1995 Annual Report

Owens Corning

PLAINTIFF'S EXHIBIT WV-04343

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OWENS CORNING

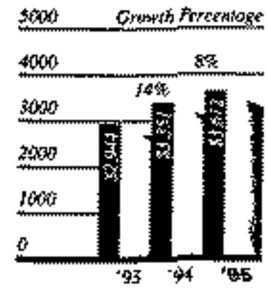
We Make The Difference

Financial Highlights

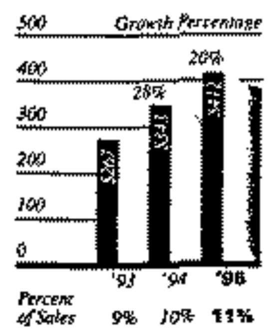
Income Statement

(In millions of dollars, except per share data and where noted)	**1995**	1994	1993
	Year Ended December 31,		
Net Sales	**$ 3,612**	$ 3,351	$ 2,944
Gross Margin	**942**	815	678
Income from ongoing operations	**412**	343	267
Income from operations	**412**	226	236
Net Income	**231**	159	131
As a percent of sales	**6%**	5%	4%
Per Share Information			
Fully Diluted Earnings per Share			
Net Income from ongoing operations	**$ 4.25**	$ 3.35	$ 2.56
Net Income	**$ 4.40**	$ 3.35	$ 2.81
Shares outstanding (in thousands)			
Fully diluted	**54,106**	50,025	49,410

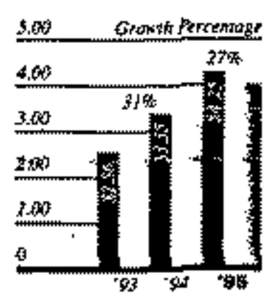
Net Sales
(In millions of dollars)



Income from Ongoing Operations
(In millions of dollars)



Fully Diluted Earnings per Share (Ongoing Operations)
(In dollars)



Balance Sheet

(In millions of dollars)	**1995**	1994	1993
	Year Ended December 31,		
Total assets	**$ 3,261**	$ 3,274	$ 3,013
Total debt	**$ 893**	$ 1,212	$ 1,004
Total other liabilities	**$ 2,386**	$ 2,742	$ 2,878
Total minority interest (MIPS)	**$ 194**	$ —	$ —
Total stockholders' equity	**$ (212)**	$ (680)	$ (869)

Cash Flows

(In millions of dollars)	**1995**	1994	1993
	Year Ended December 31,		
Net cash flow from operations	**$ 342**	$ 361	$ 312
Net cash flow from investing	**$ (361)**	$ (355)	$ (178)
Net cash flow from financing	**$ 36**	$ 178	$ (74)
Net cash flow from asbestos-related activities	**$ (67)**	$ (128)	$ (59)
Capital spending	**$ 276**	$ 258	$ 178

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General Information Inside Back Cover

Owens Corning, a global Company, serves consumers and industrial customers with high performance glass composites and building materials systems.

Product/Market Ov		Products	Markets	Demand Drivers/ Growth Strategy
Building Materials				
Insulating Systems – World's leading innovator of insulating systems offering combined performance benefits; world's leading producer of glass fiber insulation products; second largest producer of foam insulation.		■ PINK Fiberglas® insulation; Pink*Plus*® featuring Miraflex™ fiber; expanded and PINK extruded polystyrene rigid foam insulation; rockwool (U.K.); AURA® Superinsulation; mechanical and specialty insulation. Insulating systems can also include exterior systems components.	■ Residential and commercial remodeling and new construction through retailers, contractors and to manufactured housing. Fabricated systems for original equipment manufacturing including automotive, appliance, office furniture, HVAC. Foam also includes agricultural buildings, cold storage, highway insulation.	■ Residential and commercial remodeling outpacing new construction in North America. Major presence in North America and Europe, expanding in Latin America and Asia Pacific. Insulating systems increasing market share and take-per-unit.
Roofing Systems – Leading producer of integrated roofing systems as well as leading U.S. producer of residential roofing shingles. Leading U.S. manufacturer of industrial asphalt and one of the leading producers in the world.		■ Prominence® and other branded roofing shingles constructed of glass fiber mat and weathering-grade asphalt; underlayment and ridge vents. Industrial asphalt for commercial roofing systems, waterproofing, saturants, coatings and adhesives.	■ Residential and commercial reroofing, remodeling and construction worldwide. Asphalt used internally in manufacture of residential roofing products and sold to a variety of industries including roofing, automotive, chemical and rubber.	■ Reroofing drives 80% of demand, including remodeling and replacement — homes historically need new roofs every 17 years. Brand leverage expanding distribution; diversifying to meet demand in emerging market of Asia Pacific, Eastern Europe and Latin America.
Exterior Systems – Redefining the home building market through an integrated, performance-driven, multi-product offering combining exterior color-match systems, roofing systems, insulating systems and sound control systems.		■ Exterior color-match products include Luminess™ vinyl windows and patio doors, Transitions™ vinyl siding and high-style roofing shingles; PinkWrap™ polypropylene housewrap; QuietZone™ Acoustic Batts.	■ Residential and commercial remodeling and new construction through retailers, contractors and to manufactured housing. Retail includes home centers that sell to do-it-yourself and professional customers.	■ Residential and commercial remodeling outpacing new construction in North America. Brand leverage expanding markets. Material systems multi-product strategy increasing market share and take-per-unit.
Composite Materials				
Glass Fiber/Resin Systems – World's leading producer of glass fibers used in composites — a material system made of two or more components, e.g. resin and glass fiber. Leading North American producer of polyester resins and one of the leading producers in the world.		■ Glass fibers in myriad forms including chopped strands, woven mats, yarns; polyester resins through joint venture operation. Glass fiber/resin systems replace traditional materials like wood and metals, providing lower cost, lighter weight and greater strength.	■ More than 40,000 end-use applications in multiple industries including transportation, electrical/electronics, construction, recreation and others. End-use products range from automobiles to circuit boards; from utility poles and roofing shingles to skis and hockey sticks.	■ Global trend of materials substitution driving growth. Expanding applications and markets including infrastructure applications. Owens Corning increasing composites capacity by 30% over next two years to meet demand.
Pipe Systems – Manufacturer and marketer of glass reinforced plastic (GRP) composite pipe systems for water and waste transport. Provides low cost entry into new and developing markets.		■ Corrosion-resistant, large-diameter (one to 12 feet), glass reinforced plastic pipe systems, including Flowtite® coupling joints. GRP pipe systems, manufactured with proprietary technology, glass fibers and resins, are easier to transport and install.	■ Sold directly to governments and private industry for major infrastructure projects such as water, chemical and sewage transport. Uses range from new systems to replacement of outdated systems of traditional materials like steel and concrete.	■ Drivers include population growth and major infrastructure development and replacement, especially in developing countries. New operations, including China, Spain, Argentina and Colombia, bring global manufacturing facilities to nine.

For me, one of the stand-out events of a stand-out Owens Corning year was a diversity training session a few months ago in Toledo that three of my top reports helped present. I could not be there, which turned out to be a good thing; for as attendees told me later, this was the meeting where they finally and totally understood that the vision of achieving a representative workforce is not mine alone.

The fact that it never was mine alone is quite beside the point. It was perceived that way — as have been a lot of other Owens Corning goals that I only played a role in articulating — and like it or not, "perception" is what counts.

A related and equally welcome development is my corporate colleagues' dwindling use of the phrase, "this is what Glen wants," which among investors was translated to, "I want to hear Glen say it." While flattering on the surface, the implication of these two messages gets to the heart of the greatest challenge our Company has had to face — and therefore to the positive turning point that was reached in 1995.

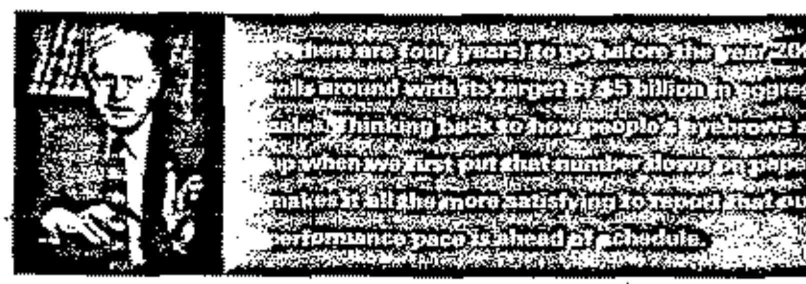
I am speaking to the linked issues of internal ownership and external credibility — of the need for each and every Owens Corning employee to personally buy-in to the Company's new goals and corporate culture, and for investor and business audiences to discover that they can believe the Owens Corning story even when Glen Hiner does not personally tell it.

As much as any other achievement, I take pleasure in the progress made on these two critical, albeit intangible fronts. The result is a new, far-higher level of Owens Corning credibility that already has paid off in many ways, not the least of which was 1995's nearly $1 billion gain in market capitalization.

From a purely objective financial perspective, our performance was equally strong. For the fourth consecutive year and 16th consecutive quarter, we met our goal of reporting higher earnings than the same period the year before. Owens Corning's net income, excluding a one time tax benefit of $8 million, rose 40 percent to $223 million or $4.25 per fully diluted share in 1995, compared to $159 million, or $3.35 per share in 1994. Record 1995 sales of $3.612 billion, were up 8 percent or $261 million from 1994's $3.351 billion.

I am now four years into my tenure at Owens Corning, and there are four to go before the year 2000 rolls around with its target of $5 billion in aggregate sales. Thinking back to how people's eyebrows shot up when we first put that number down on paper makes it all the more satisfying to report that our performance pace is ahead of schedule. That is a good-news story with components I will highlight a paragraph or two down the page, but not before some necessary comments on our single most stubborn negative.

My reference, of course, is to new asbestos claims, which totaled about 56,000 in 1995, up from approximately 29,000 the year before. The vast majority of new claimants are not sick. My personal opinion is that many of the cases were filed by lawyers eager to maximize their fees before tort reform legislation goes into effect in Texas and Illinois. Be that as it may, polls suggest that the American public has caught on to the way our civil laws are being abused by cynical elements within the personal injury profession and are demanding overdue change.



For now, what counts is that our Company's liability risks were, are and will continue to be entirely manageable. We continue to pay legitimate claims and to fight those that are unjust. Cash expenditures are running true to projections. Most important, the favorable nonproducts insurance settlement reached by the Company during the past fiscal year prompted virtually all of our investment analysts to agree with our long-held belief that there is a light at the end of Owens Corning's courtroom tunnel.

Readers will do well to study the whole of this report, because the amount of space I use in this publication does not allow me to do justice to the year's many accomplishments. That said, here are a few that come immediately to mind:

■ The drive for global expansion accelerated in 1995 with the net addition of 1,300 new jobs. We opened our eighth large-diameter glass reinforced pipe plant in Spain; established a partnership to build a greenfield composites plant in Taloja, India; and announced plans to add 280,000 metric tons of worldwide composites capacity over 1994 levels, 100,000 tons of it available in 1996. Meanwhile, in China, we opened two plants, one for pipe, the other for insulation, and signed yet another insulation joint venture to serve the rapidly growing China market. A personal highlight of the year was seeing that first Owens Corning logo go on display at our distributor in Guangzhou.

"*Computerworld* named the Company among the year's 100 *Best Places to Work*; *R&D Magazine* selected AURA® Superinsulation as one of the most technologically significant products of 1995; and *Popular Science* put our PinkPlus® insulation featuring Miraflex™ fiber high on its roster of the 'Best of What's New.'"

■ Productivity initiatives were headlined by the well-publicized launch of Owens Corning Advantage 2000, a 100-week, global, enterprise-wide reengineering effort designed to give the Company world-class operating capabilities through the pairing of simple, common global processes with state-of-the-art technology. In keeping with our style, the timeline for completion is as ambitious as the savings goal for the project, both of which we fully intend to meet.

■ Acquisitions during the year included Western Fiberglass Group, Soltech, Inc., Fiber-Lite, Falcon Manufacturing and Delsan Industries, Inc. — companies that together contributed to our capacity in small furnace technology, insulation products, polystyrene products and vinyl windows and doors.

■ In the area of new products and market development, our building materials business now features systems and solutions for the entire house, including glass fiber and foam insulation, siding, roofing, windows, patio doors, housewrap and acoustic batts. It adds up to a further strengthening of Owens Corning's relationship with the retail and builder channels.

There is much more. For example, *Computerworld* named the Company among the year's 100 Best Places to Work; *R&D Magazine* selected AURA® Superinsulation as one of the most technologically significant products of 1995; and *Popular Science* put our Pink*Plus*® Insulation featuring Miraflex™ fiber high on its roster of the "Best of What's New."

Twelve months ago, I wrote that 1995 was going to be a "pivotal year," which frankly, in our stage of development, is about as safe a prediction as one can make. Well, 1996 is going to be the same, only more so, for in addition to the dependable array of sales gains, new product launches and global expansion initiatives, we will be moving our headquarters to a new and very business-friendly building across and down the street.

There are some things that we will want to leave behind — internally-focused or hierarchical thinking, for example, and the type of narrow product loyalty that comes at the expense of the increasingly important Owens Corning umbrella brand. Far longer, however, is the list of hard-won gains that we'll be taking along — like the fast-spreading willingness to take risks; a sharpened focus on the customer; and the plan to expand the type of ingredient branding that worked so well for the K2 ski with Advantex™ fiber.

I look forward to keeping you informed.

Glen H. Hiner

In a swiftly growing global market, geographic expansion is a competitive edge critical to maintaining Owens Corning's world leadership position. Increasing balance, and a broader reach of business across markets and economies, provide greater sales opportunities and lessen susceptibility to adverse local market and economic factors. Emerging markets around the world offer tremendous potential for Owens Corning to expand the balance and breadth of its businesses. The Company is aggressively targeting these developing countries and regions, as well as expanding existing markets with new products and applications. Sales outside the United States in 1995 were 27 percent of total sales, up from 24 percent in 1994.

Rapid development, new construction and increasing energy awareness fuel growing market demand for insulation in Asia Pacific. Ren Yuan Zhong, Work Group Leader at Owens Corning's first insulation plant in China, packs pipe insulation for shipment to regional customers.

Aggressive global marketing demands global manufacturing capabilities. In 1995, Owens Corning opened its first insulation plant in China with a second opening in Shanghai in 1996. The Company opened a new pipe plant in China, its first in Asia Pacific, and two pipe operations in Spain and Argentina. A ninth pipe plant will open in Colombia in 1996. Owens Corning's pipe business provides low-cost entry into developing markets.

The rapidly-growing trend toward materials substitution has created an explosion of new applications for composite materials, in numerous industries. As the world leader, Owens Corning is meeting this trend with an increase in composites capacity of 30 percent over the next two years. This increase accounts for about half the total industry increase, far outdistancing the two largest rivals. A new composites facility is scheduled for India in 1998.

Increased brand awareness, through use of the corporate logo, trademarked color PINK and Pink Panther icon, helps Owens Corning leverage its market leadership around the world.

Shoppers at the North London retail outlet B&Q found aisles stacked high with PINK Supawrap™ insulation in 1995, representing the introduction of

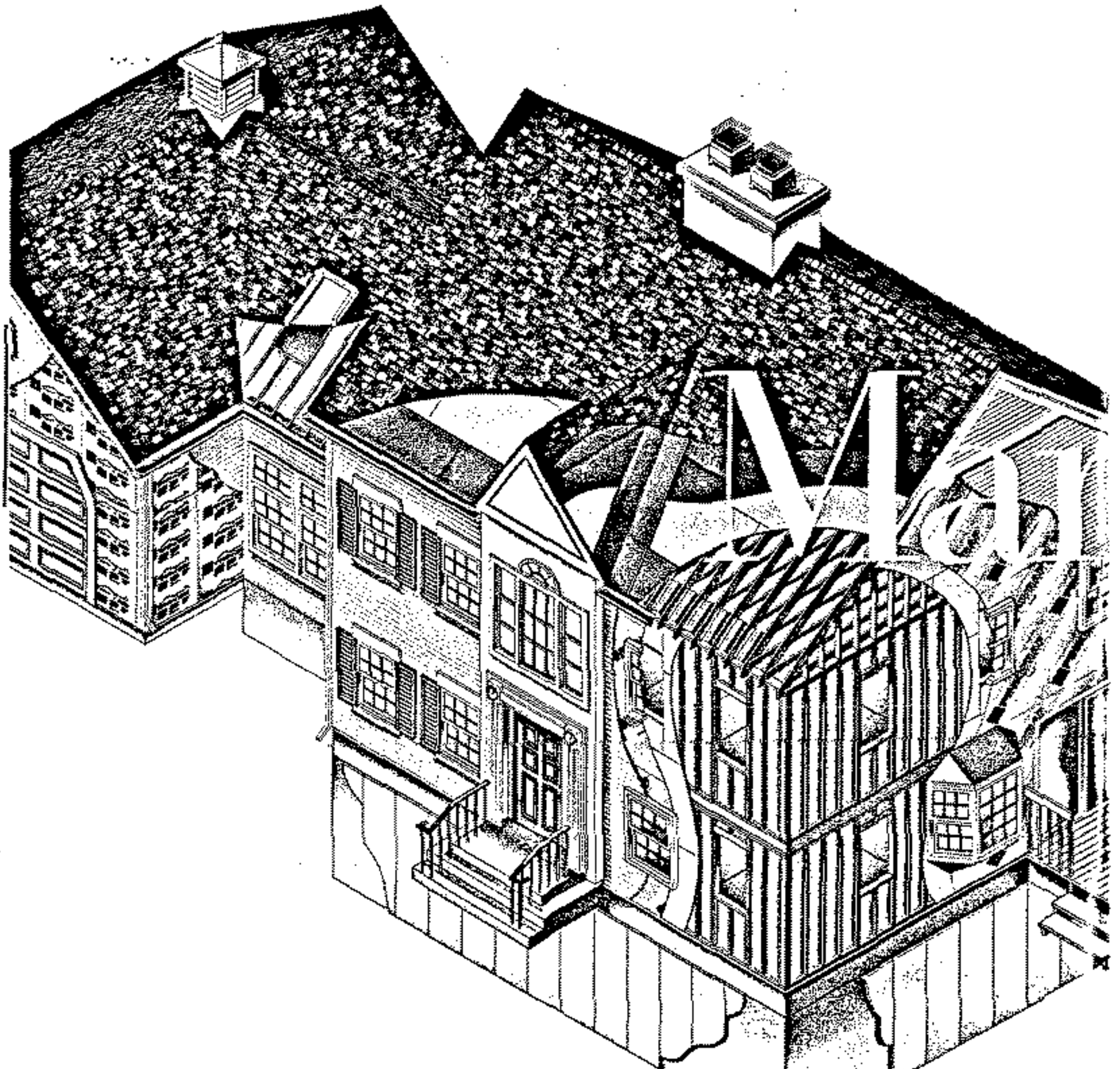
Owens Corning PINK products, led by the Pink Panther, in the United Kingdom. Similar introductions are planned for additional European countries.

The K95 trade show, a "plastics world fair" held in Dusseldorf, Germany, exemplifies the rapid growth of the composites industry and Owens Corning's leadership position worldwide. The Company showcased a myriad of the newest, most innovative applications from around the globe, *including Courtaulds armored vehicles, Velocity aircraft, automotive body parts and flexible pole vaulting equipment.*

The European auto industry, traditionally focused on composite structural parts, is increasing its attention toward U.S. composites technology in exterior body panels. Automotive body panels of glass fiber reinforced material weigh less, are stronger and easier to form into stylish, aerodynamic shapes, like this Alfa Romeo Spider hood. At the same time, U.S. automakers are increasing use of structural composite parts within the vehicle, providing growth opportunities on both sides of the Atlantic.

Owens-Corning Pipe Botswana won a $75 million contract in 1995, to supply large-diameter glass reinforced pipe for Botswana's North-South Carrier water project. At the Gaborone plant, which announced plans to double capacity in 1996, Captain Temba, Shift Supervisor, checks a section of pipe.

Owens Corning's integrated home building materials systems provide maximum energy efficiency, low maintenance and convenience. They combine total performance benefits of several integrated systems already sold by Owens Corning — an insulating system including glass fiber and foam insulation, windows and housewrap; a roofing system of vents, underlayment and shingles; an exterior color-match system of vinyl siding, windows, patio doors and roofing shingles; and an acoustical system, including acoustic batts, to be expanded in 1996.

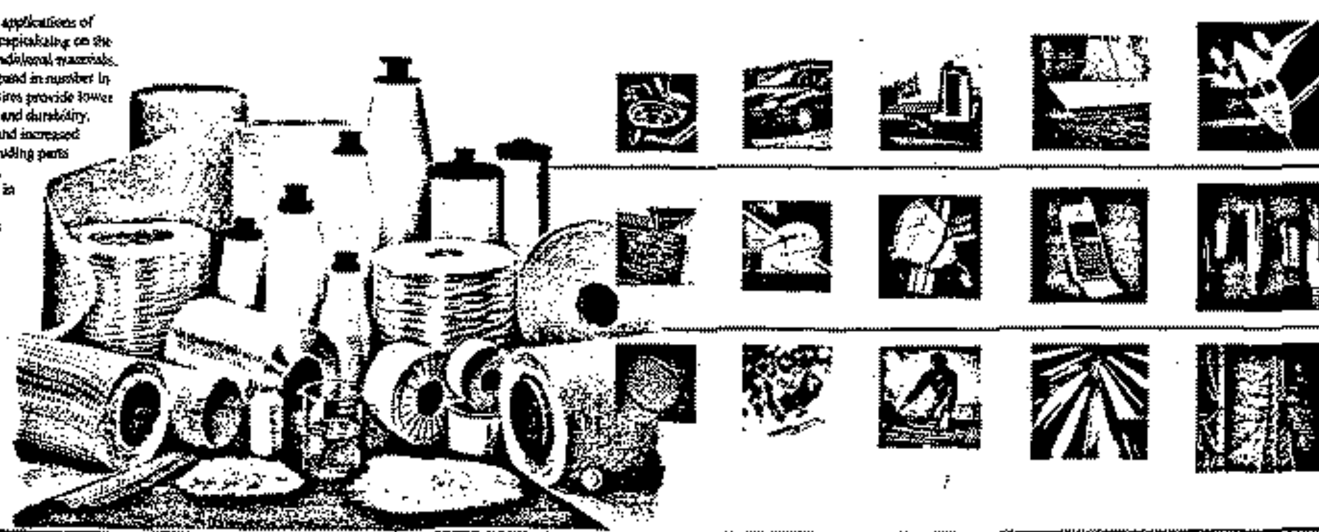


Owens Corning is perpetually expanding and redefining all markets in which it competes. Growth in existing markets through expanded product offerings and increased take-per-unit, combined with new market development, increase share gain, market penetration and business balance. Leveraging the Company's leadership position and unique industry insights, Owens Corning is redefining a mature building materials market through its multi-product systems approach. In 1996, the Company introduced its first truly integrated, multi-product home building materials system. The strategy allows Owens Corning to increase sales where it already has high product share, and grow that share profitably. From less than $1,000 per 1,800 square-foot house in 1993, Owens Corning increased its take-per-unit opportunities to $5,000 or more in 1996, while capitalizing on the growing home improvement market. Creating a new market for glass fiber within the building materials industry, in 1996 the Company introduced QuietZone™ Acoustic Batts for advanced sound control. In response to a growing trend, additional components of an integrated acoustical system will be introduced in 1996.

Owens Corning's extensive, well-positioned distribution network, spanning five continents, provides established channels to move new products into existing markets, as well as strong channel expertise and distribution know-how to grow and expand into new regions and emerging economies.

Glass fiber for composite materials now constitutes nearly one-third of total sales, with approximately one-half from outside the United States. As the world leader in glass composite materials, Owens Corning is taking advantage of its low-cost position, technical leadership, global distribution network and strong customer relationships to aggressively grow the composites business worldwide and expand applications. For example, take-per-vehicle is increasing in the worldwide automotive industry; growth in electronics includes cellular technology and fiber optics; and the construction market is substituting composites in a wide range of infrastructure-related products, including I-beams, bridge decks and concrete reinforcements.

...ovative, inventive applications of ...posite materials, capitalizing on the ...ng benefits over traditional materials, ...e continued to expand in number in ...ent years. Composites provide lower ..., greater strength and durability, ...rosion resistance and increased ...sign flexibility including parts ...nsolidation. Today, ...mposites are found in ...s 40,000 end-use ...oducts in numerous ...dustries, including ...nsportation, ...ctrical/electronics, ...creation, construc... ...n and others. In ... dynamic trend ... materials substitu... ...n, the potential ... composites is ...nlimited.



Consumers learn about performance features of building materials systems at an Owens Corning in-store computer kiosk, benefiting customers through education and retailers through higher potential sales. Consumers can also call the 1-800-GET-PINK Answer Center, where 90% of callers seeking out Owens Corning products.

Cutting-edge innovation, in all facets of operations, is a driving force at Owens Corning and a leading competitive advantage. Customer focused and bottom-line oriented, the Company's impressive heritage of innovation, incorporated into the corporate strategy, results in product, process and service excellence essential to global growth. Market-focused innovations not only create new products and applications, but speed commercialization, lower costs and create efficiencies in manufacturing and business processes. At the forefront of research and development around the world, Owens Corning's Science & Technology Center delves into new areas beyond existing business and enhances the Company's world leadership position.

Owens Corning promotes innovation and creativity at the college level, through programs including sponsorship of the 1995 *Sunrayce*, a solar-powered vehicle designed by engineering students at *The Ohio State University*. The Company's own competition, the Owens Corning Global Design Challenge, draws students from top universities worldwide to compete on design projects using composite materials.

Innovation is characterized by Miraflex™ fiber, the industry's first new form of glass fiber in nearly 60 years. Possessing properties never before associated with glass, the flexible, resilient fibers offer numerous application opportunities. Pink*Plus*® Insulation featuring Miraflex™ fiber, its first product application, was a great commercial success in the 1995 United States rollout.

Another first for the industry is Owens Corning's Prominence® shingle, also introduced in 1995, created with a proprietary blender technology that produces a uniquely styled, high-performance shingle at lower costs. In composites, the Composites Innovation Center develops process technologies, allowing reinforcements to penetrate markets where other materials have traditionally been used.

Innovations in marketing technology make it easier for customers to do business with Owens Corning and position the Company as a marketing partner they can't afford to do business without. Owens Corning's new Marketing Solutions Center, interactive in-store kiosks and Internet home page provide information and education for customers and dealers.

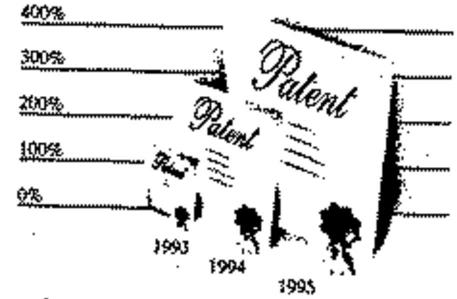
Andrew Mafeld, Vice President of Owens Corning's entrepreneurial Global Materials Applications and Design Center, works with 35 key staffers on long-term growth programs to develop new materials and technologies and to link technologies worldwide. Owens Corning Shake, a composite roofing

product, was developed by team Scientists Jim Wells, Denise McLain, James Wiggens and Roger McFarland. Owens Corning Shake provides improved performance including fire-resistance, durability and lighter weight, with a wood-like appearance. Test-marketed in California, commercialization throughout the U.S. is under consideration.

Bob Lonergan, Vice President of the Science & Technology organization, leads the group with an eye on the bottom-line to excel in cutting-edge innovations like resilient Miraflex™ fiber, the industry's first new glass fiber in nearly 60 years, and *Prominence shingles, created with proprietary new technology.**

Patent filings have increased 430% over 1992 levels. Owens Corning leads industry innovation with unmatched expertise in glass fiberization and technology. The global Science & Technology organization, along with new acquisitions like Soltech, *Inc.*, further the Company's drive to increase product development, reduce cycle times and speed commercialization.

(Percent of change from 1992)



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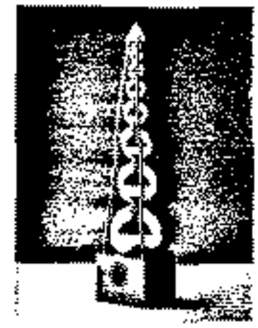
Part of a 1995 $100 million capital investment in the composites business, the Amarillo, Texas, composites plant now features 20% more capacity, following rebuilding of the furnace and other technological improvements. Roland Jackson, Shift Supervisor, conducts a quality check on multiple-end roving produced at the facility.

Aided by advanced computer systems, closed circuit monitoring and robotics, four 15-member self-directed work teams alternate shifts to ensure the Jackson, Tennessee, composites plant runs at optimum capacity around the clock. With only one overall job description and cross-training in all aspects of operation, team members Chris Bishop, Technician; Sekar Venkataraman, Manufacturing Engineer; and Jenny Harber, Technician, can move to assist at any point in the process while still monitoring his/her assigned station. This Automated Guided Vehicle automatically moves cartons between the warehouse and pack-out area. When not on a run, it will take itself to a docking station to recharge its batteries.



The 1995 REACH A[...] from *CFO Magazine* [...] MasterCard, recogniz[...] Owens Corning for [...] excellence in financia[l] reengineering. Sixteen Owens Corning finan[cial] teams, directed by se[...] financial leaders, emb[arked] on a series of coordina[ted] programs streamlining complex planning, budgeting and control systems and resulting [in] over $20 million in an[nual] cost savings.

Increased productivity, a limitless objective for Owens Corning, contributes directly to the bottom line through lower costs, reduced cycle times, faster response and improved customer satisfaction and employee morale. The Company strives for and achieves innovative productivity improvements in all areas of business, from manufacturing to business processes to administration. Owens Corning made significant strides toward increased productivity in 1995 through the creative initiative and solutions of employees around the world. Completing its first full year of operation in 1995, the redesigned composites plant in Jackson, Tennessee, now runs at full capacity with one 15-member team per shift managing the entire process. With an empowered work force, cost-efficiency and superior quality, the Jackson plant has redefined standards of manufacturing not only for Owens Corning, but the entire industry.

1995 marked the launch of Owens Corning Advantage 2000, a global, 100-week, enterprise-wide business process reengineering initiative. With total investment one-third less than maintaining the status quo, and expected contribution estimated at $50 million in annual cost savings, this initiative represents improvement in quality of pretax earnings by a full percentage point of sales.

Owens Corning's extensive reengineering of financial processes was recognized in 1995 with the REACH Award from *CFO Magazine* and MasterCard, for overall excellence. Winners illustrate the ability to "think outside the box, break rules, shatter assumptions, and find radically new and better ways of doing things," said one judge. Streamlined financial processes focus on shareholder issues and represent an additional $20 million in annual cost savings.

The ambitious Advantage 2000 initiative involves redesigning all core business processes and replacing 200 costly, inefficient computer systems with 10 state-of-the-art, globally integrated systems. Benchmarked against "best-in-class" practices, Advantage 2000 will give employees global

access to information, eliminate paperwork in most transactions and provide a flexible platform that can be modified over time to meet changing business needs. Scheduled to be completed in 1997, Advantage 2000 will cost one-third less than the cost of maintaining current systems.

Owens Corning's heritage of corporate stewardship reaches around the world. Reginaldo Murari, Project Coordinator from the Rio Claro, Brazil facility, shown here with his spouse Dinamara, embodies the spirit of giving through countless hours of service. Glen Hiner and Charlie Dana, Executive Vice President of Development/Planning/Sourcing, present him with Owens Corning's 1995 Volunteer of the Year award.

Achieving ambitious goals demands strong leadership to leverage the Company's strengths and implement aggressive growth strategies. Owens Corning leaders, both veteran and newcomer, trace success to empowering their people to take ownership of the Owens Corning growth strategy.

Owens Corning's superior leadership team, a core of seasoned Company leaders combined with strategic new additions, affords a breadth of talent and depth of expertise not often duplicated. Successful global expansion requires experience and a detailed knowledge of the business. Spearheading this effort are Chuck Bland, President, Latin America/Africa; Carl Hedlund, President, Asia Pacific; Warren Knowlton, President, Building Materials—Europe; Scott Koepke, President, Pipe; and Efthimios Vidalis, President, Composites — with a combined tenure of 107 years.

Dave Brown, President of Owens Corning's new Building Materials Sales and Distribution—North America business, draws his uncomplicated blueprint for the business — total customer focus.

New leaders bring fresh insight and innovative thinking. Senior Vice President and Chief Financial Officer David Devonshire, who joined the Company in 1993, directs a team dealing with sophisticated financial management in more than 30 countries. Acquisitions also add strong leadership to help the Company grow in new directions. Jerry Weinstein, President of Specialty and Foam Products, came to Owens Corning with the 1994 acquisition of UC Industries, Inc., and is directing expansion of the foam products and window businesses. Leadership sets a culture with emphasis on a safe and supportive work environment, making Owens Corning a preferred place of employment. The Company's strong leadership heritage also benefits diverse world communities. Reginaldo Murari of Rio Claro, Brazil, was named Owens Corning's 1995 Volunteer of the Year for his many hours of service with the homeless and AIDS prevention. Corporate partnering with Habitat for Humanity included the 1995 Jimmy Carter Work Project and the Build a Dream℠ Super Blitz '96, co-sponsored with the National Football League.

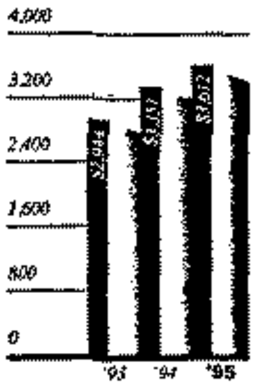
David Devonshire, Chief Financial Officer, leads the financial team that has been a major contributor to reengineering Owens Corning's balance sheet, as well as its global business processes, including Advantage 2000 — the Company's global systems and process reengineering initiative. This effort is expected to contribute an estimated $50 million in annual cost savings. In addition, the finance organization has been recognized for its leadership in financial reengineering with receipt of the 1995 REACH Award, sponsored by *CFO Magazine* and MasterCard.

Jerry Weinstein, President of Specialty and Foam Products, typifies Owens Corning's entrepreneurial approach to expanding new markets and introducing new products, leading the Company's entry into the foam products industry with expanded and PINK extruded foam insulation products, and the expansion of the vinyl windows, patio doors and vinyl siding businesses.

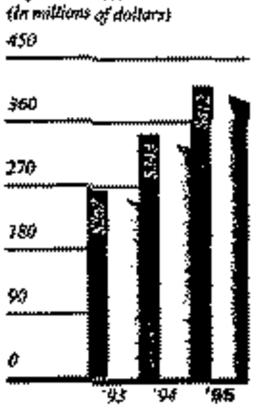
Management's Discussion and Analysis

(All per share information discussed below is on a fully diluted basis)

Net Sales
(In millions of dollars)

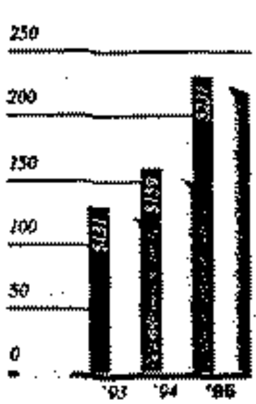


Income from Ongoing Operations*
(In millions of dollars)



**Excluding special items*

Net Income
(In millions of dollars)



Results of Operations

Net income for the year ended December 31, 1995 was $231 million, or $4.40 per share, compared to net income of $159 million, or $3.35 per share, and net income of $131 million, or $2.81 per share, for the years ended December 31, 1994 and 1993, respectively. The 1995 earnings growth reflects pricing gains and the benefits of acquisitions, as well as a one time gain of $8 million or $.15 per share which was the result of a tax loss carryback. Excluding the impact of the tax benefit, net income for the year ended December 31, 1995, was $223 million, or $4.25 per share. *Please see Note 8 to the Consolidated Financial Statements.*

Net income of $159 million for the year ended December 31, 1994, included the following offsetting special items: an after-tax gain of $123 million, or $2.45 per share, reflecting a change to the capital method of accounting for the rebuilding of glass melting facilities; an after-tax charge of $85 million, or $1.69 per share, for productivity initiatives and other actions; a non-cash, after-tax charge of $10 million, or $.20 per share, to reflect adoption of Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for plans outside the United States; and a non-cash, after-tax charge of $28 million, or $.56 per share, to reflect adoption of SFAS No. 112, "Employers' Accounting for Postemployment Benefits." Please see Notes 6, 16 and 17 to the Consolidated Financial Statements.

Excluding special items, net income for the year ended December 31, 1993 was $118 million, or $2.56 per share. The 1993 special items included a credit of $26 million, or $.53 per share, for the cumulative effect of adopting the accounting standard for income taxes (SFAS No. 109); a one time gain of $14 million, or $.29 per share, reflecting a tax benefit resulting from a revaluation of deferred taxes, offset in part by an increase in the Company's corporate tax liability, necessitated by the increase in the federal statutory tax rate; an after-tax charge of $5 million, or $.10 per share, for the write-down of the Company's hydrocarbon ventures to their net realizable value; and a charge of $23 million, or $.47 per share, for the restructuring of the Company's European operations. *Please see Notes 8 and 16 to the Consolidated Financial Statements.*

Net sales were $3.612 billion for the year ended December 31, 1995, reflecting an 8% increase from the 1994 level of $3.351 billion. Net sales in 1993 were $2.944 billion. Most of the 1995 growth is attributable to pricing gains achieved worldwide, with incremental growth resulting from acquisitions, which occurred mid year 1994 and throughout 1995. Please see Note 5 to the Consolidated Financial Statements. Sales outside the U.S. represented 27% of the total sales for the year ended December 31, 1995 compared to 24% for the years 1994 and 1993. Gross margin for the year ended December 31, 1995 increased to 26%, compared to 24% and 23% in 1994 and 1993, respectively, reflecting primarily pricing gains worldwide. Earnings before interest and taxes (EBIT) from ongoing operations increased to $412 million in 1995, from $343 million in 1994 and $267 million in 1993.

In the Building Materials segment, sales increased 6% for the year ended December 31, 1995 compared to 1994. This growth reflects pricing gains, and incremental sales from the 1995 acquisitions partially offset by a decline in volume, particularly in the Canadian markets. Income from operations for Building Materials decreased 9% from 1994 levels, after excluding the 1994 charge for restructure and other initiatives, primarily due to the weak economic conditions in Canada and start up costs associated with the Company's new insulation plant in Guangzhou, China.

Building Materials sales in Europe increased 45% over the 1994 level, primarily resulting from a full year of sales from the June 1994 acquisition of the United Kingdom based insulation and industrial supply businesses of Pilkington plc (the "U.K. Acquisition"), and the addition of a second production line at the

Industry Segment Data
(In millions of dollars)

Net Sales **$3,612**

- *Building Materials* **$2,404**
- *Composite Materials* **$1,208**

Company's insulation plant in Visé, Belgium. Late in the third quarter of 1995, the Company began shipping product from its insulation manufacturing facility in Guangzhou, China and announced plans for the construction of its second insulation plant in China, to be built in Shanghai. Roofing margins improved in 1995, driven primarily by improved pricing, and volume growth, including the successful introduction of Prominence® roofing shingles. The window business achieved significant sales growth and productivity improvements during the year, but has not yet reached break-even. In the foam insulation and related product markets, the Company has expanded its position with the acquisition of Falcon Manufacturing of Michigan, Inc. The Company also completed four other acquisitions in 1995 which are expected to contribute to the Company's overall growth strategy. These acquisitions increased the Company's small furnace technology base, as well as expanded its position in fabricated systems for the original equipment manufacturing market and its product offering for the window market. The Company further expanded its Building Materials multi-product offering in 1995 with the introduction of two branded products, Transitions™ vinyl siding and PinkWrap™ housewrap.

In 1995 Miraflex,™ the revolutionary new form of glass fiber developed by Owens Corning which combines two different glass compositions into one fiber, was successfully introduced to North American markets in its first commercial application, Pink*Plus*® insulation featuring Miraflex™ fiber. The Miraflex™ fibers are flexible, soft to the touch, virtually itch-free, resilient and form-filling, characteristics not normally associated with glass or inorganic fibers, which is driving the success of the new fiber.

Income from Operations* **$462**

- *Building Materials* **$237**
- *Composite Materials* **$225**

**Excludes general corporate expense of $50*

In the Composite Materials segment, sales increased 12% for the year ended December 31, 1995, or approximately 20% excluding the Company's previously consolidated polyester resins business, discussed below. The Composite Materials sales increase, driven by strong worldwide market demand, is attributable to volume and pricing gains, coupled with favorable currency impact from European markets. In the U.S., sales increased slightly, while in Europe, the Company's composites operations benefited from European economic improvement which resulted in increased demand, coupled with the positive effects of productivity initiatives.

In 1995 the Company announced plans to expand global composites capacity by 135,000 metric tons by 1997, with a significant portion of the new capacity coming from the refiring of the second furnace at the Company's Jackson, Tennessee facility. The remaining expansion will be at other existing facilities in the U.S., Europe, Asia and Latin America. The Company in 1995 began a new large diameter glass reinforced plastic (GRP) pipe facility in China, pipe joint ventures in Spain and Argentina, as well as a composite materials service center in Colombia. Early in 1996 the Company announced the formation of a pipe joint venture in Colombia, increasing the Company's global presence.

During the third quarter of 1994, the Company entered into a joint venture with Alpha Corporation of Tennessee, whereby the two companies combined their existing resin businesses for fifty percent interests in Alpha/Owens-Corning, L.L.C., the largest manufacturer of polyester resins in North America. Please see Note 5 to the Consolidated Financial Statements.

The Company's cost of borrowed funds for the year ended December 31, 1995 was $7 million lower than 1994, reflecting decreased borrowings resulting from the conversion of the Company's 8% convertible junior subordinated debentures into shares of common stock. Additionally, the proceeds from the issuance of $200 million of convertible preferred securities were partially used to pay off the Company's short-term credit facility, established during the second quarter of 1994 to finance the U.K. Acquisition. Please see Notes 2, 3 and 4 to the Consolidated Financial Statements.

Geographic Segment Data
(In millions of dollars)

Net Sales $3,612

United States	$2,643
Europe	$723
Canada and other	$246

Income from Operations* $462

United States	$330
Europe	$93
Canada and other	$39

**Excludes general corporate expense of $50*

At December 31, 1995, certain of the Company's foreign subsidiaries have tax net operating loss carryforwards of approximately $27 million. The Company has $322 million in net deferred tax assets at December 31, 1995, all of which management expects will be realized through future income from operations. Please see Note 8 to the Consolidated Financial Statements.

Early in the first quarter of 1996, the Company completed the sale of its share in a Japanese affiliate, Asahi Fiber Glass Co. Ltd., to its partner Asahi Glass Company for approximately $50 million and realized a pretax gain in excess of $25 million. Please see Note 12 to the Consolidated Financial Statements.

Liquidity, Capital Resources and Other Related Matters

Cash flow from operations, excluding asbestos-related activities, was $342 million for 1995, compared to $361 million for 1994. The decline in cash flow from operations from 1994 to 1995 was due in part to funding of a Voluntary Employee's Beneficiary Association trust for tax planning purposes. Total receivables at December 31, 1995 were $15 million lower than the December 31, 1994 level due to the sale of $50 million in receivables early in 1995, resulting in a total of $100 million of receivables sold under the 1994 sales agreement. The receivables sold were largely offset by increased sales in 1995. Please see Notes 6 and 10 to the Consolidated Financial Statements.

At December 31, 1995, the Company's net working capital was negative $9 million and its current ratio was .99, compared to negative $143 million and .87 at December 31, 1994, and negative $49 million and .94 at December 31, 1993, respectively. The increase in 1995 was due in part to decreased short-term borrowings as a result of the repayment of the financing used for the U.K. Acquisition. Excluding the impact of the short-term borrowings used to finance the U.K. Acquisition, the Company's net working capital was negative $33 million and its current ratio was .97 at December 31, 1994.

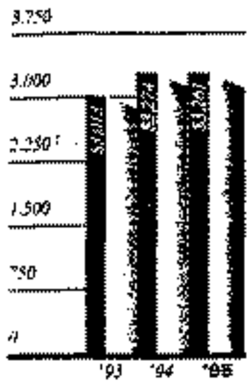
During 1995, virtually all of the Company's $173 million issue of 8% convertible junior subordinated debentures were converted. Debentures not converted were redeemed for cash. The conversion resulted in the issuance of 5.8 million new shares of common stock. Also in 1995, Owens-Corning Capital, L.L.C., a Delaware limited liability company, of which all of the common limited company interests are indirectly owned by the Company, issued $200 million of 6.5% cumulative convertible preferred securities. The proceeds from the issuance were loaned to the Company and partially used to repay its short-term credit facility. Please see Notes 2 and 4 to the Consolidated Financial Statements.

The Company's total borrowings at December 31, 1995 were $893 million, $319 million lower than at year-end 1994, primarily due to the conversion of its 8% convertible junior subordinated debentures, and the repayment of debt through the issuance of the above mentioned preferred securities.

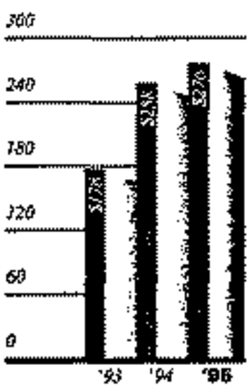
As of December 31, 1995, the Company had unused lines of credit of $358 million available under long-term bank loan facilities and an additional $239 million under short-term facilities, compared to $293 million and $91 million, respectively, at year-end 1994. The increase in unused available lines of credit reflects increased availability, primarily in foreign credit facilities, a decrease in borrowings and a decrease in outstanding letters of credit supporting appeals from asbestos trials. Such letters of credit reduce credit availability under the Company's long-term U.S. loan facility.

Capital spending for property, plant and equipment, excluding acquisitions, was $276 million during 1995. At the end of 1995, approved capital projects were $134 million. The Company expects that funding for these expenditures will be from the Company's operations and external sources as required.

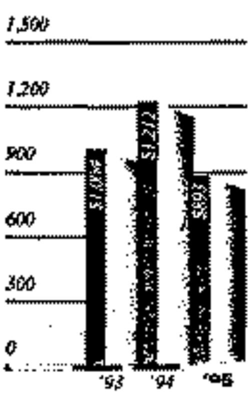
Total Assets
(In millions of dollars)



Capital Spending
(In millions of dollars)



Total Debt
(In millions of dollars)



Gross payments for asbestos litigation claims during 1995, including $48 million in defense costs and $6 million for appeal bond and other costs, were $308 million. Proceeds from insurance were $251 million, $100 million of which was received as a prepayment of a third quarter 1995 settlement with a major insurer, which confirmed the Company's access to $330 million of insurance for payment of asbestos litigation claims. Excluding the impact of the $100 million prepayment by the carrier, cash flow from asbestos related activities was a net pretax cash outflow of $157 million, or $94 million after-tax. During 1995, the Company received approximately 55,900 new asbestos personal injury cases and closed approximately 21,900 cases. Over the next twelve months, total payments for asbestos litigation claims, including defense costs, are expected to be approximately $250 million. Proceeds from insurance of $100 million are expected to be available to cover these costs, resulting in a net pretax cash outflow of $150 million, or $90 million after-tax. Please see Note 21 to the Consolidated Financial Statements.

The Company expects funds generated from operations, together with funds available under long and short term bank loan facilities, to be sufficient to satisfy its debt service obligations under its existing indebtedness, as well as its contingent liabilities for uninsured asbestos personal injury claims.

The Company has been deemed by the Environmental Protection Agency (EPA) to be a potentially responsible party (PRP) with respect to certain sites under the Comprehensive Environmental Response, Compensation and Liability Act (Superfund). The Company has also been deemed a PRP under similar state or local laws, including two state Superfund sites where the Company is the primary generator. In other instances, other PRPs have brought suits or claims against the Company as a PRP for contribution under such federal, state or local laws. During 1995, the Company was designated as a PRP in such federal, state, local or private proceedings for nine additional sites. At December 31, 1995, a total of 42 such PRP designations remained unresolved by the Company, some of which designations the Company believes to be erroneous. The Company is also involved with environmental investigation or remediation at a number of other sites at which it has not been designated a PRP. The Company has established a $20 million reserve for its Superfund (and similar state, local and private action) contingent liabilities. In addition, based upon information presently available to the Company, and without regard to the application of insurance, the Company believes that, considered in the aggregate, the additional costs associated with such contingent liabilities, including any related litigation costs, will not have a materially adverse effect on the Company's financial position or results of operations.

The 1990 Clean Air Act Amendments (Act) provide that the EPA will issue regulations on a number of air pollutants over a period of years. Until these regulations are developed, the Company cannot determine the extent to which the Act will affect it. The Company anticipates that its sources to be regulated will include glass fiber manufacturing and asphalt processing activities. The EPA's announced schedule is to issue regulations covering glass fiber manufacturing by late 1997 and asphalt processing activities by late 2000, with implementation as to existing sources up to three years thereafter. Based on information now known to the Company, including the nature and limited number of regulated materials it emits, the Company does not expect the Act to have a materially adverse effect on the Company's results of operations, financial condition or long-term liquidity.

Ten-Year Summary of Operations

(In millions of dollars, except share data and where noted)

	1995[a]	1994[b]	1993[c]	1992[d]	1991[e]	1990[f]	1989[g,h]	1988[i]	1987[j]	1986[k]
Net Sales	**$3,612**	$ 3,351	$ 2,944	$ 2,878	$ 2,783	$ 3,069	$ 2,964	$ 2,798	$ 2,857	$ 3,609
Cost of Sales	**2,670**	2,536	2,266	2,234	2,186	2,304	2,161	1,999	2,129	2,756
Marketing, Administrative and Other Expenses	**454**	518	373	366	1,171	414	323	278	258	619
Science and Technology Expenses	**76**	71	69	65	54	58	48	44	43	90
Income (Loss) from Operations	**412**	226	236	213	(628)	293	432	477	427	144
Cost of Borrowed Funds	**87**	94	89	110	131	165	166	170	221	94
Income (Loss) before Provision for Income Taxes	**325**	132	147	103	(759)	128	266	301	343	36
Provision (Credit) for Income Taxes	**106**	58	47	33	(238)	58	103	127	136	30
Net Income (Loss)	**231**	159	131	73	(742)	73	172	189	200	16
Net Income (Loss) per Share (Fully Diluted)	**4.40**	3.35	2.81	1.67	(18.13)	1.73	4.08	4.51	4.81	0.49
Weighted Average Number of Fully Diluted Shares Outstanding (in Thousands)	**54,106**	50,025	49,410	48,844	40,924	42,019	42,170	41,856	41,583	31,776
Net Cash Flow from Operations	**342**	361	312	184	264	361	395	360	290	416
Capital Spending	**276**	258	178	144	114	146	143	145	106	177
Total Assets (l)	**3,261**	3,274	3,013	3,162	3,511	1,807	1,924	1,596	1,590	2,187
Total Debt	**893**	1,212	1,004	1,099	1,172	1,300	1,482	1,444	1,635	2,469
Average Number of Employees (in Thousands)	**17**	17	17	17	17	18	20	20	21	30

(a) During 1995, the Company recorded a one time $8 million tax credit as a result of a tax loss carryback.

(b) During 1994, the Company recorded a $117 million charge ($85 million after-tax) for productivity initiatives and other actions. The Company also recorded a $10 million after-tax charge for the adoption of SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" for its non-U.S. plans, a $28 million after-tax charge for the adoption of SFAS 112, "Employers' Accounting for Postemployment Benefits," and a $123 million after-tax credit for the change in accounting method for rebuilding furnaces.

(c) During 1993, the Company recorded a $23 million charge for the restructuring of its European operations, an $8 million charge ($5 million after-tax) for the writedown of its hydrocarbon ventures to their net realizable value, a $26 million credit for the adoption of SFAS 109, "Accounting for Income Taxes," and a $14 million credit for the revaluation of deferred taxes.

(d) During 1992, the Company recorded a $16 million charge ($11 million after-tax) to reorganize the Company's Building Materials segment and to centralize the Company's accounting and information systems. The Company also recorded a net extraordinary gain of $1 million resulting from the utilization of tax loss carryforwards, partially offset by a loss on the early retirement of debt.

(e) During 1991, the Company recorded a non-recurring $824 million charge ($542 million after tax) for asbestos litigation claims and a $227 million after-tax charge, or $5.55 per share, for the adoption of SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" for its U.S. plans.

(f) During 1990, the Company recorded a $65 million restructuring charge and a $24 million pre-tax charge for asbestos litigation claims.

(g) During 1989, the Company recorded an additional $50 million in its existing asbestos-related claims reserves, a $50 million credit resulting from a settlement reached with the IRS, and a restructuring charge of $30 million.

(h) Beginning in the fourth quarter of 1989, the Company's consolidated financial statements include the results of Owens-Corning Canada, Inc.

(i) During 1988, the Company recorded an $8 million extraordinary loss resulting from the early retirement of debt.

(j) During 1987, the Company recorded a gain of $141 million resulting from the sale of the Aerospace and Strategic Materials Group and a $20 million extraordinary loss resulting from the early retirement of debt.

(k) During 1986, the Company recorded a restructuring charge of $200 million.

(l) During 1993, the Company adopted the provisions of FIN 39 which require the Company to present separately in its balance sheet its estimated contingent liabilities and related insurance assets. 1992 and 1991 assets have been restated to conform with the 1994 and 1993 presentations.

Price Range of Common Stock

	1995		1994		1993	
	High	Low	High	Low	High	Low
First Quarter	**36¾**	**30¼**	46	33½	47	34⅞
Second Quarter	**40**	**34⅝**	36⅛	30½	45¼	36¼
Third Quarter	**47⅛**	**36⅞**	36¼	30⅛	45⅝	40¼
Fourth Quarter	**4 ¾**	**40⅝**	33½	27¼	49⅛	42½

To the Stockholders of Owens Corning:

Report of Independent Public Accountants

We have audited the accompanying consolidated balance sheet of OWENS CORNING (a Delaware corporation) and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Owens Corning and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

As discussed in Notes 6, 8 and 17 to the consolidated financial statements, effective January 1, 1994, the Company changed its methods of accounting for furnace rebuilds, postretirement benefits other than pensions for its non-U.S. plans, and postemployment benefits, and effective January 1, 1993, the Company changed its method of accounting for income taxes.

Arthur Andersen LLP

January 20, 1996
Toledo, Ohio

Management's Report

The financial statements of Owens Corning and subsidiaries have been prepared by management in conformity with generally accepted accounting principles. Management uses its best informed judgments to ensure that these statements fairly reflect the Company's financial position. Financial information contained elsewhere in this annual report is consistent with the financial statements.

The Company maintains a system of internal accounting controls designed to provide reasonable assurances that assets are protected from improper use and that transactions are properly authorized and recorded.

The Board of Directors pursues its responsibility for overview of the Company's financial statements through its Audit Committee, which is comprised of directors who are not officers or employees of the Company. The Audit Committee meets periodically with management, the Company's internal auditors, and the independent public accountants to review and assess the activities of each in meeting their respective responsibilities. The independent public accountants and the director of internal auditing have full and free access to the Audit Committee to discuss the scope and results of their audit work, the adequacy of internal accounting controls, and the quality of management's financial reporting.

Glen H. Hiner
Chairman and Chief Executive Officer

David W. Devonshire
Senior Vice President and
Chief Financial Officer

Domenico Cecere
Vice President and Controller

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of majority owned subsidiaries. Significant intercompany accounts and transactions are eliminated.

Net Income per Share

Primary net income per share is computed using the weighted average number of common shares outstanding and common equivalent shares during the period. Fully diluted net income per share reflects the dilutive effect of increased shares that would result from the conversion of debt and equity securities which are not treated as common stock equivalents. Unless otherwise indicated, all per share information included in the notes to the Owens Corning and subsidiaries' (the "Company") consolidated financial statements is presented on a fully diluted basis.

Inventory Valuation

Inventories are stated at cost, which is less than market value, and include material, labor, and manufacturing overhead. The majority of U.S. inventories are valued using the last-in, first-out (LIFO) method and the balance of inventories are generally valued using the first-in, first-out (FIFO) method.

Intangible Assets

Intangible assets consist primarily of goodwill, patents, and covenants not to compete and are carried at cost less accumulated amortization. Goodwill is amortized on a straight-line basis over a period of forty years. Other intangible assets are amortized over their estimated useful lives or actual contractual lives. The Company continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful lives of intangible assets may warrant revision or that the remaining balance of these intangible assets may not be recoverable. When factors indicate that intangible assets should be evaluated for possible impairment, the Company uses an estimate of the related business segment's undiscounted net income over the remaining life of the intangible asset in measuring whether the intangible asset is recoverable.

Investments in Affiliates

Investments in affiliates are accounted for using the equity method, under which the Company's share of earnings of these affiliates is reflected in income as earned and dividends are credited against the investment in affiliates when received.

Depreciation

For assets placed in service prior to January 1, 1992, the Company's plant and equipment is depreciated primarily using the double-declining balance method for the first half of an asset's estimated useful life and the straight-line method is used thereafter. For assets placed in service after December 31, 1991, the Company's plant and equipment is depreciated using the straight-line method.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Rebuilding of Glass Melting Furnaces

The Company's glass melting furnaces periodically require substantial rebuilding. As discussed in Note 17 to the consolidated financial statements, effective January 1, 1994, the Company adopted the capital method of accounting for the cost of rebuilding glass melting furnaces. Under this method, costs are capitalized when incurred and depreciated over the estimated useful lives of the rebuilt furnaces.

Derivative Financial Instruments

Gains and losses on hedges of existing assets or liabilities are included in the carrying amount of those assets or liabilities and are ultimately recognized in income as part of those carrying amounts. Gains and losses on hedges of net investments in foreign subsidiaries are included in stockholders' equity. Gains and losses related to qualifying hedges of firm commitments or anticipated transactions also are deferred and are recognized in income or as adjustments of carrying amounts when the hedged transaction occurs. Gains and losses on forward currency exchange contracts that do not qualify as hedges are recognized as other income or expense.

Reclassifications

Certain reclassifications have been made to 1994 and 1993 to conform with the classifications used in 1995.

Consolidated Statement of Income

For the years ended December 31, 1995, 1994 and 1993 (In millions of dollars, except share data)

	1995	1994	1993
Net Sales	**$3,612**	$ 3,351	$ 2,944
Cost of Sales	**2,670**	2,536	2,266
Gross margin	**942**	815	678
Operating Expenses			
Marketing and administrative expenses	**444**	391	327
Science and technology expenses (Note 9)	**76**	71	69
Restructure costs (Note 16)	**—**	89	23
Other (Notes 2, 4, 10 and 16)	**10**	38	23
Total operating expenses	**530**	589	442
Income from Operations	**412**	226	236
Cost of borrowed funds (Notes 2 and 3)	**87**	94	89
Income before Provision for Income Taxes	**325**	132	147
Provision for income taxes (Note 8)	**106**	58	47
Income before Equity in Net Income of Affiliates	**219**	74	100
Equity in net income of affiliates (Notes 5 and 12)	**12**	—	5
Income before Cumulative Effect of Accounting Changes	**231**	74	105
Cumulative effect of accounting changes (Notes 6, 8 and 17)	**—**	85	26
Net Income	**$ 231**	$ 159	$ 131
Net Income per Common Share			
Primary:			
Income before cumulative effect of accounting changes	**$ 4.64**	$ 1.70	$ 2.40
Cumulative effect of accounting changes	**—**	1.91	.60
Net Income per Share	**$ 4.64**	$ 3.61	$ 3.00
Assuming Full Dilution:			
Income before cumulative effect of accounting changes	**$ 4.40**	$ 1.66	$ 2.28
Cumulative effect of accounting changes	**—**	1.69	.53
Net Income per Share	**$ 4.40**	$ 3.35	$ 2.81
Weighted average number of common shares outstanding and common equivalent shares during the period (in millions):			
Primary	**49.7**	44.2	43.6
Assuming full dilution	**54.1**	50.0	49.4

The accompanying summary of significant accounting policies and notes are an integral part of this statement.

Consolidated Balance Sheet

December 31, 1995 and 1994 (In millions of dollars)

Assets	**1995**	1994
Current		
Cash and cash equivalents	**$ 18**	$ 59
Receivables, less allowances of $19 million in 1995 and $16 million in 1994 (Note 10)	**314**	329
Inventories (Note 11)	**253**	223
Insurance for asbestos litigation claims — current portion (Note 21)	**100**	125
Deferred income taxes (Note 8)	**70**	156
VEBA trust (Note 6)	**51**	—
Income tax receivable	**50**	12
Investment in affiliate held for sale (Note 12)	**36**	—
Other current assets	**35**	26
Total current	**927**	930
Other		
Insurance for asbestos litigation claims (Note 21)	**330**	556
Deferred income taxes (Note 8)	**252**	308
Goodwill, less accumulated amortization of $19 million in 1995 and $14 million in 1994 (Note 5)	**249**	151
Investments in affiliates (Notes 5 and 12)	**50**	74
Other noncurrent assets (Note 6)	**147**	122
Total other	**1,028**	1,211
Plant and Equipment, at cost		
Land	**52**	51
Buildings and leasehold improvements	**581**	553
Machinery and equipment	**2,266**	2,172
Construction in progress	**168**	125
	3,067	2,901
Less: Accumulated depreciation	**(1,761)**	(1,768)
Net plant and equipment	**1,306**	1,133
Total Assets	**$3,261**	$ 3,274

The accompanying summary of significant accounting policies and notes are an integral part of this statement.

Consolidated Balance Sheet

December 31, 1995 and 1994 (In millions of dollars)

Liabilities and Stockholders' Equity	**1995**	1994
Current		
Accounts payable and accrued liabilities (Note 13)	**$ 587**	$ 598
Reserve for asbestos litigation claims — current portion (Note 21)	**250**	300
Short-term debt (Note 3)	**64**	155
Long-term debt — current portion (Note 2)	**35**	20
Total current	**936**	1,073
Long-Term Debt (Note 2)	**794**	1,037
Other		
Reserve for asbestos litigation claims (Note 21)	**887**	1,145
Other employee benefits liability (Note 6)	**367**	390
Pension plan liability (Note 7)	**75**	77
Other	**220**	232
Total other	**1,549**	1,844
Commitments and Contingencies (Notes 15, 20 and 21)		
Company Obligated Convertible Security of Subsidiary Holding Solely Parent Debentures (MIPS, Note 4)	**194**	—
Stockholders' Equity		
Preferred stock, no par value; authorized 8 million shares, none outstanding (Note 19)		
Common stock, par value $.10 per share; authorized 100 million shares; issued 1995 — 51.4 million and 1994 — 44.2 million shares (Notes 2, 5 and 18)	**579**	348
Deficit	**(781)**	(1,012)
Foreign currency translation adjustments	**9**	(1)
Other (Note 7)	**(19)**	(15)
Total stockholders' equity	**(212)**	(680)
Total Liabilities and Stockholders' Equity	**$3,261**	$ 3,274

Consolidated Statement of Stockholders' Equity

For the years ended December 31, 1995, 1994 and 1993 (In millions of dollars)

	1995	1994	1993
Common Stock			
Balance beginning of year	**$ 348**	$ 315	$ 299
Issuance of stock for:			
Conversion of debt (Note 2)	**173**	—	—
Acquisitions (Note 5)	**42**	27	—
Awards under stock compensation plans (Note 18)	**16**	6	16
Balance end of year	**579**	348	315
Deficit			
Balance beginning of year	**(1,012)**	(1,171)	(1,302)
Net income	**231**	159	131
Balance end of year	**(781)**	(1,012)	(1,171)
Foreign Currency Translation Adjustments			
Balance beginning of year	**(1)**	5	4
Translation adjustments	**10**	(6)	1
Balance end of year	**9**	(1)	5
Other			
Balance beginning of year	**(15)**	(18)	(9)
Net increase (decrease)	**(4)**	3	(9)
Balance end of year	**(19)**	(15)	(18)
Stockholders' Equity	**$ (212)**	$ (680)	$ (869)

The accompanying summary of significant accounting policies and notes are an integral part of this statement.

Consolidated Statement of Cash Flows

For the years ended December 31, 1995, 1994 and 1993 (In millions of dollars)

	1995	1994	1993
Net Cash Flow from Operations			
Net income	**$ 231**	$ 159	$ 131
Reconciliation of net cash provided by operating activities:			
Noncash items:			
Cumulative effect of accounting changes (Notes 6, 8 and 17)	**—**	(85)	(26)
Provision for depreciation, amortization, and rebuilding furnaces (Note 17)	**125**	118	121
Provision for deferred income taxes (Note 8)	**142**	59	10
Other	**5**	9	10
(Increase) decrease in receivables (Note 10)	**36**	21	(22)
(Increase) decrease in inventories	**(15)**	17	4
Increase (decrease) in accounts payable and accrued liabilities	**(50)**	53	114
Funding of VEBA trust (Note 6)	**(64)**	—	—
Other	**(68)**	10	(30)
Net cash flow from operations	**342**	361	312
Net Cash Flow from Investing			
Additions to plant and equipment	**(276)**	(258)	(178)
Investment in subsidiaries, net of cash acquired (Note 5)	**(81)**	(120)	—
Other	**(4)**	23	—
Net cash flow from investing	**(361)**	(355)	(178)
Net Cash Flow from Financing (Notes 2, 3 and 4)			
Net additions (reductions) to long-term credit facilities	**55**	10	(90)
Other additions to long-term debt	**9**	145	—
Other reductions to long-term debt	**(128)**	(51)	(21)
Net increase (decrease) in short-term debt	**(94)**	69	26
Issuance of preferred stock of subsidiary, net of fees	**194**	—	—
Other	**—**	5	11
Net cash flow from financing	**36**	178	(74)
Net Cash Flow from Asbestos-Related Activities (Note 21)			
Proceeds from insurance for asbestos litigation claims	**251**	87	224
Payments for asbestos litigation claims	**(308)**	(215)	(283)
Net cash flow from asbestos-related activities	**(57)**	(128)	(59)
Effect of exchange rate changes on cash	**(1)**	—	—
Net increase (decrease) in cash and cash equivalents	**(41)**	56	1
Cash and cash equivalents at beginning of year	**59**	3	2
Cash and cash equivalents at end of year	**$ 18**	$ 59	$ 3

The accompanying summary of significant accounting policies and notes are an integral part of this statement.

Notes to Consolidated Financial Statements

1. Segment Data

The Company operates in two industry segments, Building Materials and Composite Materials, and reports its results in two ways: by industry segment and by geographic segment. See Note 5 for detail of 1995 and 1994 acquisitions and divestitures of businesses.

The industry segments are defined as follows:

Building Materials

Production and sale of glass wool fibers formed into thermal and acoustical insulation and air ducts; extruded and expanded polystyrene insulation; roofing shingles and asphalt materials; underground storage tanks; windows; and the rebranded sale of patio doors; vinyl siding and housewrap.

Composite Materials

Production and sale of glass fiber yarns; rovings, mats and veils; strand and reinforcement products; fiber reinforced plastic pipe; and polyester and vinyl ester resins.

The geographic segment reporting combines the two industry segments within the major regions: United States, Europe, and Canada and other.

Intersegment sales are generally recorded at market or equivalent value. Income (loss) from operations by industry and geographic segment consists of net sales less related costs and expenses. In computing income (loss) from operations by segment, cost of borrowed funds and other general corporate income and expenses have been excluded. Certain corporate operating expenses directly traceable to industry and geographic segments have been allocated to those segments.

During the first quarter of 1994, the Company recorded a $117 million pretax charge for productivity initiatives and other actions (Note 16). The impact of this charge was to reduce income from operations for Building Materials and Composite Materials by $70 million and $22 million, respectively, and to increase general corporate expense by $25 million. Geographically, income from operations for Building Materials in the United States and Canada and other was reduced by $50 million and $20 million, respectively. Income from operations for Composite Materials in the United States, Europe, and Canada and other was reduced by $6 million, $13 million, and $3 million, respectively. During the first quarter of 1993, the Company recorded a $23 million charge to reorganize its European operations, the full impact of which was reflected as a reduction to income from operations for the Composite Materials segment (Note 16).

Identifiable assets by industry and geographic segment are those assets that are used in the Company's operations in each industry and geographic segment and do not include general corporate assets. General corporate assets consist primarily of cash and cash equivalents, VEBA trust, deferred taxes, asbestos insurance, and corporate property and equipment.

(In millions of dollars)	**1995**	1994	1993
Net Sales			
Industry Segments			
Building Materials			
United States	**$2,033**	$ 1,952	$ 1,699
Europe	**264**	182	97
Canada and other	**107**	139	150
Total Building Materials	**2,404**	2,273	1,946
Composite Materials			
United States	**610**	595	528
Europe	**459**	355	346
Canada and other	**139**	128	124
Total Composite Materials	**1,208**	1,078	998
Intersegment sales			
Building Materials	**—**	—	—
Composite Materials	**96**	99	85
Eliminations	**(96)**	(99)	(85)
Net sales	**$3,612**	$ 3,351	$ 2,944
Geographic Segments			
United States	**$2,643**	$ 2,547	$ 2,227
Europe	**723**	537	443
Canada and other	**246**	267	274
	3,612	3,351	2,944
Intersegment sales			
United States	**54**	43	42
Europe	**21**	22	15
Canada and other	**88**	91	66
Eliminations	**(163)**	(156)	(123)
Net sales	**$3,612**	$ 3,351	$ 2,944

1. Segment Data (Continued)

(In millions of dollars)	1995	1994	1993
Income (Loss) from Operations			
Industry Segments			
Building Materials			
United States	$ 195	$ 145	$ 153
Europe	29	26	16
Canada and other	13	18	6
Total Building Materials	237	189	175
Composite Materials			
United States	135	108	101
Europe	64	(8)	(15)
Canada and other	26	9	12
Total Composite Materials	225	109	98
General corporate expense	(50)	(72)	(37)
Income from operations	412	226	236
Cost of borrowed funds	(87)	(94)	(89)
Income before provision for income taxes	$ 325	$ 132	$ 147
Geographic Segments			
United States	$ 330	$ 253	$ 254
Europe	93	18	1
Canada and other	39	27	18
General corporate expense	(50)	(72)	(37)
Income from operations	412	226	236
Cost of borrowed funds	(87)	(94)	(89)
Income before provision for income taxes	$ 325	$ 132	$ 147

(In millions of dollars)	1995	1994	1993
Identifiable Assets at December 31			
Industry Segments			
Building Materials			
United States	$ 893	$ 718	$ 596
Europe	170	162	46
Canada and other	194	136	155
Total Building Materials	1,257	1,016	797
Composite Materials			
United States	361	326	302
Europe	388	335	256
Canada and other	145	160	157
Total Composite Materials	894	821	715
General corporate	1,024	1,363	1,438
	3,175	3,200	2,950
Investments in affiliates accounted for under the equity method	86	74	63
Total assets	$3,261	$ 3,274	$ 3,013
Geographic Segments			
United States	$1,254	$ 1,044	$ 898
Europe	558	497	302
Canada and other	339	296	312
General corporate	1,024	1,363	1,438
	3,175	3,200	2,950
Investments in affiliates accounted for under the equity method	86	74	63
Total assets	$3,261	$ 3,274	$ 3,013

(In millions of dollars)	1995	1994	1993
Provision for Depreciation, Amortization, and Rebuilding Furnaces			
Industry Segments			
Building Materials			
United States	**$ 49**	$ 48	$ 47
Europe	**11**	6	2
Canada and other	**8**	8	11
Total Building Materials	**68**	62	60
Composite Materials			
United States	**22**	22	24
Europe	**18**	17	16
Canada and other	**7**	8	10
Total Composite Materials	**47**	47	50
General corporate	**10**	9	11
Total provision for depreciation, amortization, and rebuilding furnaces	**$ 125**	$ 118	$ 121
Geographic Segments			
United States	**$ 71**	$ 70	$ 71
Europe	**29**	23	18
Canada and other	**15**	16	21
General corporate	**10**	9	11
Total provision for depreciation, amortization, and rebuilding furnaces	**$ 125**	$ 118	$ 121

(In millions of dollars)	1995	1994	1993
Additions to Plant and Equipment			
Industry Segments			
Building Materials			
United States	**$ 60**	$ 85	$ 82
Europe	**36**	41	2
Canada and other	**33**	7	5
Total Building Materials	**129**	133	89
Composite Materials			
United States	**37**	41	31
Europe	**39**	35	32
Canada and other	**18**	26	7
Total Composite Materials	**94**	102	70
General corporate	**53**	23	19
Total additions	**$ 276**	$ 258	$ 178
Geographic Segments			
United States	**$ 97**	$ 126	$ 113
Europe	**75**	76	34
Canada and other	**51**	33	12
General corporate	**53**	23	19
Total additions	**$ 276**	$ 258	$ 178

2. Long-Term Debt

(In millions of dollars)	1995	1994
Unsecured U.S. credit facility due in 1997, variable	$ 55	$ 35
Unsecured European credit facilities due through 2002, variable	40	—
Unsecured Canadian credit facility due in 1997, variable	—	4
Guaranteed debentures due in 2001, 10%	150	150
Debentures due in 2002, 8.875%	150	150
Debentures due in 2012, 9.375%	150	149
Guaranteed debentures due in 1998, 9.8%	100	100
Eurobonds due through 2001, 9.814% (Note 20)	63	140
Bonds due in 2000, 7.25%, payable in Deutsche marks (Note 20)	50	50
Convertible junior subordinated debentures due in 2005, 8%, convertible at $29.75 per share	—	173
Notes due through 2002, 6.06% to 8.50%, payable in foreign currencies	26	38
Other long-term debt due through 2012, at rates from 5.375% to 12.47%	45	68
	829	1,057
Less: Current portion	(35)	(20)
Total long-term debt	$ 794	$ 1,037

The U.S. credit facility has a maximum commitment of $475 million at December 31, 1995, of which $176 million was used for standby letters of credit and $244 million was unused. The rate of interest is either the bank's base rate, or 13/16% over the certificate of deposit rate, or 11/16% over the London Interbank Offered Rate (LIBOR). The weighted average rate of interest paid on borrowings under this facility during 1995 was 6.9%, (8.5% at December 31, 1995). A commitment fee of 1/4 of 1% is charged on the unused portions of this facility.

The Canadian credit facility is payable in Canadian dollars and has a maximum commitment of 135 million Canadian dollars ($99 million U.S. dollars), all of which was unused at December 31, 1995. The rate of interest is either 11/16% over the Canadian cost of funds rate, or 11/16% over LIBOR on U.S. deposits, or .7875% over the Canadian bankers' acceptance rate. A commitment fee of 1/4 of 1% is charged on the unused portions of this facility.

The European credit facilities, payable in Belgian francs, have an aggregate commitment of 1.6 billion Belgian francs ($55 million U.S. dollars) of which 400 million Belgian francs ($15 million U.S. dollars) was unused at December 31, 1995. The rate of interest on the facilities ranges from 4.28% to 4.51% at December 31, 1995. The commitment fee on the unused portions of the facilities range from 3/20 to 1/4 of 1%.

As is typical for bank credit facilities, the agreements relating to the facilities described above contain restrictive covenants, including requirements for the maintenance of working capital, interest coverage, and minimum coverage of fixed charges; and limitations on the early retirement of subordinated debt, additional borrowings, certain investments, payment of dividends, and purchase of Company stock. The agreements include a provision which would result in all of the unpaid principal and accrued interest of the facilities becoming due immediately upon a change of control in ownership of the Company. A material adverse change in the Company's business, assets, liabilities, financial condition or results of operations constitutes a default under the agreements.

During 1995, the Company's $173 million issue of 8% convertible junior subordinated debentures were converted. The conversion resulted in the issuance of 5.8 million new shares of common stock. In conjunction with the conversion of the debentures, the Company paid fees of approximately $3 million which are reflected as other expenses on the Company's consolidated statement of income for the year ended December 31, 1995.

In November 1994, Owens-Corning Finance (U.K.) PLC, a wholly-owned subsidiary of the Company, issued $140 million of Eurobonds. These bonds are convertible into fixed rate preference shares of Owens-Corning Finance (U.K.) PLC in November 2004 and may be redeemed at any time, at a premium, at the option of the Company. The bonds are guaranteed by the Company as to payments of principal and interest and rank similarly with all other senior unsecured debt of the Company. Subsequently, in a separate transaction, the Company sold a put option to the holder of the bonds allowing the option holder to require the Company to purchase a portion of the bonds. As a result of the holder's exercise of the put option, in May 1995, the Company repurchased a portion of the $140 million issue of Eurobonds for $77 million.

The aggregate maturities and sinking fund requirements for all long-term debt issues for each of the five years following December 31, 1995 are:

Year (In millions of dollars)	Credit Facilities	Other Long-Term Debt
1996	$ —	$ 35
1997	63	19
1998	8	112
1999	8	12
2000	6	75

3. Short-Term Debt

(In millions of dollars)	**1995**	1994
Balance outstanding at December 31	**$ 64**	$ 155
Weighted average short-term borrowings	**$ 184**	$ 165
Weighted average interest rates on short-term debt outstanding at December 31	**7.5%**	6.6%

In May 1995 the Company repaid its unsecured, variable rate, short-term bank credit facility that was used to finance the 1994 U.K. acquisition (Note 5). This facility had a maximum commitment of $110 million at December 31, 1994, all of which was used. The rate of interest on borrowings under this facility was 1/2 of 1% over LIBOR, or 6.6875% at December 31, 1994.

In December 1995 the Company entered into two revolving credit agreements. Each quarter during 1996, the Company may borrow up to a predetermined amount from $13 million to $16 million. The amount borrowed may be repaid in U.S. dollars at less than or equal to the original borrowing, based upon predetermined British pound or Belgian franc currency exchange rates. The agreements are in effect through 1996 and bear interest at market rates in effect at the time of each borrowing.

The Company had unused short-term lines of credit totalling $239 million and $91 million at December 31, 1995 and 1994, respectively.

4. Convertible Monthly Income Preferred Securities (MIPS)

In May 1995, Owens-Corning Capital, L.L.C. ("OC Capital"), a Delaware limited liability company, all of the common limited liability company interests in which are owned indirectly by the Company, completed a private offering of 4 million shares of Convertible Monthly Income Preferred Securities ("preferred securities"). The aggregate purchase price for the offering was $200 million. In conjunction with the offering, the Company incurred $6 million in issuance costs.

The preferred securities are guaranteed in certain respects by the Company and are convertible, at the option of the holders, into Company common stock at the rate of 1.1416 shares of Company common stock for each preferred security (equivalent to a conversion price of $43.80 per common share). OC Capital cannot initiate any action relating to conversion until after June 1, 1998. Distributions on the preferred securities are cumulative and are payable at the annual rate of 6-1/2 percent of the liquidation preference of $50 per preferred security. Distributions of $8 million have been recorded as other expenses on the Company's consolidated statement of income for the year ended December 31, 1995.

The Company issued $200 million of 6-1/2 percent Convertible Subordinated Debentures due 2025 to OC Capital, which represents the sole asset of OC Capital, in exchange for the proceeds of the offering. The Company used the proceeds to repay the $110 million short-term bank credit facility utilized for the 1994 U.K. acquisition (Note 5), with the balance used to reduce borrowings under the Company's revolving credit facilities.

5. Acquisitions and Divestitures of Businesses

During 1995 and 1994, the Company made several acquisitions in the Building Materials segment in the United States and Europe, which were consummated through the exchange of various combinations of common stock and cash. The aggregate purchase price including possible subsequent contingent consideration was $126 million and $155 million for 1995 and 1994, respectively. The 1995 acquisitions exchanged 946,922 shares of the Company's common stock and $82 million in cash which includes $1 million to be paid in the first quarter of 1996 and the 1994 acquisitions exchanged 855,556 shares of the Company's common stock and $120 million in cash, net of cash acquired, for all of the assets and liabilities of the companies acquired. The incremental sales from the acquisitions, in the year of acquisition, were $41 million and $134 million for the years ended December 31, 1995 and 1994, respectively.

The largest of these acquisitions was the 1994 second quarter acquisition of Pilkington Insulation Limited and Kitsons Insulation Products Limited (collectively, "the U.K. acquisition"), the United Kingdom based insulation manufacturing and industrial supply businesses of Pilkington PLC. Acquiring two glass fiber insulation manufacturing facilities, one rock wool manufacturing facility and 14 distribution centers, the Company now represents the United Kingdom's largest manufacturer of glass fiber and rock wool insulation and is a major supplier of thermal and acoustical insulation products to the United Kingdom construction industry. The purchase price of the U.K. acquisition was $110 million and was financed with borrowings from the Company's short-term bank credit facility (Note 3).

5. Acquisitions and Divestitures of Businesses (Continued)

All acquisitions were accounted for under the purchase method of accounting, whereby the assets acquired and liabilities assumed have been recorded at their fair values and the results of operations for the acquisitions have been included in the Company's consolidated financial statements subsequent to the acquisition dates.

The purchase price allocations were based on preliminary estimates of fair market value and are subject to revision. The 1995 acquisitions included goodwill of $97 million and non-competition agreements of $3 million. The 1994 acquisitions included goodwill of $78 million and non-competition agreements of $6 million.

The goodwill and non-competition agreements are being amortized on a straight-line basis over 40 years and 7 years, respectively. The pro forma effect of the acquisitions was not material to net income for the years ended December 31, 1995, 1994 or 1993.

On September 30, 1994, the Company entered into a joint venture with Alpha Corporation of Tennessee, whereby the two companies combined their existing resin businesses to form Alpha/Owens-Corning, L.L.C., the largest manufacturer of polyester resins in North America. The Company contributed two manufacturing plants (Valparaiso, Indiana and Guelph, Ontario) and owns a 50 percent interest in the joint venture. This joint venture is being accounted for under the equity method. For the nine months ended September 30, 1994 and the year ended December 31, 1993, resin sales totalled $58 million and $63 million, respectively, and were included in the Composite Materials segment.

Late in the fourth quarter of 1994, the Company completed the sale of its underground storage tank manufacturing business. Sales for this business totalled $41 million and $43 million in 1994 and 1993, respectively, and were included in the Building Materials segment.

6. Postemployment and Postretirement Benefits Other Than Pensions

The Company and its subsidiaries maintain health care and life insurance benefit plans for certain retired employees and their dependents. The health care plans in the U.S. are unfunded and pay either 1) stated percentages of covered medically necessary expenses, after subtracting payments by Medicare or other providers and after stated deductibles have been met or, 2) fixed amounts of medical expense reimbursement. Employees become eligible to participate in the health care plans upon retirement under one of the Company's pension plans if they have accumulated 10 years of service after age 45. Some of the plans are contributory, with some retiree contributions adjusted annually. The Company has reserved the right to change or eliminate these benefit plans subject to the terms of collective bargaining agreements during their term.

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" for its non-U.S. plans. Accordingly, the projected cost of postretirement benefits is charged to expense during the years in which eligible employees render service. The cumulative effect of the adoption of this standard was a charge of $10 million, or $.20 per share. (The Company adopted Statement No. 106 for its U.S. plans effective January 1, 1991.)

During 1993, the Company approved changes in its postretirement health care plans for retirees and active employees. These changes, which reduced the accumulated benefit obligation by $120 million and 1993 expense by $18 million, resulted in an unrecognized net reduction in prior service cost which will be amortized through 1999.

The following table reconciles the status of the accrued postretirement benefits cost liability at October 31, 1995 and 1994, as reflected on the balance sheet as of December 31, 1995 and 1994:

(In millions of dollars)	**1995**	1994
Accumulated Postretirement Benefits Obligation:		
Retirees	**$ (194)**	$ (176)
Fully eligible active plan participants	**(21)**	(24)
Other active plan participants	**(54)**	(46)
Funded status	**(269)**	(246)
Unrecognized net gain	**(11)**	(39)
Unrecognized net reduction in prior service cost	**(72)**	(88)
Benefit payments subsequent to the valuation date (October 31)	**3**	3
Accrued postretirement benefits cost liability (includes current liabilities of $19 million in 1995 and 1994)	**$ (349)**	$ (370)

For measurement purposes, a 10.5% annual rate of increase in the per capita cost of covered health care claims was assumed for 1996. The rate was assumed to decrease to 10% for 1997, then decrease gradually to 6.0% by 2005. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rate by one percentage point in each year would increase the accumulated postretirement benefits obligation as of October 31, 1995, by $14 million and the aggregate of the service and interest cost components of net postretirement benefits cost for the year then ended by $2 million. The discount rate used in determining the accumulated postretirement benefits obligation was 7.5% in 1995, 8.5% in 1994, and 7.5% in 1993.

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits." This standard requires the Company to recognize the obligation to provide benefits to former or inactive employees after employment but before retirement under certain conditions. These benefits include, but are not limited to, salary continuation, supplemental unemployment benefits, severance benefits, disability-related benefits (including workers' compensation), job training and counseling, and continuation of benefits such as health care and life insurance coverage. The cumulative effect of the adoption of this standard, recorded in 1994, was an undiscounted charge of $28 million, or $.56 per share, net of related income taxes of $18 million.

The following table reconciles the status of the accrued postemployment benefits cost liability at October 31, 1995 and 1994, as reflected on the balance sheet as of December 31, 1995 and 1994:

(In millions of dollars)	**1995**	1994
Funded status	**$ (40)**	$ (45)
Unrecognized net gain	**(2)**	—
Benefit payments subsequent to the valuation date (October 31)	**1**	1
Accrued postemployment benefit cost liability (includes current liabilities of $4 million in 1995 and $5 million in 1994)	**$ (41)**	$ (44)

The net postemployment benefits expense was $2 million and $3 million for 1995 and 1994, the year of adoption, respectively.

The net postretirement benefits cost for 1995, 1994 and 1993 included the following components:

(In millions of dollars)	**1995**	1994	1993
Service cost	**$ 7**	$ 8	$ 7
Interest cost on accumulated postretirement benefits obligation	**19**	19	23
Net amortization and deferral	**(24)**	(20)	(13)
Net postretirement benefits cost	**$ 2**	$ 7	$ 17

In December 1995, the Company established and funded a Voluntary Employees' Beneficiary Association (VEBA) trust to cover certain employee welfare and postretirement benefits in the amount of $64 million, of which $13 million has been classified as long-term.

7. Pension Plans

The Company has several defined benefit pension plans covering most employees. Under the plans, pension benefits are generally based on an employee's number of years of service. Company contributions to these pension plans are based on the calculations of independent actuaries using the projected unit credit method. Plan assets consist primarily of equity securities with the balance in fixed income investments or insurance contracts. The unrecognized cost of retroactive amendments and actuarial gains and losses are amortized over the average future service period of plan participants expected to receive benefits.

In August of 1995, the Company amended the pension plan for U.S. salaried employees to change from a final average pay formula to a cash balance formula. The new plan provisions become effective on January 1, 1996. The change resulted in a reduction in the projected benefit obligation of $20 million. The change is expected to reduce pension expense in the future through the amortization of the reduction in the projected benefit obligation, reduced service cost and reduced interest cost on the projected benefit obligation. The reduction in pension expense for 1996 is expected to be $11 million. The impact on pension expense for 1995 was a reduction of $4 million.

7. Pension Plans (Continued)

Pension expense for the Company's defined benefit pension plans includes the following:

(In millions of dollars)	1995	1994	1993
Service cost	$ 20	$ 22	$ 23
Interest cost on projected benefit obligation	64	58	62
Actual return on plan assets	(114)	(13)	(124)
Net amortization and deferral	30	(64)	50
Net pension expense	$ —	$ 3	$ 11

The funded status at October 31, 1995 and 1994 is as follows:

(In millions of dollars)	1995		1994	
	Over Funded	Under Funded	Over Funded	Under Funded
Vested benefit obligation	$ 359	$ 312	$ 310	$ 273
Accumulated benefit obligation	$ 395	$ 355	$ 341	$ 343
Plan assets at fair value	$ 500	$ 316	$ 466	$ 306
Projected benefit obligation	447	365	430	352
Plan assets in excess of (less than) projected benefit obligation	53	(49)	36	(46)
Unrecognized loss	15	59	8	55
Unrecognized prior service cost	(30)	(31)	(12)	(24)
Unrecognized transition amount	(35)	(11)	(39)	(13)
Adjustment to minimum liability	—	(7)	—	(12)
Net pension liability (includes current liabilities of $2 million in 1995 and $8 million in 1994 and noncurrent assets of $41 million in 1995 and $38 million in 1994)	$ 3	$ (39)	$ (7)	$ (40)

The 1995, 1994 and 1993 primary actuarial assumptions used for pension plans were:

	1995	1994	1993
Discount rate	7.5%	8.5%	7.5%
Expected long-term rate of return on plan assets	9.0%	9.5%	10.0%
Rate of compensation increase	5.1%	5.1%	4.1%

The Company also sponsors defined contribution plans available to substantially all U.S. employees. Company contributions for the plans are based on matching a percentage of employee savings up to a maximum savings level. The Company's contributions were $12 million in 1995, $10 million in 1994, and $9 million in 1993.

8. Income Taxes

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Statement No. 109 changed the criteria for measuring the provision for income taxes and recognizing deferred tax assets and liabilities. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of corresponding liabilities and assets using enacted tax rates in effect for the year in which the differences are expected to reverse. The cumulative effect of the adoption of this standard, recorded in 1993, was an increase to earnings of $26 million, or $.53 per share.

(In millions of dollars)	1995	1994	1993
Income (loss) before provision (credit) for income taxes:			
U.S.	$ 226	$ 119	$ 163
Foreign	99	13	(16)
Total	$ 325	$ 132	$ 147
Provision (credit) for income taxes:			
Current			
U.S.	$ (45)	$ (2)	$ 24
State and local	(4)	(7)	7
Foreign	13	5	6
Total current	(36)	(4)	37
Deferred			
U.S.	113	51	27
State and local	15	13	1
Foreign	14	(2)	(4)
Total deferred	142	62	24
Adjustment to deferred tax assets and liabilities for an increase in the U.S. federal statutory rate	—	—	(14)
Total provision for income taxes	$ 106	$ 58	$ 47

The reconciliation between the U.S. federal statutory rate and the Company's effective income tax rate is:

	1995	1994	1993
U.S. federal statutory rate	**35%**	35%	35%
Operating losses of foreign subsidiaries	**—**	7	10
Utilization of research and development credits	**(3)**	—	—
Utilization of operating loss carryforwards	**—**	(7)	(2)
Utilization of tax loss carryback	**(2)**	—	—
Enacted federal tax rate change	**—**	—	(10)
State and local income taxes	**2**	3	3
Other	**1**	6	(4)
Effective tax rate	**33%**	44%	32%

As of December 31, 1995, the Company has not provided for withholding or U.S. federal income taxes on approximately $196 million of accumulated undistributed earnings of its foreign subsidiaries as they are considered by management to be permanently reinvested. If these undistributed earnings were not considered to be permanently reinvested, approximately $25 million of deferred income taxes would have been provided.

During 1995 and 1994, the Company utilized tax net operating loss carryforwards for certain of its foreign subsidiaries of approximately $2 million and $9 million, respectively. At December 31, 1995 and 1994, the Company had tax net operating loss carryforwards for certain of its foreign subsidiaries of approximately $27 million, certain of which expire through 1999.

The cumulative temporary differences giving rise to the deferred tax assets and liabilities at December 31, 1995 and 1994 are as follows:

(In millions of dollars)	**1995**		1994	
	Deferred Tax Assets	**Deferred Tax Liabilities**	Deferred Tax Assets	Deferred Tax Liabilities
Asbestos litigation claims	**$ 244**	**$ —**	$ 306	$ —
Other employee benefits	**160**	**—**	171	—
Depreciation	**—**	**116**	—	138
Warranty and product liability reserves	**27**	**—**	29	—
Operating loss carryforwards	**27**	**—**	27	—
State and local taxes	**—**	**21**	—	20
Other	**60**	**39**	122	6
Subtotal	**518**	**176**	655	164
Valuation allowances	**(20)**	**—**	(27)	—
Total deferred	**$ 498**	**$ 176**	$ 628	$ 164

Management fully expects to realize its net deferred tax assets through income from future operations.

9. Science and Technology Expenses

Science and technology expenses include research and development costs of $69 million in 1995, $64 million in 1994, and $61 million in 1993. In addition to research and development costs, science and technology expenses include continuing commercial activities such as engineering and product modifications for special applications and testing.

10. Accounts Receivable Securitization

In 1994 and 1995, the Company sold certain accounts receivable of its Building Materials operations to a 100% owned subsidiary, Owens-Corning Funding Corporation ("OC Funding"). In December 1994, OC Funding entered into a three-year agreement whereby it can sell, on a revolving basis, an undivided percentage ownership interest in a designated pool of accounts receivable up to a maximum of $100 million. At December 31, 1995 and 1994, $100 million and $50 million, respectively, have been sold under this agreement and the sale has been reflected as a reduction of accounts receivable in the Company's consolidated balance sheet. The discount of $6 million on the receivables sold has been recorded as other expenses on the Company's consolidated statement of income for the year ended December 31, 1995.

The Company maintains an allowance for doubtful accounts based upon the expected collectibility of all consolidated trade accounts receivable, including receivables sold by OC Funding.

11. Inventories

Inventories are summarized as follows:

(In millions of dollars)	**1995**	1994
Finished goods	**$ 210**	$ 192
Materials and supplies	**127**	118
FIFO inventory	**337**	310
Less: Reduction to LIFO basis	**(84)**	(87)
	$ 253	$ 223

Approximately $175 million of FIFO inventories were valued using the LIFO method at December 31, 1995 and 1994.

During 1995, 1994, and 1993, certain inventories were reduced, resulting in the liquidation of LIFO inventory layers carried at lower costs in prior years as compared with the current cost of inventory. The effect of these inventory reductions was to reduce 1995, 1994, and 1993 cost of sales by $7 million, $3 million, and $1 million, respectively.

12. Investments in Affiliates

At December 31, 1995 and 1994, the Company's affiliates, which generally are engaged in the manufacture of fibrous glass and related products for the insulation, construction, reinforcements, and textile markets, include:

	Percent Ownership	
	1995	1994
Composites:		
Alpha/Owens-Corning, L.L.C. (USA)	**50%**	50%
Knytex Company, L.L.C. (USA)	**50%**	50%
Vitro-Fibras, S.A. (Mexico)	**40%**	40%
Global Pipe:		
Amiantit Fiberglass Industries, Ltd. (Saudi Arabia)	**30%**	30%
Owens-Corning Eternit Rohre GmbH (Germany)	**50%**	50%
Owens-Corning Pipe Botswana (Pty.), Ltd. (Botswana)	**46%**	49%
Owens-Corning Tubs S.A. (Spain)	**50%**	50%
Owens-Corning Caños, S.A. (Argentina)	**50%**	—
Building Materials – Europe:		
Arabian Fiberglass Insulation Company, Ltd. (Saudi Arabia)	**49%**	49%
Asia Pacific:		
Asahi Fiber Glass Company, Ltd. (Japan)	**28%**	28%
LG Owens-Corning Corp. (Korea)	**31%**	30%
Siam Fiberglass Co., Ltd. (Thailand)	**20%**	20%

The following table provides summarized financial information on a combined 100% basis for the Company's affiliates accounted for under the equity method:

(In millions of dollars)	**1995**	1994	1993
At December 31:			
Current assets	**$ 338**	$ 328	$ 214
Noncurrent assets	**472**	513	387
Current liabilities	**403**	331	240
Noncurrent liabilities	**253**	250	147
For the year:			
Net sales	**962**	630	486
Gross margin	**178**	96	81
Net income	**47**	7	16

The Company's equity in undistributed net income of affiliates was $36 million at December 31, 1995.

Subsequent to year end, the Company sold all of its interest in Asahi Fiber Glass Company, Ltd. for approximately $50 million, and realized a pretax gain in excess of $25 million.

13. Accounts Payable and Accrued Liabilities

(In millions of dollars)	**1995**	1994
Accounts payable	**$ 309**	$ 298
Payroll and vacation pay	**87**	117
Payroll, property, and miscellaneous taxes	**39**	30
Other employee benefits liability (Note 6)	**23**	24
Other	**129**	129
	$ 587	$ 598

14. Consolidated Statement of Cash Flows

Cash payments, net of refunds, for income taxes and cost of borrowed funds are summarized as follows:

(In millions of dollars)	**1995**	1994	1993
Income taxes	**$ (34)**	$ (4)	$ 43
Cost of borrowed funds	**94**	97	95

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

See Notes 2 and 5 for supplemental disclosure of Non-cash Investing and Financing Activities.

15. Leases

The Company leases certain manufacturing equipment and office and warehouse facilities under operating leases, some of which include cost escalation clauses, expiring on various dates through 2015. Total rental expense charged to operations was $63 million in 1995, $54 million in 1994, and $42 million in 1993. At December 31, 1995, the minimum future rental commitments under noncancellable leases payable over the remaining lives of the leases are:

Period *(In millions of dollars)*	Minimum Future Rental Commitments
1996	$ 52
1997	52
1998	40
1999	20
2000	18
2001 through 2015	134
	$ 316

16. Restructuring of Operations and Other Initiatives

During the first quarter of 1994, the Company recorded a $117 million pretax charge for productivity initiatives and other actions aimed at reducing costs and enhancing the Company's speed, focus, and efficiency. This $117 million pretax charge is comprised of an $89 million charge associated with the restructuring of the Company's business segments, as well as a $28 million charge, primarily composed of final costs associated with the administration of the Company's former commercial roofing business. The components of the $89 million restructure include: $44 million for personnel reductions, $20 million for divestiture of non-strategic businesses and facilities, $22 million for business realignments, and $3 million for other actions. The $44 million cost for personnel reductions primarily represents severance costs associated with the elimination of nearly 400 positions worldwide. The primary employee groups affected include science and technology personnel, field sales personnel, corporate administrative personnel, and commercial roofing and resin business personnel.

As of December 31, 1995, the Company has recorded approximately $82 million in costs against its 1994 restructure reserve, of which $67 million represents actual cash expenditures and $15 million represents the non-cash effects of asset write-offs and business realignments. The $67 million cash expenditure includes severance costs of $42 million, divestiture or realignment of businesses and facilities costs of $22 million, and $3 million for other actions.

During the first quarter of 1993, the Company recorded a $23 million charge to reorganize its European operations. This charge included $17 million for personnel reductions and $6 million for the writedown of fixed assets.

17. Glass Melting Furnace Rebuilds

Effective January 1, 1994, the Company adopted the capital method of accounting for the cost of rebuilding glass melting furnaces. Under this method, costs are capitalized when incurred and depreciated over the estimated useful lives of the rebuilt furnaces. Previously, the Company established a reserve for the future rebuilding costs of its glass melting furnaces through a charge to earnings between dates of rebuilds. The change to the capital method provides a more appropriate measure of the Company's capital investment and is consistent with industry practice. The cumulative effect of this change in accounting method was an increase to earnings of $123 million, or $2.45 per share, net of related income taxes of $54 million. The effect of this change in accounting method was to increase depreciation expense and eliminate furnace rebuild provision. The pro forma effect of this change was not material to net income for the year ended December 31, 1993.

18. Stock Compensation Plans

The Company's Stock Performance Incentive Plan (SPIP) and the Owens-Corning 1995 Stock Plan, (collectively, the "Plans"), permit up to two percent and one percent, respectively, of common shares outstanding at the beginning of each calendar year to be awarded as stock options and restricted stock (with 25% of this amount as the maximum permitted number of restricted stock awards). The Company may carry forward, independently for each plan, unused shares from prior years and may increase the shares available for awards in any calendar year through an advance of up to 25% of the subsequent year's allocation (determined by using 25% of the current year's allocation). These shares are also subject to the 25% limit for restricted stock awards. During 1995, the total number of shares available under the Plans for stock awards was 1,565,004 shares, 1,006,950 of which were awarded as stock options and 232,224 as restricted stock, which includes an advance of 54,355 shares from the 1996 allocation for SPIP. 599,840 shares are also available to be awarded under a prior plan; however, the Company does not expect any awards to be made under that plan.

Additionally, the Company has a plan to award stock options and deferred stock awards to nonemployee directors, of which 95,500 shares were available for this purpose as of December 31, 1995. In 1995, 10,000 options and 4,000 stock awards were granted, of which 2,000 were issued in conjunction with the plan for nonemployee directors.

During 1994, the total number of shares available for stock awards for SPIP was 1,075,752 shares, 894,000 of which were awarded as stock options and 59,450 as restricted stock, which included an advance of 93,478 shares from the 1995 allocation. Additionally, in 1994, 8,500 options and 4,000 stock awards were granted, of which 2,000 were issued in conjunction with the plan for nonemployee directors.

Stock Options

Activity during 1995 and 1994 in shares under option:

	1995		1994	
	Number of Shares	Price Range per Share	Number of Shares	Price Range per Share
Beginning of year	3,290,454	$ 17.86-47.00	2,560,826	$ 17.86-47.00
Options granted	1,016,950	31.50-45.00	902,500	28.50-34.88
Options exercised	(300,663)	17.86-40.50	(137,059)	18.75-30.63
Options cancelled	(63,631)	30.63-40.50	(35,813)	26.75-40.50
End of year	3,943,110	$ 17.86-47.00	3,290,454	$ 17.86-47.00
Exercisable	2,107,427	$ 17.86-47.00	1,619,119	$ 17.86-47.00

Option prices represent the market price at date of grant. Shares issued under options are recorded in the common stock accounts at the option price. Options granted vest ratably through 1998 for the SPIP plan and, as determined by the compensation committee, for the Owens-Corning 1995 Stock Plan.

Deferred Stock Awards

At December 31, 1995, the Company had 15,711 shares of deferred stock outstanding, all of which were vested. During 1995, 2,000 shares of deferred stock were granted, and 2,629 shares were issued.

Compensation expense is measured based on the market price of the stock at date of grant and is recognized on a straight-line basis over the vesting period.

Restricted Stock Awards

At December 31, 1995, the Company had 448,973 shares of restricted stock outstanding. Stock restrictions lapse, subject to alternate vesting plans for approved early retirement and involuntary termination, over various periods ending in 2005.

19. Share Purchase Rights

Each outstanding share of the Company's common stock includes a preferred share purchase right. Each right entitles the holder to buy from the Company one one-hundredth of a share of Series A Participating Preferred Stock of the Company at a price of $50. The Board of Directors has designated 750,000 shares of the Company's authorized preferred stock as Series A Participating Preferred Stock. There are currently no preferred shares outstanding.

Rights become exercisable and detach from the common stock ten days after a person or group acquires, or announces a tender offer for, 20% or more of the Company's outstanding shares of common stock. The rights expire on December 30, 1996, unless redeemed earlier by the Company. The rights are redeemable by the Company at one cent each at any time prior to ten days following public announcement or notice to the Company that an acquiring person or group has purchased 20% or more of the Company's outstanding common stock. If the Company is acquired in a merger or other business combination at any time after the rights become exercisable, each right would entitle its holder to buy shares of the acquiring or surviving company having a market value of twice the exercise price of the right.

20. Derivative Financial Instruments and Fair Value of Financial Instruments

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to help meet financing needs and to reduce exposure to fluctuating foreign currency exchange rates and interest rates. The Company is exposed to credit loss in the event of nonperformance by the other parties to the financial instruments described below. However, the Company does not anticipate nonperformance by the other parties. The Company does not engage in trading activities with these financial instruments and does not generally require collateral or other security to support these financial instruments. The notional amounts of derivatives summarized in the foreign exchange risk and interest rate risk management section below do not represent the amounts exchanged by the parties and, thus, are not a measure of the exposure of the Company through its use of derivatives. The amounts exchanged are calculated on the basis of the notional amounts and the other terms of the derivatives, which relate to interest rates, exchange rates, securities prices, or financial or other indexes.

Foreign Exchange Risk and Interest Rate Risk Management

The Company enters into various types of derivative financial instruments to manage its foreign exchange risk and interest rate risk, as indicated in the following table.

(In millions of dollars)	**Notional Amount December 31, 1995**	Notional Amount December 31, 1994
Forward currency exchange contracts	**$ 234**	$ 194
Options purchased	**25**	22
Currency swaps	**190**	190
Interest rate swaps	**150**	150

The Company enters into forward currency exchange contracts to manage its exposure against foreign currency fluctuations on certain assets and liabilities denominated in foreign currencies. As of December 31, 1995, the Company has 21 forward currency exchange contracts maturing in 1996 which exchange 2.7 billion Belgian francs, 19 million U.S. dollars, 11 million British pounds, 117 million French francs, 17 billion Italian lira, and various other currencies. As of December 31, 1994, the Company had 29 forward currency exchange contracts which matured in 1995 and exchanged 4.4 billion Belgian francs, 23 million U.S. dollars, 38 million British pounds, 22 million Deutsche marks, 19 billion Italian lira, and various other currencies. Gains and losses on these foreign currency hedges are included in the carrying amount of the related assets and liabilities. At December 31, 1995 and 1994, deferred gains and losses on these foreign currency hedges are not material to the consolidated financial statements.

The Company enters into forward currency exchange contracts to hedge its equity investments in certain foreign subsidiaries and to manage its exposure against fluctuations in foreign currency rates. As of December 31, 1995, the Company has two forward currency exchange contracts maturing in 1996 which exchange 1 billion Belgian francs against approximately 34 million U.S. dollars to hedge its equity investments in certain of its European subsidiaries. As of December 31, 1994, the Company had two forward currency exchange contracts which matured in 1995 and exchanged 1 billion Belgian francs against approximately 32 million U.S. dollars to hedge its equity investments in certain of its European subsidiaries. At December 31, 1995 and 1994, losses of $4 million and $3 million on hedges of net investments in foreign subsidiaries are included in stockholders' equity, respectively.

The Company has entered into forward currency exchange contracts to reduce its exposure to currency fluctuations on the proceeds of the sale of its investment in Asahi Fiber Glass Company, Ltd. (Note 12). As of December 31, 1995, these contracts exchange 5 billion Japanese yen for 50 million U.S. dollars. At December 31, 1995, gains of $3 million are included as deferred revenue.

The Company entered into forward currency exchange contracts to reduce its exposure to currency fluctuations on the anticipated 1995 earnings of certain European subsidiaries. The nine forward currency exchange contracts which matured in 1995, exchanged 412 million Belgian francs and 8 million British pounds against approximately 25 million U.S. dollars. Gains and losses on these foreign currency hedges were included in income in the period in which the exchange rates changed. Gains on these forward currency exchange contracts were not material to the consolidated financial statements.

The Company enters into option contracts to hedge anticipated transactions with certain of its foreign subsidiaries. As of December 31, 1995, the Company has eight currency option contracts maturing in 1996 which hedge the 1996 royalty payments of the Company's European subsidiaries. As of December 31, 1995, the currency option contracts exchanged 526 million Belgian francs and 6 million British pounds against approximately 25 million U.S. dollars. As of December 31, 1994, the Company had six currency option contracts which exchanged 496 million Belgian francs and 4 million British pounds against approximately 22 million U.S. dollars. Gains on the Company's hedges of these anticipated transactions are included as deferred revenue. At December 31, 1995 and 1994, deferred gains on option contracts are not material to the consolidated financial statements.

20. Derivative Financial Instruments and Fair Value of Financial Instruments (Continued)

As of December 31, 1994, the Company entered into two currency swap transactions to manage its exposure against foreign currency fluctuations on the principal amount of its guaranteed 9.814% Eurobonds (Note 2). At December 31, 1994, gains on these currency swaps were not material to the consolidated financial statements. During May 1995 the Company terminated these swaps. The termination of these swaps exchanged 140 million U.S. dollars for approximately 89 million British pounds, resulting in a gain of approximately 10 million U.S. dollars. At that time, the Company entered into two cross-currency interest rate swaps from U.S. dollars into British pounds to hedge the interest and principal payments of the remaining Eurobonds through 2002. These agreements also convert part of the fixed rate interest into variable rate interest. The gain on the exercised swaps is being amortized over the life of the original hedge. At December 31, 1995, $7 million of unamortized gain on the four cross-currency interest rate swaps is included in other liabilities.

The Company has a cross-currency interest rate conversion agreement from Deutsche marks into U.S. dollars to hedge the interest and principal payments of its 7.25% Deutsche mark bonds, due in 2000. The agreement establishes a fixed interest rate of 11.1%.

The Company enters into interest rate swaps to manage its interest rate risk. The Company has entered into four interest rate swap agreements to reduce the interest rates on its fixed rate borrowings. These agreements effectively convert an aggregate principal amount of $150 million of fixed rate long-term debt into variable rate borrowings with interest rates ranging from 5.875% to 8.025% in 1995 and 5.81% to 7.96% in 1994. The agreements mature in 1998. The differential interest to be paid or received is accrued as interest rates change and is recognized over the life of the agreements.

Other Financial Instruments with Off-Balance-Sheet Risk

As of December 31, 1995 and 1994, the Company is contingently liable for guarantees of indebtedness owed by certain unconsolidated affiliates of $71 million and $27 million, respectively. The Company is of the opinion that its unconsolidated affiliates will be able to perform under their respective payment obligations in connection with such guaranteed indebtedness and that no payments will be required and no losses will be incurred by the Company under such guarantees.

Concentrations of Credit Risk

As of December 31, 1995 and 1994, the Company has no significant group concentrations of credit risk.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each category of financial instruments.

Cash and short-term financial instruments

The carrying amount approximates fair value due to the short maturity of these instruments.

Long-term notes receivable

The fair value has been estimated using the expected future cash flows discounted at market interest rates.

Long-term debt

The fair value of the Company's long-term debt has been estimated based on quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities.

Foreign currency swaps and interest rate swaps

The fair values of foreign currency swaps and interest rate swaps have been estimated by traded market values or by obtaining quotes from brokers.

Forward currency exchange contracts, option contracts, and financial guarantees

The fair values of forward currency exchange contracts, option contracts, and financial guarantees are based on fees currently charged for similar agreements or on the estimated cost to terminate these agreements or otherwise settle the obligations with the counter parties at the reporting date.

The estimated fair values of the Company's financial instruments as of December 31, 1995 and 1994, which have fair values different than their carrying amounts, are as follows:

	1995		1994	
(In millions of dollars)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Assets				
Long-term notes receivable	**$ 24**	**$ 22**	$ 20	$ 18
Liabilities				
Long-term debt	**794**	**875**	1,037	1,076
Off-Balance-Sheet Financial Instruments — Unrealized gains				
Foreign currency swaps	**—**	**39**	—	26
Interest rate swaps	**—**	**14**	—	4

As of December 31, 1995 and 1994, the Company is contingently liable for guarantees of indebtedness owed by certain unconsolidated affiliates. There is no market for these guarantees and they were issued without explicit cost. Therefore, it is not practicable to establish their fair value.

As of December 31, 1995 and 1994, the Company has also entered into certain forward currency exchange and option contracts, the fair values of which are not material to the consolidated financial statements.

21. Contingent Liabilities

Asbestos Liabilities

The Company is a co-defendant with other former manufacturers, distributors and installers of products containing asbestos and with miners and suppliers of asbestos fibers (collectively, the Producers) in personal injury and property damage litigation. The personal injury claimants generally allege injuries to their health caused by inhalation of asbestos fibers from the Company's products. Most of the claimants seek punitive damages as well as compensatory damages. The property damage claims generally allege property damage to school, public and commercial buildings resulting from the presence of products containing asbestos. Virtually all of the asbestos-related lawsuits against the Company arise out of its manufacture, distribution, sale or installation of an asbestos-containing calcium silicate, high temperature insulation product, the manufacture of which was discontinued in 1972.

Status

As of December 31, 1995, approximately 144,200 asbestos personal injury claims were pending against the Company, 55,900 of which were received in 1995. The Company received approximately 29,100 such claims in 1994, and 32,400 in 1993.

Through December 31, 1995, the Company had resolved (by settlement or otherwise) approximately 160,600 asbestos personal injury claims. During 1993, 1994, and 1995, the Company resolved approximately 60,000 such claims and incurred total indemnity payments of $641 million (an average of about $10,700 per case). The Company's indemnity payments have varied considerably over time and from case to case, and are affected by a multitude of factors. These include the type and severity of the disease sustained by the claimant (i.e., mesothelioma, lung cancer, other types of cancer, asbestosis or pleural changes); the occupation of the claimant; the extent of the claimant's exposure to asbestos-containing products manufactured, sold or installed by the Company; the extent of the claimant's exposure to asbestos-containing products manufactured, sold or installed by other Producers; the number and financial resources of other Producer defendants; the jurisdiction of suit; the presence or absence of other possible causes of the claimant's illness; the availability or not of legal defenses such as the statute of limitations or state of the art; whether the claim was resolved on an individual basis or as part of a group settlement; and whether the claim proceeded to an adverse verdict or judgment.

Insurance

As of December 31, 1995, the Company had approximately $430 million in unexhausted insurance coverage (net of deductibles and self-insured retentions and excluding coverage issued by insolvent carriers) under its liability insurance policies applicable to asbestos personal injury claims. This insurance, which is substantially confirmed, includes both products hazard coverage and primary level non-products coverage. Portions of this coverage are not available until 1997 and beyond under agreements with the carriers confirming such coverage. All of the Company's liability insurance policies cover indemnity payments and defense fees and expenses subject to applicable policy limits.

In addition to its confirmed non-products insurance, the Company has a significant amount of potential non-products coverage with excess level carriers. The Company cautions, however, that this coverage is unconfirmed and that the amount and timing of additional recovery from these policies, if any, will depend on subsequent negotiations or proceedings.

Reserve

The Company's estimated total liabilities in respect of indemnity and defense costs associated with pending and unasserted asbestos personal injury claims that may be received through the year 1999 (the "Liabilities"), and its estimated insurance recoveries in respect of such claims (the "Insurance"), are reported separately as follows:

	Asbestos Litigation Claims	
(In millions of dollars)	**December 31, 1995**	December 31, 1994
Reserve for asbestos litigation claims		
Current	**$ 250**	$ 300
Other	**887**	1,145
Total Reserve	**1,137**	1,445
Insurance for asbestos litigation claims		
Current	**100**	125
Other	**330**	556
Total Insurance	**430**	681
Net Asbestos Liability	**$ 707**	$ 764

21. Contingent Liabilities (continued)

Case filing rates have continued at historically high levels with the receipt of approximately 55,900 new claims during 1995, following the receipt of approximately 29,100 claims in 1994 and approximately 32,400 claims in 1993. Many of these new claims appear to be the product of mass screening programs and not to involve significant asbestos-related impairment. The large number of recent filings and the uncertain value of these claims have added to the uncertainties involved in estimating the Company's asbestos liabilities.

Certain of the Company's principal co-defendants, the 20 members of the Center for Claims Resolution, have entered into a proposed "global" settlement which would require future claimants to satisfy certain medical criteria indicative of significant asbestos-related impairment as a pre-condition to their eligibility for settlement payments. The Company is using similar criteria in the implementation of its own settlement and litigation strategy and is also seeking to require more careful proof than in the past that claimants had significant exposure to the Company's asbestos-containing product or operations. The Company believes that this strategy will reduce the overall cost of asbestos personal injury claims in the long run by channeling indemnity payments to claimants who can establish significant asbestos-related impairment and exposure to the Company's asbestos-containing product or operations and by substantially reducing indemnity payments to individuals who are unimpaired or who did not have significant such exposure. The Company's strategy has resulted in an increased level of trial activity and an increase in the number and amount of compensatory and punitive damage verdicts and judgments against the Company. This strategy may have the effect of increasing average per-case indemnity costs for claims resolved with payment, while also increasing the number of claims dismissed without payment.

The Company cautions that such factors as the number of future asbestos personal injury claims received by it, the rate of receipt of such claims, and the indemnity and defense costs associated with asbestos personal injury claims, as well as the prospects for confirming additional, applicable insurance coverage beyond the $430 million referenced above, are influenced by numerous variables that are difficult to predict, and that estimates, such as the Company's, which attempt to take account of such variables, are subject to considerable uncertainty. Depending upon the outcome of the various uncertainties described above, particularly as they relate to unimpaired claims, it may be necessary at some point in the future for the Company to make additional provision for the uninsured costs of asbestos personal injury claims received through the year 1999 (although no such amounts are reasonably estimable at this time). The Company remains confident that its estimate of Liabilities and Insurance will be sufficient to provide for the costs of all such claims that involve malignancies or significant asbestos-related functional impairment. The Company has reviewed and will continue to review the adequacy of its estimate of Liabilities and Insurance on a periodic basis and make such adjustments as may be appropriate.

The Company cannot estimate and is not providing for the cost of unasserted claims which may be received by the Company after the year 1999 because management is unable to predict the number of claims to be received after 1999, the severity of disease which may be involved and other factors which would affect the cost of such claims.

Cash Expenditures

The Company's anticipated cash expenditures for uninsured asbestos-related costs of claims received through 1999 are expected to approximate $707 million, the Company's Liabilities, net of Insurance, before tax benefits. Cash payments will vary annually depending upon a number of factors, including the pace of the Company's resolution of claims and the timing of payment of its Insurance.

Management Opinion

Although any opinion is necessarily judgmental and must be based on information now known to the Company, in the opinion of management, the additional uninsured and unreserved costs which may arise out of pending personal injury and property damage asbestos claims and additional similar asbestos claims filed in the future will not have a materially adverse effect on the Company's financial position. While such additional uninsured and unreserved costs incurred in and after the year 2000 may be substantial over time, management believes that any such additional costs will not impair the ability of the Company to meet its obligations, to reinvest in its businesses or to take advantage of attractive opportunities for growth.

Non-Asbestos Liabilities

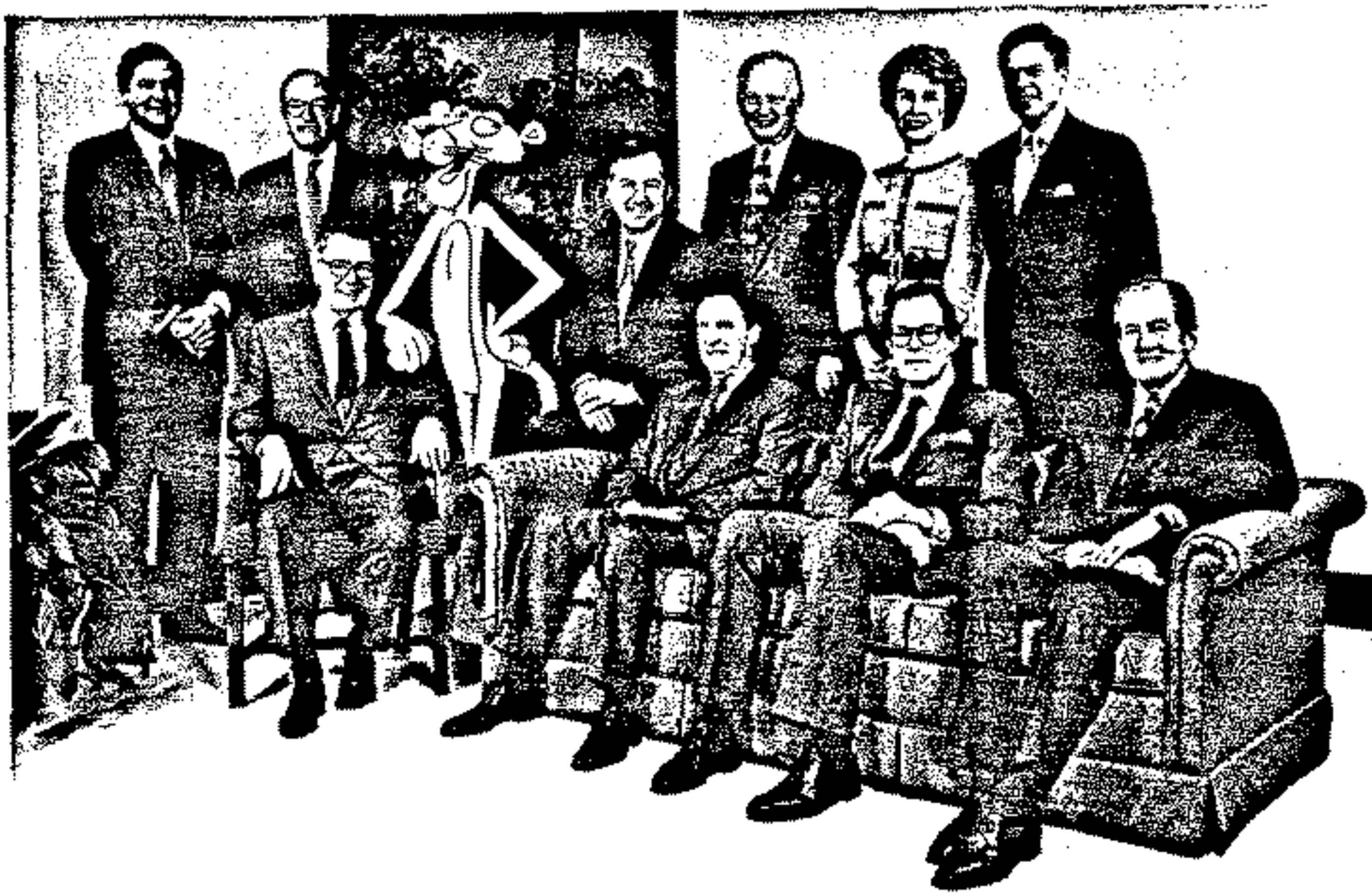
Various other lawsuits and claims arising in the normal course of business are pending against the Company, some of which allege substantial damages. Management believes that the outcome of these lawsuits and claims will not have a materially adverse effect on the Company's financial position or results of operations.

22. Quarterly Financial Information (Unaudited)

(In millions of dollars, except share data)	Quarter First	Second	Third	Fourth
1995				
Net Sales	**$ 844**	**$ 877**	**$ 927**	**$ 964**
Cost of Sales	**630**	**639**	**684**	**717**
Gross Margin	**$ 214**	**$ 238**	**$ 243**	**$ 247**
Net Income	**$ 33**	**$ 63**	**$ 70**	**$ 66**
Net Income per Share:				
Primary Net Income per Share	**$ .71**	**$ 1.25**	**$ 1.35**	**$ 1.27**
Fully Diluted Net Income per Share	**$ .68**	**$ 1.20**	**$ 1.28**	**$ 1.21**
1994				
Net Sales	$ 677	$ 852	$ 936	$ 886
Cost of Sales	523	644	705	664
Gross Margin	$ 154	$ 208	$ 231	$ 222
Income (Loss) Before Cumulative Effect of Accounting Changes	$ (67)	$ 45	$ 53	$ 43
Cumulative Effect of Accounting Changes (Notes 6 and 17)	85	—	—	—
Net Income	$ 18	$ 45	$ 53	$ 43
Net Income per Share:				
Primary				
Income (Loss) before Cumulative Effect of Accounting Changes	$ (1.52)	$ 1.03	$ 1.19	$ .98
Cumulative Effect of Accounting Changes	1.93	—	—	—
Net Income per Share	$ .41	$ 1.03	$ 1.19	$ .98
Fully Diluted				
Income (Loss) before Cumulative Effect of Accounting Changes	$ (1.30)	$ .95	$ 1.09	$ .91
Cumulative Effect of Accounting Changes	1.70	—	—	—
Net Income per Share	$ .40	$ .95	$ 1.09	$ .91

Net income per share and primary and fully diluted weighted average shares are computed independently for each of the quarters presented. Therefore, *the sum of the quarterly net income* per share may not equal the per share total for the year.

Directors



DIRECTORS

Front Row, Seated, Left to Right

Sir Trevor Holdsworth 2,3
Former Chairman
National Power plc

Norman P. Blake, Jr. 1,2,3
Chairman of the Board, Chief
Executive Officer and President
USF&G Corporation

David T. McGovern 3,4,5
Of counsel to and former partner in
Shearman & Sterling

Landon Hilliard 2,4,5
Partner
Brown Brothers Harriman & Co.

Furman C. Moseley, Jr. 1,2,4
President
Simpson Investment Company

Back Row, Standing, Left to Right

W. Walker Lewis 3,4,5
Senior Advisor to
Dillon, Read & Co. Inc.
and Marakon Associates

William W. Colville 1,3
Legal Consultant to and formerly
Senior Vice President,
General Counsel and
Secretary of Owens Corning

The Pink Panther

Glen H. Hiner 1
Chairman of the Board and
Chief Executive Officer
Owens Corning

W. Ann Reynolds 2,3,5
Chancellor
City University of New York

[illegible]n M. Huntsman, Jr. 1,4,5
Vice Chairman
The Huntsman Corporation

Directors serve on
committees of the Board
as indicated by the numbers
following their names.

1. Executive Committee
   Glen H. Hiner
   Chairman

2. Compensation Committee
   Landon Hilliard
   Chairman

3. Audit Committee
   Norman P. Blake, Jr.
   Chairman

4. Finance Committee
   Furman C. Moseley, Jr.
   Chairman

5. Corporate Governance
   Committee
   W. Walker Lewis
   Chairman

Senior Officers

Glen H. Hiner
Chairman of the Board and
Chief Executive Officer

Charles H. Dana
Executive Vice President
Development/Planning/Sourcing

BUSINESSES

Charles R. Bland
Vice President and
President, Latin America/Africa

Alan D. Booth
Vice President and
President, Insulation–North America

David T. Brown
Vice President and
President, Building Materials Sales
and Distribution–North America

Domenico Cecere
Vice President and
President, Roofing/Asphalt
(Effective January 1, 1996)

Paula H. J. Cholmondeley
Vice President and
President, Miraflex™ Products

Robert D. Heddens
Vice President and
President, Western Fiberglass Group

Carl B. Hedlund
Vice President and
President, Asia Pacific

Warren D. Knowlton
Vice President and
President, Building Materials–Europe

Scott K. Koepke
Vice President and
President, Pipe

Efthimios O. Vidalis
Vice President and
President, Composites

Jerry L. Weinstein
Vice President and
President, Specialty and Foam Products

CORPORATE

Christian L. Campbell
Senior Vice President, General Counsel and
Corporate Secretary

David W. Devonshire
Senior Vice President and
Chief Financial Officer

Robert C. Lonergan
Vice President
Science & Technology

Michael I. Miller
Vice President and
Treasurer

Bradford C. Oelman
Vice President
Corporate Relations

Gregory M. Thomson
Senior Vice President
Human Resources

Glossary

General

Advantage 2000: A global, 100-week, enterprise-wide business process reengineering initiative to redesign core processes and replace 200 inefficient information systems with a fully integrated global network.

AURA* Superinsulation: A vacuum panel of thermally tailored glass fibers encapsulated in stainless steel foil, hermetically sealed and evacuated, used in appliance applications.

Brand: An identity, including name, icons and image, that conveys specific messages to consumers, including what a company represents. The Owens Corning brand is a strategic competitive advantage.

Composite: A material system comprised of two or more components, e.g. plastic resins and glass fiber.

Fiberglas*: Owens Corning's standard glass fiber insulation, available in a variety of R-values and thicknesses.

Fiberization: The process by which molten glass is turned into glass fiber for a variety of uses, including insulation.

Foam Insulation: Extruded or expanded polystyrene foam board used in a variety of insulation applications.

Glass Reinforced Plastic (GRP): A composite in which fibrous reinforcements, such as chopped fibers, rovings, yarns or mats, are imbedded to add strength to the plastic.

Home Building Materials System: Owens Corning's integrated, multi-product offering including numerous insulation, roofing, exterior color-match and sound control products, providing an overall performance system for homeowners and remodeling contractors.

Housewrap: A durable polypropylene material used as an air filtration barrier for exterior walls in remodeling and new residential construction.

Infrastructure: The system of public works of a country, state or region, providing transportation, communication and utilities for the population. Includes highways, roads and bridges; transmission towers, cables, utility poles and power systems; water and waste transport systems.

Materials System: A product combination including two or more materials in specific proportions and arrangements, and processed to defined properties, for combined performance impact.

Miraflex™ fiber: The first new form of glass fiber in nearly 60 years, developed by Owens Corning using bi-component technology to fuse two different glass compositions into one filament, making the fibers flexible, soft-to-the-touch and virtually itch-free.

R-value: An insulation's resistance to heat flow, including heat gain in warmer months and heat loss in colder months. The higher the R-value, the greater the insulating power.

Polyester resin: A synthetic resin. When mixed with glass fiber and put through various processes it creates a composite material.

Financial

Cost of Borrowed Funds: Interest payments for long-term and short-term debt obligations, including bonds, notes and debentures.

Capital Expenditures: Fixed funds used for planned rebuilds, equipment upgrades, environmental and safety items, as well as discretionary funds used for additions and improvements to property, plant and equipment for productivity and growth.

Primary Earnings per Share: Net income divided by weighted-average number of common shares and common stock equivalents outstanding during the period.

Fully Diluted Earnings per Share: Net income plus interest and dividends on convertible debt and Monthly Income Preferred Securities divided by the weighted-average common shares and common stock equivalents outstanding, assuming conversion.

Gross Margin: Net sales minus cost of sales.

Joint Venture: A business formed in agreement between two or more entities, with some form of shared ownership.

Ongoing Operations: Financial results eliminating the impact of non-recurring events and transactions.

Productivity: Change in sales without price, compared to change in costs without inflation.

General Information

Corporate Address
Owens Corning World Headquarters
Fiberglas Tower
Toledo, Ohio U.S.A. 43659
419.248.8000

Shareholder Services
Owens Corning maintains a Shareholder Services Office at world headquarters in Toledo, Ohio, to assist shareholders. Inquiries are welcome at the world headquarters address.

Transfer Agent and Registrar
Chemical Mellon Shareholder Services, L.L.C. acts as primary Transfer Agent and Registrar for the Company. Questions on change of ownership, total shares owned, consolidation of accounts and other such matters should be sent to Chemical Mellon Shareholder Services, L.L.C., Overpeck Center, 85 Challenger Road, Ridgefield Park, New Jersey 07660, or phone 1.800.851.9677.

Auditors
Arthur Andersen LLP, Toledo, Ohio, is the independent public accounting firm for the Company.

Change of Address
A change of address should be reported promptly by sending a letter to Chemical Mellon Shareholder Services, L.L.C., Overpeck Center, 85 Challenger Road, Ridgefield Park, New Jersey 07660.

Form 10-K
The Company will provide without charge to any person who is a beneficial owner of its shares a copy of the Company's 1995 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission. Requests should be addressed to Customer Service, Owens Corning, Document Center 3, 801 Washington Street, Toledo, Ohio 43624.

Annual Meeting
The annual shareholders meeting of Owens Corning will be held in SeaGate Centre, 401 Jefferson Avenue, Toledo, Ohio at 2 p.m. Thursday, April 18, 1996.

Stock Exchange
Owens Corning stock is listed for trading on the New York Stock Exchange and the Toronto Stock Exchange under the symbol OCF.

The financial section of this report is printed on recycled paper, and all pages are recyclable.

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Product Information
1.800.GET.PINK

Copies of Owens Corning's recent news releases are available via fax by calling Company News On-Call at 1.800.758.5804, extension 677350. This electronic, menu-driven service of PR Newswire is available 24 hours a day, seven days a week, at no charge to callers.

Internet
You can visit the Owens Corning Home Page at our World Wide Web site using the following address:
http://www.owens-corning.com