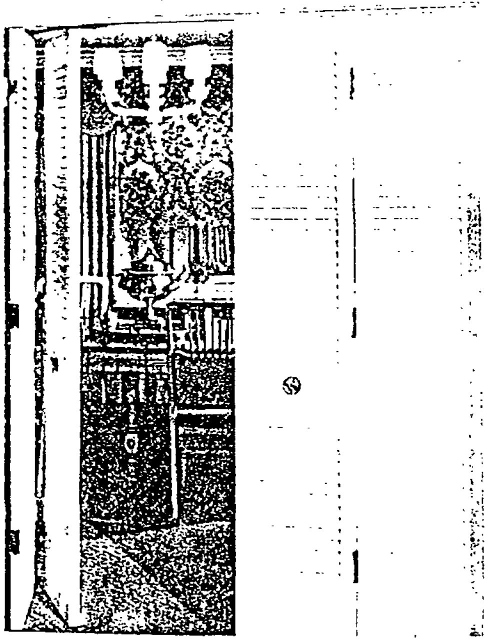
Wm. Cameron & Co. Division—Home Office: Waco, Texas

Celebrating its 100th Anniversary this year, the Wm. Cameron & Co. Division is now one of the nation's largest wholesale distributors of building products. It has 19 branch offices and warehouses from which it serves over 3,000 building materials dealers in the Southwest. In addition, the Cameron Division operates the IDEAL Millwork Plant in Waco, Texas, one of the country's largest producers of windows, doors, entrances and many other products. Through its distribution system, Cameron sells a wide variety of products including IDEAL millwork, Certain-teed roofing, siding and insulation, plywood, metal products, hardware, ceiling tile, moulding and glass.

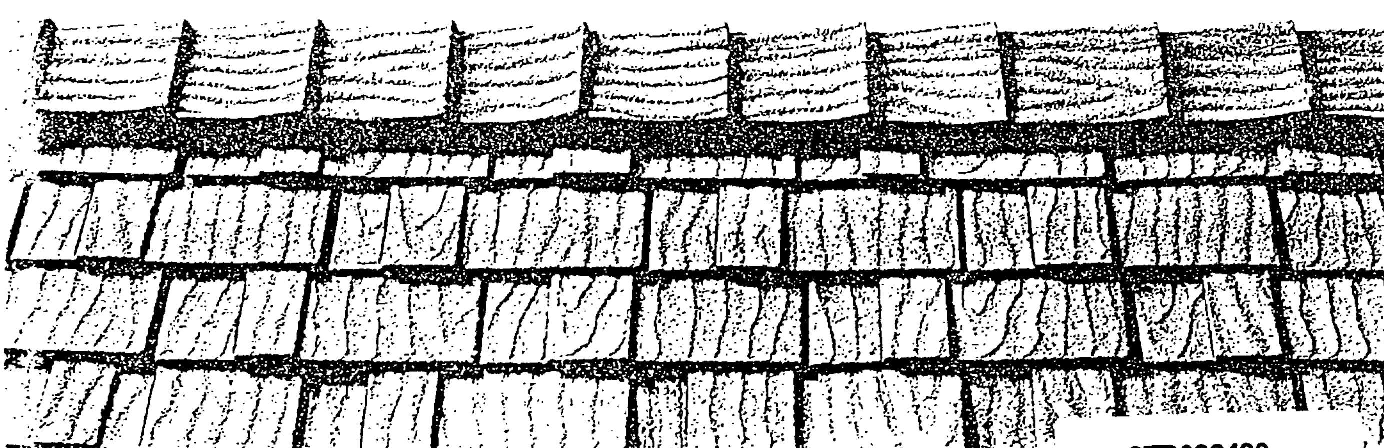


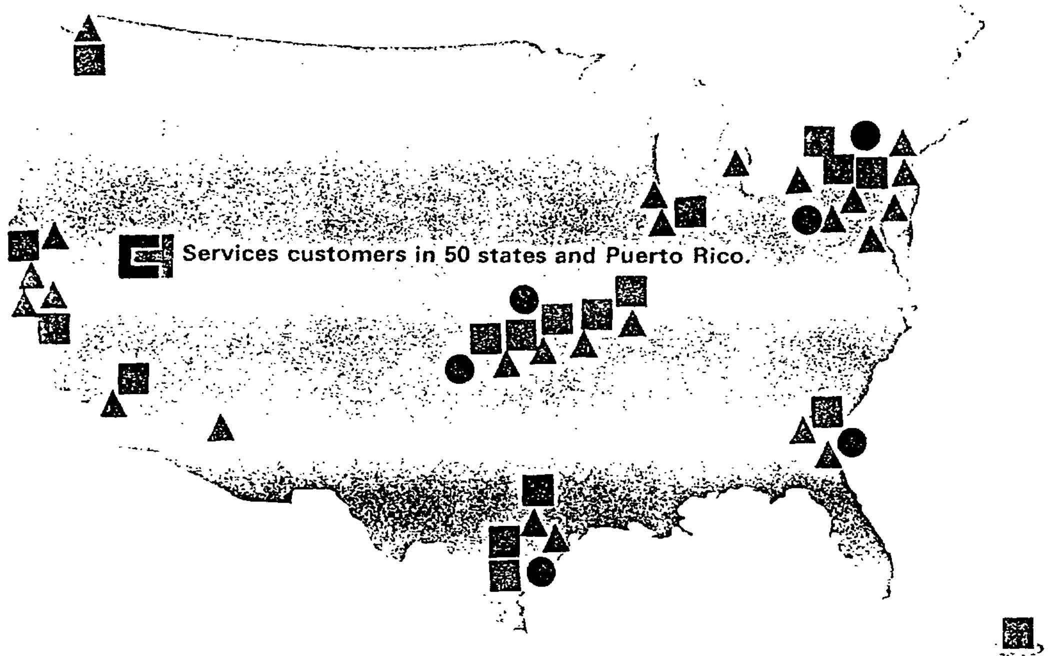






Certain-teed is in a unique position to supply a wide variety of products and services for today's expanding markets of home building, industrial and commercial construction and urban redevelopment. By improving our products through research and development and by relating corporate expansion to the needs of our economy, we have geared ourselves to benefit from the growth of our nation.





LOCATIONS

Executive Offices
Ardmore, Pennsylvania

Division Offices
Ardmore, Pennsylvania
Ambler, Pennsylvania
Kansas City, Kansas
McPherson, Kansas
Waco, Texas

Research Laboratories
Ambler, Pennsylvania
Kansas City, Kansas
McPherson, Kansas
Savannah, Georgia
Waco, Texas

Sales Offices
Ambler, Pennsylvania
Anaheim, California
Atlanta, Georgia
Bryn Mawr, Pennsylvania
Chicago, Illinois
Chicago Heights, Illinois
Cleveland, Ohio
Dallas, Texas
Detroit, Michigan
East St. Louis, Illinois
Houston, Texas
Kansas City, Missouri
Kirkwood, Missouri
Marlton, New Jersey
McPherson, Kansas
La Mirada, California
New York, New York
Oakland, California
Phoenix, Arizona
Richmond, California
San Francisco, California
Savannah, Georgia
Tacoma, Washington
Washington, District of Columbia
Westfield, New Jersey

Plants
Ambler, Pennsylvania
Buffalo, New York
Chicago Heights, Illinois
Dallas, Texas
East St. Louis, Illinois
Hillsboro, Texas
Kansas City, Kansas
Kansas City, Missouri
McPherson, Kansas
Richmond, California
Riverside, California
Santa Clara, California
Savannah, Georgia
St. Louis, Missouri
Tacoma, Washington
Vega Alta, Puerto Rico
Waco, Texas
York, Pennsylvania

100 WM. CAMERON & CO. DIVISION

A century of growth and productivity has made the Wm. Cameron & Co. Division of Certain-teed the largest building materials distributor in the Southwest. We pay tribute to the division as it marks its 100th Anniversary in 1968.

Cameron's colorful history began when its founder, William Cameron, arrived in America as an 18-year-old Scottish immigrant carrying but $18.00 in his pocket. In 1868 he established a lumber business that was to join with us in the Certain-teed company in 1954 and become one of the largest manufacturers and wholesalers of building products in America.

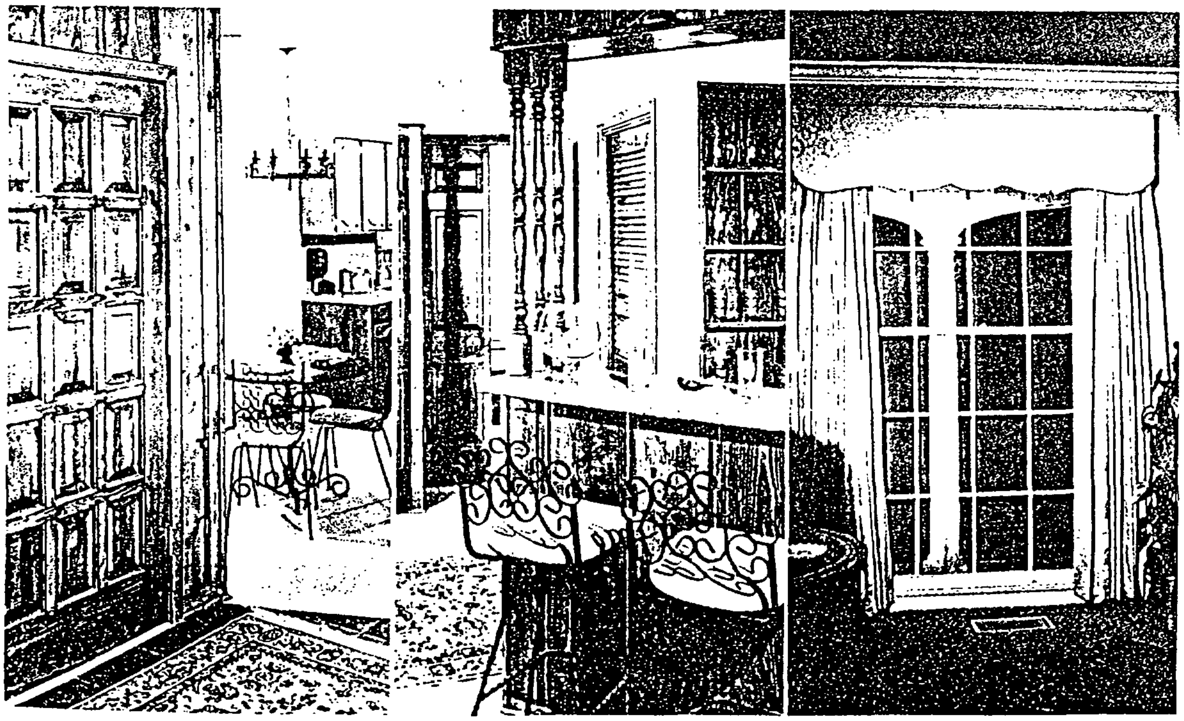
The acquisition of a small planing mill in Waco, Texas in 1901 led to the development of the IDEAL line of millwork products which are now sold by building material jobbers in 44 states including Alaska.

Our Cameron Division since its establishment has produced enough millwork to build more than a million homes. In order to assure a steady flow of goods to our customers on a relatively short shipping schedule, Cameron stockpiles large inventories of Western Ponderosa pine and finished IDEAL products. Our Waco, Texas plant has a lumber storage capacity of eight million board feet and our shipping department is equipped to handle about 3,500 railroad cars of raw material and finished products each year.

Our major effort is to design and produce IDEAL millwork that fits the taste of architects, decorators and home builders. IDEAL offers millwork that enhances home comfort, convenience and beauty and keeps abreast of modern trends in architecture and design. We are proud of the policy which enables IDEAL distributors and dealers to capture and maintain a substantial share of the millwork sales potential.

Items like IDEAL millwork and a complete line of other building materials are sold by our Cameron Division through a broad network of branch offices and warehouses. More than 3,000 building material dealers are served by our sales organization.

The prospects for this Division in 1968 are excellent. The IDEAL Mediterranean and Spanish doors have become a decorators' trend. Our Cameron Division will begin its second hundred years still building for the future. A new priming facility now under construction at the IDEAL Plant will be in operation in mid-1968. Ground has just been broken on a nine acre site in Waco for a large aluminum products plant. The new facility will manufacture a line of aluminum windows, window screens and other metal building products.



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PIPE DIVISION

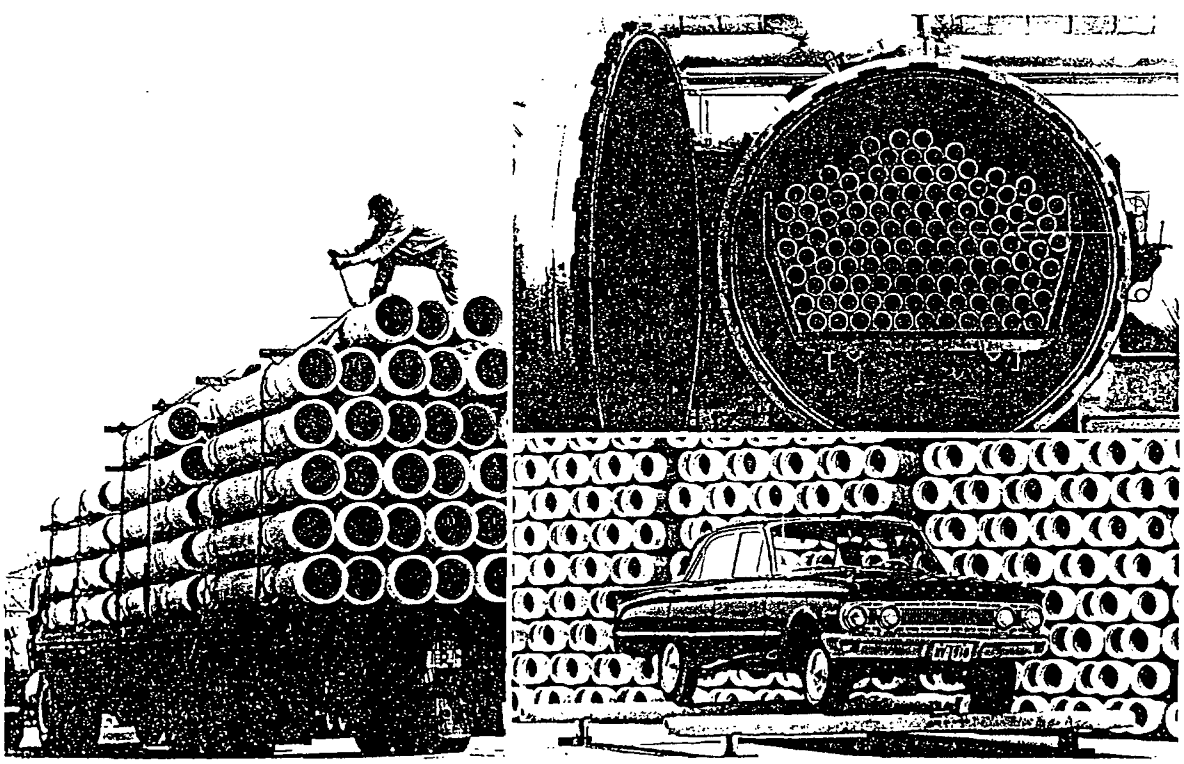
The Pipe Division has greatly expanded in recent years to serve the worldwide need for water and sewer systems, the federal and state programs for redistribution of our nation's water supplies, and the programs for irrigation and flood control.

To meet requirements of soil conservation programs, we have developed a new product line of asbestos-cement Fluid Transmission pipe. This development opens an entirely new market for the Division. Our product is especially well suited for use in irrigation transmission lines, which transport water over long distances.

The rapidly increasing use of underground pipelines for sprinkler systems in the Midwest and Southwest is creating new opportunities for our standard line of irrigation pipe. The new systems which use far less water than flooding methods while transforming raw soil into valuable farm lands, are best served by a combination of both our asbestos-cement and PVC plastic pipe.

In our seven plants, new processes and procedures were introduced during the year to increase volume and to improve quality of output. We have undertaken a concentrated cost-improvement program which has been implemented by a strengthening of the industrial engineering department. Highly precise methods of manufacturing and production assure customers uniformity of product. Each finished pipe length is subject to full laboratory testing and quality control.

Our Pipe Division sales and marketing staffs have been enlarged and now include specialists in specific product lines who can seek out and recommend the optimum uses for the newly improved products. The year ahead should be one of increased production and sales penetration for the Certain-teed Pipe Division.



GUSTIN-BACON DIVISION

The principal industries served by our Gustin-Bacon Division—construction, transportation, petroleum, automotive and fiber glass reinforced plastics—offer expanding markets.

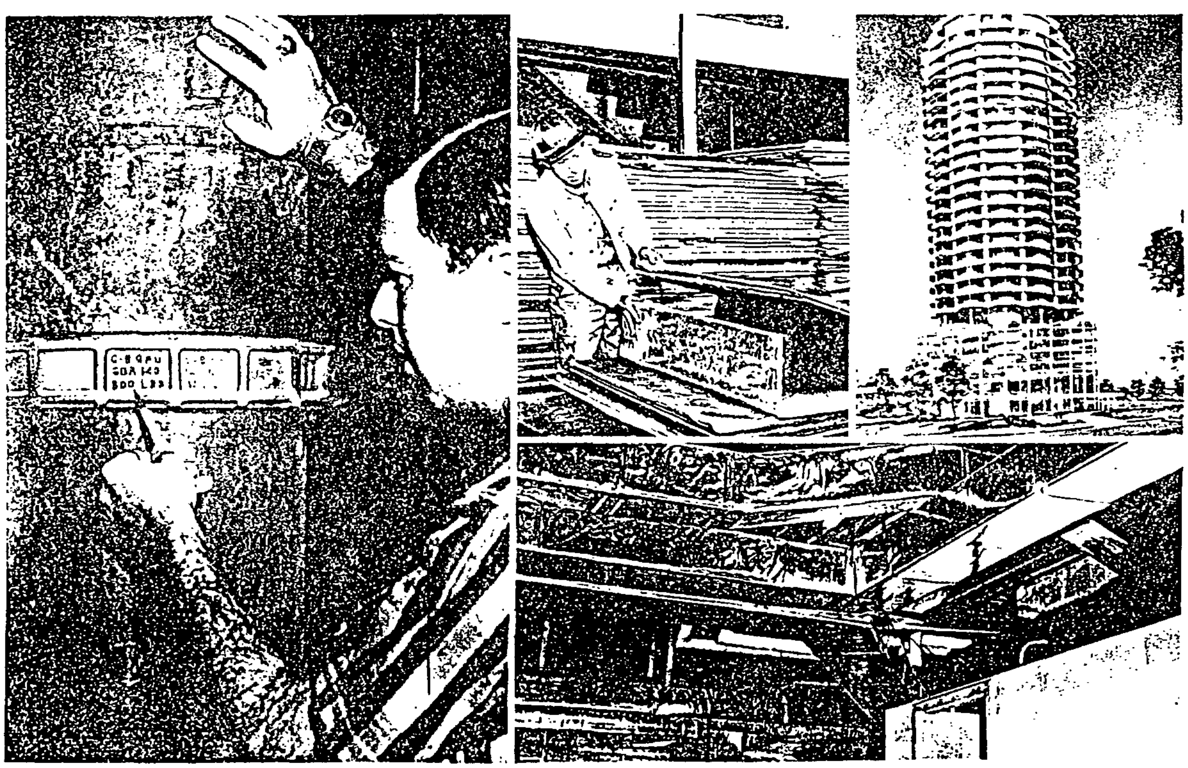
To serve these markets, Gustin-Bacon is actively engaged in the manufacture of fiber glass products for several specialized uses. Ultralite blanket insulations, duct wrap and duct liners, manufactured by a unique process employing strong textile type glass fibers, imparts superior strength, resiliency and integrity that gives these products a high reputation in the marketplace. Textile type fibers make G-B Duct, the original all fiber glass rectangular air duct, a leader in the industry. Acoustical contractors find Ultralite ceiling panels attractive, enduring and easily and economically installed without waste, because of their flexibility.

The transportation industry has long supplied a significant portion of our Gustin-Bacon sales. We are continuing to expand our line of specialty items for railroad applications. An expected increase in new railroad car construction, and the replacement requirements for existing freight car brake equipment, should result in an increased volume of sales for our new brake cylinder release valves, butt weld fittings and gaskets.

Volume is increasing on our standard Maxibrake for over-the-road vehicles and mobile equipment. These spring actuated safety brakes are now being manufactured under license in foreign countries.

Modern industry's demands for piping systems, which can be quickly installed and easily modified, have accelerated the development of an expanded line of Gustin-Bacon piping components. During 1967, several promising new products were added to the piping products line; an insulated coupling, which reduces corrosion, a toggle-type quick connecting coupling for joining grooved end pipe at reduced labor cost, and additional sizes of high-pressure couplings. The construction, petroleum, mining and processing industries are heavy users of G-B piping products along with other original equipment items employing piping systems.

We are planning expanded activity during the coming year in the development and sales of Gustin-Bacon molded and coated organic sound-deadening parts to the automobile industry. The added emphasis on automotive safety opens up attractive opportunities for the development of additional paddings for automotive use.



PLASTICS DIVISION

We have every reason to be pleased with the progress of our Plastics Division during its initial year as a full-fledged division of Certain-teed. Sales volume nearly doubled in 1967 making Certain-teed one of the largest PVC pipe producers in the United States. PVC piping demonstrated its capabilities for a wider use in private and municipal water and disposal systems. The accepted use of larger diameter vinyl pipe has opened new and productive markets, including rural and municipal water, private and municipal gas distribution, farm and turf irrigation, electrical conducting, oil field process lines and residential plumbing. No longer limited to small diameter sizes, our Plastics Division is now producing vinyl pipe through 6-inch pressure pipe and 15-inch for low-head irrigation systems.

Some of the most promising new products to be produced by Certain-teed are solid vinyl siding, gutters and downspouts for home construction. Attractive as wood siding, the new vinyl siding is maintenance free, does not require painting, and can be installed inexpensively. It can't rust, erode, blister or peel, and is a tough, impact resistant material.

The Custom Department of the Plastics Division is now expanded to undertake a broader range of custom profile extrusions primarily designed for the home building market.

Continued improvement in the production facilities of the Plastics Division was accomplished during the past year. The potential markets for vinyl pipe and our new vinyl siding have encouraged us to build additional manufacturing facilities. Ground was recently broken for a new blending building which will provide the capability for producing lower cost raw material formulations—furthering our program of vertical integration.

Our Plastics Division gives promise of a bright future. Changing market patterns, the acceptance of vinyl pipe for wider use, new vinyl building products and improved production facilities should combine during 1968 to give our Plastics Division its best year.

BUILDING MATERIALS DIVISION

Certain-teed's Building Materials Division enjoyed a high volume of asphalt roofing product sales in 1967.

Houses built at the end of World War II are now in need of new roofs. This factor accounted for a substantial part of our roofing sales in 1967 and will continue to do so.

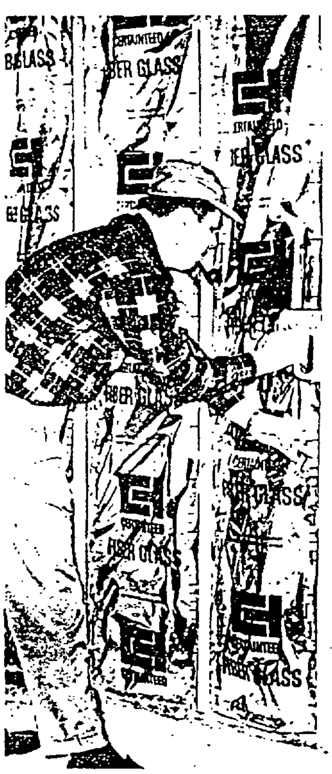
Our new Hallmark asphalt shingle has captured the attention of architects, builders, and consumers throughout the country. We are now able to furnish an asphalt shingle of high quality which will compete favorably with wood shakes and other prestige roofing products.

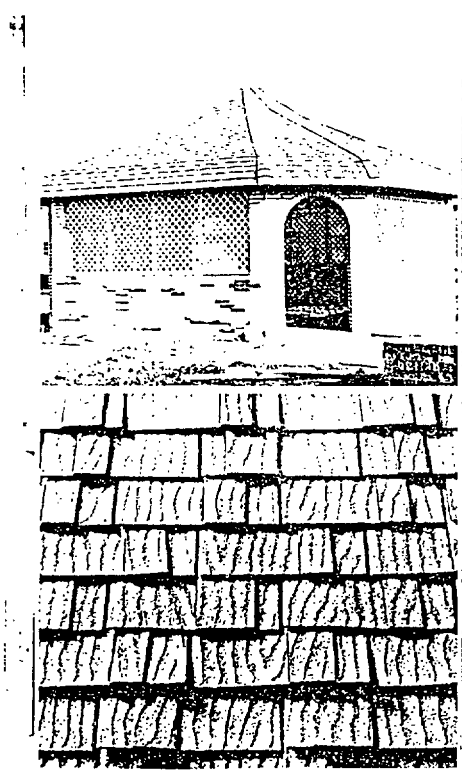
In the past year we have modernized some of our felt machines and roofing factories. This was done to keep abreast of 1967 roofing orders and to take care of the forecasted demand for 1968.

The market for fiber glass insulation is growing at a rapid rate. People are demanding greater home comfort, winter and summer, and are becoming aware of the economy of fiber glass home insulation. Modern heating and air conditioning require more and heavier insulation products for efficiency and cost savings.

With the growing importance of noise control and greater public awareness of the advantages of living in sound-conditioned homes, our Sound Deadening Board and Acoustical Ceilings should find an even more receptive market in the coming year.

The anticipated increase in home building production, in combination with the large replacement market, has prompted an expansion of manufacturing facilities. All economic and demand indicators now point to an increasing volume of business for our Building Materials Division in 1968 and the years following.





Certain-teed Products Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Years ended December 31, 1967 and 1966

	1967	1966
NET SALES	$167,176,426	$165,372,708
COST AND EXPENSES:		
Cost of goods sold	140,752,897	136,890,060
Selling and administrative	20,369,911	21,907,973
	161,122,808	158,798,033
	6,053,618	6,574,675
OTHER DEDUCTIONS—NET OF OTHER INCOME	192,462	88,619
	5,861,156	6,486,056
FEDERAL INCOME TAXES (net of investment credit of $163,000 and $710,000)	2,827,000	2,301,000
NET INCOME	3,034,156	4,185,056
RETAINED EARNINGS AT BEGINNING OF YEAR	53,257,696	52,715,797
	56,291,852	56,900,853
DEDUCT:		
Dividends:		
Preferred Stock	1,336,286	667,386
Common Stock	2,541,150	2,530,847
Distribution of earnings of pooled company prior to merger	—	444,924
	3,877,436	3,643,157
RETAINED EARNINGS AT END OF YEAR	$ 52,414,416	$ 53,257,696
Net income per share	$.53	$.90
Pro forma net income per share (reflecting conversion of preferred stock and exercise of stock options and warrants)	$.64	$.88

Depreciation of plant and equipment and amortization of intangible assets, respectively, amounted to $5,132,502 and $437,979 in 1967 and $5,168,266 and $531,426 in 1966.

The accompanying notes are an integral part of this statement.

CTD036437

CONSOLIDATED STATEMENT OF FUNDS

Years ended December 31, 1967 and 1966

SOURCE OF FUNDS:	1967	1966
Net income	$3,034,156	$4,185,056
Depreciation of fixed assets and amortization of intangible assets	5,570,481	5,699,692
Deferred Federal income taxes	359,270	838,800
Increase in long-term debt	6,619,954	(2,227,833)
Common stock issued under stock option plans	17,371	10,322
Decrease in other assets and deferred charges	1,774,205	2,020,200
	$17,375,437	$10,526,237

APPLICATION OF FUNDS:		
Increase in property, plant and equipment, net	$4,106,366	$6,904,608
Dividends	3,877,436	3,643,157
Net current assets of Certain-teed Saint Gobain Insulation Corporation as at June 30, 1967—Note 6e	949,108	—
Other, net	268,874	(905,525)
Increase in working capital	8,173,653	883,997
	$17,375,437	$10,526,237

CTD036438

Certain-teed Products Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEET

at December 31, 1967 and 1966

ASSETS

	1967	1966
CURRENT ASSETS:		
Cash	$1,139,665	$4,194,832
Short-term investments, at cost	14,500,000	—
Accounts and notes receivable, less allowance for uncollectibles of $837,573 and $900,545—Note 1	23,421,285	21,513,874
Inventories, including raw materials and supplies amounting to $7,576,484 and $8,745,664—at lower of cost or market	25,643,095	28,758,954
Total current assets	64,704,045	54,467,660
INVESTMENT IN AND RECEIVABLE FROM ASSOCIATED COMPANY, at cost—Note 6e	13,421,025	—
PROPERTY, PLANT AND EQUIPMENT, at cost, less depreciation of $33,060,460 and $36,398,907	48,405,312	64,214,911
OTHER ASSETS (less reserves) **AND DEFERRED CHARGES**	3,985,734	5,788,520
INTANGIBLE ASSETS, at amortized cost	2,547,081	4,234,598
	$133,063,197	$128,705,689

The accompanying notes are an integral part of this statement.

LIABILITIES

	1967	1966
CURRENT LIABILITIES:		
Accounts payable and accrued expenses—Note 1	$17,053,634	$11,997,644
Notes payable—banks	—	4,000,000
Current installments on long-term debt—Note 2	296,467	864,385
Federal income taxes	2,505,279	930,619
Total current liabilities	19,855,380	17,792,648
LONG-TERM DEBT—Note 2	11,534,115	7,948,812
DEFERRED FEDERAL INCOME TAXES	2,855,700	3,257,430
OTHER NONCURRENT AND DEFERRED ITEMS	2,070,952	2,397,485
STOCKHOLDERS' EQUITY—Notes 3, 4, 5 and 6:		
Preferred Stock, $1 par value, authorized 2,000,000 shares, 1,511,535 shares designated as Series A Convertible, issued 1,487,535 and 1,483,080 shares (liquidation preference $37,188,375 and $37,077,000)	1,487,535	1,483,080
Common Stock, $1 par value, authorized 7,500,000 shares, issued 3,389,948 and 3,383,169 shares	3,389,948	3,383,169
Capital in Excess of Par Value	41,551,034	41,281,233
Retained Earnings	52,414,416	53,257,696
Less: Common Stock held in treasury, at cost—201,686 and 201,685 shares	(2,095,883)	(2,095,864)
Total stockholders' equity	96,747,050	97,309,314
	$133,063,197	$128,705,689

CTD036440

NOTES TO FINANCIAL STATEMENTS AT DECEMBER 31, 1967

The financial statements at December 31, 1966, and for the year then ended (as reclassified) are shown for comparative purposes only. Reference should be made to the previously issued Annual Report for the Accountants' Report and notes pertaining to those financial statements.

1. Current accounts receivable and accounts payable include balances of $2,600,530 and $1,300,195, respectively, with Certain-teed Saint Gobain Insulation Corporation (see Note 6e).

2. Long-term debt, exclusive of current installments, consists of:

5.55% Notes payable to insurance company, requiring payments of $550,000 annually from 1970 to 1986, the remaining unpaid balance becoming due in 1987	$10,000,000
Contract payable, requiring payments of $206,650 annually through 1972	826,600
Other	707,515
	$11,534,115

The note agreement relating to the notes payable to insurance company provides, among other matters, for prepayment options, the maintenance of consolidated working capital of not less than $25,000,000, and certain limitations on the declaration of dividends, other than stock dividends. At December 31, 1967, consolidated Retained Earnings of approximately $10,160,000 were not restricted as to the payment of Common Stock dividends.

3. Dividends on the Series A Convertible Preferred Stock are cumulative at the annual rate of 90¢ per share. Each share is entitled to one vote, has a liquidating value of $25 per share plus accrued unpaid dividends, is convertible into one share of Common Stock and may be called by the Company after June 30, 1971 (subject to the conversion rights of the holders) at a price of $25 per share plus accrued unpaid dividends. During the current year 5,545 shares of Series A Convertible Preferred Stock were converted into an equal number of shares of Common Stock.

Capital in excess of par value increased during the year by $253,664, representing the excess of fair value, as assigned by the Company, over par value of 10,000 shares of Series A Convertible Preferred Stock issued (or issuable) to selling stockholders of a company acquired in a prior year.

At December 31, 1967, there were outstanding transferable Stock Purchase Warrants for 170,000 shares of Common Stock exercisable prior to June 22, 1972, at per share prices ranging from $16.625 to $23.05. The Company has reserved a sufficient number of shares of treasury stock for issuance against the warrants.

4. During the year the Company, subject to the approval of the stockholders, adopted a qualified stock option plan whereby 100,000 shares of the Company's Common Stock were reserved for options to be granted to officers and key employees at prices equal to the fair market price of the stock on the date granted. Options are exercisable not earlier than one year or later than five years from the date granted. Options for 46,200 shares at $18 per share were granted under this plan during the year.

Pursuant to prior stock option plans, options for 27,940 shares of Common Stock were outstanding at December 31, 1967 at per share prices ranging from $13.75 to $20.50, and options for 800 shares are subject to future grant. During the current year options for 6,000 shares were granted, options for 1,234 shares were exercised and options for 2,400 shares lapsed. Shares issued in connection with options exercised during the year resulted in an increase of $16,137 in capital in excess of par value.

At December 31, 1967, options for the purchase of 14,400 shares of Series A Convertible Preferred Stock were outstanding at per share prices ranging from $17.8750 to $20.8125. No options were exercised during the year and options for 8,600 shares lapsed.

5. Charges to income for costs incurred under existing pension plans maintained by the Company amount to approximately $463,000. As at December 31, 1967, the aggregate unfunded prior service cost, which is being amortized over a ten year period, amounted to approximately $245,000. Such unfunded cost is after giving effect to revisions in actuarial assumptions (relating principally to increased future yields), the transfer of certain employees to CSG (see Note 6e) and the incorporation of a Gustin-Bacon Division pension plan into the Company's pension plan. The actuarially computed value of vested benefits is less than the pension plan assets at December 31, 1967.

6. (a) The Company is one of several defendants in a suit for alleged violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. The Company is also the defendant in a suit by a builder under the former home building program for alleged breach of contract. The Company denies liability in these suits and is taking all possible measures to defend them. Based on opinions of counsel. the management believes that the disposition of all pending litigation will not have a significant adverse effect on the financial position of the Company.

(b) The Company is contingently obligated to reimburse the purchaser of certain installment notes receivable for credit losses up to a maximum of $3,000,000 which may be incurred prior to January 1, 1975, and for losses arising from risks against which the Company is carrying insurance.

(c) As of December 31, 1967, the Company has outstanding guarantees aggregating approximately $1,300,000 and contingent obligations under assigned long-term leases which provide annual rentals aggregating approximately $190,000.

(d) Federal income tax returns of certain prior years of the Company and subsidiaries (including one subsidiary since liquidated) are being examined by the Internal Revenue Service. The examining agent has discussed with the Company certain matters which cumulatively could involve possible assessments material in amount; however, since no formal report has been received by the Company, it is impossible to know what the Internal Revenue Service's final position on those matters will be and, therefore, the total amounts of additional claims which might be asserted are presently unascertainable. Should the significant matters so far discussed by the agent be incorporated in his report, the Company intends to vigorously contest them, since it believes, from such information as is available to the Company, that such matters are substantially without merit and should have no material effect on the financial position of the Company.

(e) On June 30, 1967, certain assets of and business conducted by the Gustin-Bacon Division, relating to fiber glass acoustical and thermal insulation products, were transferred at no gain or loss to a wholly-owned subsidiary, Certain-teed Saint Gobain Insulation Corporation ("CSG"—formerly Certain-teed Fiber Glass Corporation), in exchange for 3,000 shares of $60 Cumulative First Preferred Stock ($1,000 per share liquidating preference) and 10,372 shares of $60 Cumulative Second Preferred Stock ($1,000 per share liquidating preference). On July 6, 1967, this subsidiary issued 1,000 shares of its common stock to Compagnie de Saint-Gobain ("Saint-Gobain"—Paris, France), resulting in equal ownership of the voting stock by the Company and Saint-Gobain. The accounts of CSG were consolidated with those of the Company through June 1967, the last full month ownership of all classes of stock was held by the Company. The Company's investment in CSG is carried at the amount of the net assets on the books of CSG as at June 30, 1967, less certain related deferred credit and reserve accounts on the books at that date. Such net carrying amount ($12,021,025) exceeded the Company's equity in the net assets of CSG as at December 31, 1967, by $1,847,491. The Company's equity declined during the six months ended December 31, 1967, by $2,763,970, the amount of CSG's net loss for that period, which amount includes an extraordinary loss of $923,810 on the disposal of certain manufacturing facilities in connection with a conversion of various manufacturing lines to utilize patents and processes acquired by CSG from Saint-Gobain in exchange for $6,000,000 of debentures. In the opinion of management, such net loss represents only a temporary impairment of the Company's investment. The opinion of the independent public accountants reporting on the financial statements of CSG as at and for the six months ended December 31, 1967 has been made subject to CSG's losses being temporary because, in the opinion of CSG's management, significant future profitable operations are expected to result from the aforementioned conversion of facilities. The financial statements of CSG will be included in the Company's Annual Report on Form 10-K to be filed with the Securities and Exchange Commission.

Accountants' Report

To The Board of Directors, Certain-teed Products Corporation, Ardmore, Pennsylvania

We have examined the consolidated balance sheet of Certain-teed Products Corporation and subsidiaries as at December 31, 1967, and the related consolidated statement of income and retained earnings and the supplemental consolidated statement of funds for the year then ended. Our examination was 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, subject to the effect, if any, of the matters discussed in Notes 6d and 6e, the accompanying consolidated balance sheet and consolidated statement of income and retained earnings present fairly the consolidated financial position of Certain-teed Products Corporation and subsidiaries at December 31, 1967, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, and the accompanying consolidated statement of funds for the year ended December 31, 1967, presents fairly the supplemental information shown therein.

S.D. Leidesdorf & Co.

New York, N. Y.
January 24, 1968

CTD036442

BOARD OF DIRECTORS

Rawson G. Lizars, Chairman
Ralph M. Bateman
Donald N. Clausen
M. S. Davis, Jr.
E. A. Diefenbach
J. R. Johnston
I. S. Kampmann, Jr.
Harold McNabb
Malcolm Meyer
N. W. Pearson
Ronald G. Soothill

EXECUTIVE COMMITTEE

Rawson G. Lizars, Chairman
Malcolm Meyer
Harold McNabb
E. A. Diefenbach
N. W. Pearson

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Malcolm Meyer, President
Harold McNabb, Executive Vice President
E. A. Diefenbach, Vice President and Comptroller
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James L. Strickland, Treasurer and Assistant Secretary
Charles E. DeLong, Secretary and Resident Counsel
N. J. Mueger, Assistant to President
T. F. Merkel, Assistant Comptroller
Harold Barnard, Assistant Secretary
(Mrs.) M. C. Latimer, Assistant Secretary

TRANSFER AGENT

Bankers Trust Company, New York

GENERAL COUNSEL

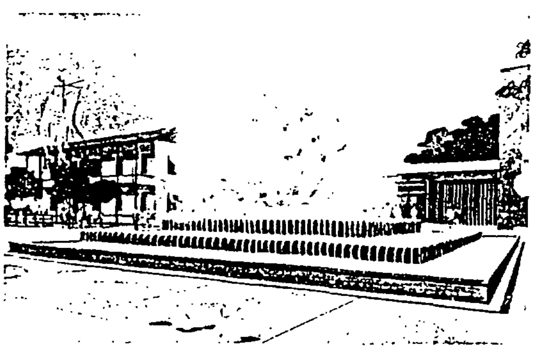
Clausen, Hirsh, Miller and Gorman, Chicago

REGISTRAR

The Chase Manhattan Bank, New York

AUDITORS

S. D. Leidesdorf & Co., New York



ON THE COVER—To commemorate the 100th Anniversary of our Cameron Division, Certain-teed has presented a beautiful fountain to the City of San Antonio, Texas. The fountain will be a permanent attraction in San Antonio and will be seen by millions of people who attend HemisFair '68, the great international exposition to be held there from April 6 through October 6.

The fountain is a gift to the people of Texas for their support of our company during its century of service. It will be called the "Wm. Cameron" fountain.

CTD036444

CERTAINTEED

CERTAIN-TEED PRODUCTS CORPORATION
ARDMORE, PENNSYLVANIA 19003