FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentleman, and welcome to the Second Quarter Owens Corning Earnings Conference Call. My name is Carmen. I'll be the coordinator for today.

At this time, all participants are in a listen-only mode. We will be facilitating a question and answer session towards the end this of this conference. (OPERATOR INSTRUCTIONS.) As a reminder, ladies and gentlemen, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to your host for today's call, Mr. Scott Deitz, Vice President, Investor Relations. Please proceed.

Scott Deitz - *Owens Corning - VP, IR & Corporate Communication*

Thank you, Carmen. Good morning, everyone. Thank you for taking the time to join us today for today's conference call in review of our business results for the second quarter of 2008. Joining us today are Mike Thaman, Owens Corning's Chairman and Chief Executive Officer, and Duncan Palmer, our Chief Financial Officer.

Following our presentation this morning, we will open this one-hour call to your questions. Please limit yourselves to one question and one follow-up so we can take as many of your questions as possible during the time we have together.

Earlier this morning, we issued a news release and followed that with a filing of our Form 10-Q, both of which detail our results. In addition, we've posted presentation slides that we will refer to during this conversation. For those of you participating via the Internet or if you are near a computer, you can access the slides at OwensCorning.com.

There, you will find a link to the slides on our home page. There is also a link on the Investor section of our Website. This call and the supporting slides will be archived and available on our website going forward. And please remember this call is being recorded.

But, before we begin, just a few reminders. Today's presentation will include forward-looking statements based on our current expectations and assumptions about our business. These statements are subject to risks and uncertainties, and our actual results could differ materially.

Please refer to the cautionary statements and risk factors identified in our SEC filings for a more detailed explanation of the inherent limitations of such forward-looking statements. We ask that you understand that certain data included within this presentation contains non-GAAP financial measures.

Today's prepared remarks will excluded items that affect comparability. Those excluded items are captured in our GAAP to non-GAAP reconciliations found within the financial tables of our earnings release and our quarter two 10-Q.

For those of you following along with our slide presentation, we will now begin on slide four.

Now, I'm pleased to introduce Chairman and CEO, Mike Thaman, who will be followed by CFO, Duncan Palmer.

Mike Thaman - *Owens Corning - Chairman & CEO*

Thanks, Scott. Good morning, everyone.

Earlier today we reported second quarter results for 2008. I'm pleased with our performance. Results for the quarter demonstrate the strength of our business portfolio as well as our ability to execute in the face of inflationary headwinds and continued weakness in the US housing market.

For the second quarter, sales were $1.6 billion, up 23% compared with the same quarter last year. Revenue for the first six months was up 22% over the first half of 2007.

Adjusted EBIT during the quarter was $77 million, compared with $92 million last year. For the first six months of 2008, adjusted EBIT reached $131 million, down from $151 million during the first half of '07.

The Composites segment has had a positive impact on our results. However, it has not been enough to fully overcome the commodity inflation that we've experienced or to overcome the continued demand and selling price weakness in the US residential insulation market.

During the past six months, we laid out many of our goals for 2008. I would like to review our performance against these objectives.

We said the Composites margins would approach double-digits for 2008. They were 11% in the second quarter, supporting that goal.

We said the Composites business would serve as a platform for global growth. Yesterday, we announced a significant capacity expansion at our facility in Russia.

We said that our Insulation business would be profitable in 2008. It is on track to achieve profitability for the full-year.

We said that our Roofing & Asphalt business would return to profitability during the second quarter. It did, with a $54 million EBIT turnaround compared with the first quarter of this year.

We said that we would maintain a strong balance sheet and buy back stock when we thought the time was right. We did so, buying back more than one million shares during the quarter, while maintaining our net debt at comfortable levels.

We said that we would improve our safety performance on the road to a zero injury work place. Year-to-date, we have reduced our rate of work place injuries by 45% compared with 2007.

Given the strength of our year-to-date performance, I am pleased to increase our outlook for the year to at least $265 million of adjusted EBIT, an increase of 10% from our prior guidance.

Now, I will review each of our businesses. Continued growth in our Composites business highlighted the quarter. For the first half of 2008, Composites represented 44% of Owens Corning's total reportable segment sales.

Sales in this business during the second quarter were up 70% compared with the second quarter last year. EBIT margins continued to show improvement, reaching 11% during the second quarter compared with 7% during the same quarter last year.

While we may see some seasonal weakness in our EBIT margins in this segment during the third quarter, we continue to be comfortable that margins will approach double-digits for the full-year.

We are capitalizing on our expanded global presence, especially in emerging markets. We are pleased to have announced the expansion of our glass fiber manufacturing facility in Russia which will come on line at the end of 2009.

This investment in our plant in Gous-Khrustalny allows us to benefit from strong market demand in Russia, Europe and the Middle East. The glass fiber we produce there will serve growing global markets like wind energy, infrastructure and construction.

During the past quarter, investors in the financial media began to recognize the value of our position in the wind energy market. Today, about 10% of our revenue in Composites results from wind energy sales. It is a fast-growing market.

Wind energy generates just over 1% of the world's electricity. Wind energy, in terms of mega watts generated, is expected to grow at an average of greater than 15% annually over the next decade.

The amount of glass fiber in each windmill blade is significant. There are about 18 tons of fiberglass in each windmill, six tons per blade. Wind is an immediate and long-term growth opportunity for Owens Corning.

Shifting to our Building Materials Group, our Insulation business continues to face a very difficult market in the US. For the quarter, insulation sales were down 6% compared with the second quarter of last year. EBIT margins were 2% compared with 10% during the comparable period in 2007.

Volumes were down, and prices on certain products continued to be under pressure. We experienced significant inflation in our raw material, energy, labor and delivery costs.

Given escalating inflation, we announced price increases, our first since 2006, across a wide range of insulation products, both residential and commercial.

Now, on to Roofing & Asphalt. I'm really pleased with the work of our team, and I congratulate them. They are doing the right things from productivity to price to innovation.

Despite the continued weakness in residential construction and home repair and remodel, our Roofing & Asphalt business delivered strong performance. Productivity improved in our plants. We are seeing the margin improvements that we expected. Our Duration shingle with SureNail technology is a market success.

Our results benefited from higher selling prices required to offset raw material cost inflation. We also saw storm-related demand for our shingles throughout the quarter that have carried momentum into the third quarter.

The impact of the housing downturn has been greater than we had anticipated in our Other Building Materials & Services segment. We have taken, and will continue to take, further actions to improve the profitability and cash performance of this segment.

Before turning to Duncan for a more detailed review of our performance, I'll provide a look ahead for the remainder of the year.

I'm pleased with the progress we made during the first half of the year in integrating the acquired Composites business and growing that business to create immediate value for our shareholders.

The strength of our business portfolio is offsetting some of the domestic weakness we see in the US housing market. Our global Composites growth has transformed Owens Corning and positioned the Company for powerful performance.

In Composites, our focus during the second half of the year will be on continued successful integration of acquired assets as we execute against targeted synergies and work to overcome raw material and energy inflation.

Our global Composites organization excels in creating and making innovative glass fiber products that are one step ahead of our customers' needs in mature and emerging markets. Matching innovation with our customers' evolving needs is a formula for growth.

There's little doubt that the use of glass fiber composites will continue to replace traditional materials, like steel, aluminum and wood, as a light-weight, non-corrosive and affordable alternative. The opportunities in this business have few limits.

As noted earlier, we expect our Insulation Systems business to be profitable in 2008. We will continue to manage our insulation capacity and cost structure to stay in balance with market demand. We expect to increase our reinsulation sales by more than 10% compared with 2007.

We will continue to communicate the vital role that insulation plays in saving energy and preventing greenhouse gas emissions. Sixty million homes in the US are under-insulated. Building consume 40% of all energy and account for almost 45% of all greenhouse gas emissions. This is a significant market opportunity for Owens Corning.

Energy costs and the environment are issues of our time. Owens Corning offers real-word, right now solutions.

In our Roofing & Asphalt business, we will work to sustain the gains we achieved in the second quarter. Additional steps are being taken to further reduce our costs, to support pricing in the marketplace and to drive value for our customers to improve our financial performance.

In summary, Owens Corning is delivering results. Our focus is continued growth, winning with our customers, maintaining a strong balance sheet, and the consistent creation of shareholder value.

With that, Duncan will further review our performance during the quarter and touch on other financial items of interest. Then, we will turn to your questions.

Duncan?

Duncan Palmer - *Owens Corning - CFO*

Thanks, Mike.

Let's start on slide five where we detail key financial figures for the second quarter of 2008. You will find more detailed financial information in the financial tables of today's news release and the Form 10-Q.

Today, we reported second quarter 2008 consolidated net sales of $1.6 billion, a 23% increase compared to 2007. This growth was driven by two of our business segments.

Composites delivered increased sales as a result of the Company's acquisition and strong global demand for glass fiber reinforcements. Owens Corning's Roofing & Asphalt segment delivered increased sales during the quarter as a result of price increases put in place to offset raw material cost inflation and storm-related demand for roofing products.

Second quarter net earnings totaled $31 million and diluted earnings per share were $0.24. This compares to net earnings of $29 million and diluted earnings per share of $0.22 for the same period in 2007. As a reminder, when we look at period-over-period comparability, our primary measure is adjusted earnings before interest and tax, adjusted EBIT.

In just a moment, I'll review our reconciliation of items effecting comparability to get to adjusted EBIT. These items totaled $13 million in the second quarter of 2008 compared to $16 million during the same period in 2007.

Our adjusted EBIT for the second quarter of 2008 was $77 million compared to $92 million in 2007. Adjusted earnings for the second quarter of 2008 were $33 million, or $0.25 per diluted share, compared to $41 million, or $0.31 per diluted share, in 2007.

In the second quarter, marketing and administrative expenses increased by $29 million, but were flat as a percent of sales compared to 2007. The increase was attributable to operating the acquired Composites business in 2008 and increased transaction and integration costs related to the acquisition.

Depreciation and amortization totaled $79 million for the second quarter. We currently estimate our depreciation and amortization will total approximately $315 million in 2008.

Our capital expenditures totaled $73 million in the second quarter, excluding purchases of precious metal. Net debt decreased to less than $2 billion at the end of the quarter. Cash requirements for seasonal increases in working capital, capital spending and share repurchases were offset by divestiture proceeds.

The improvement in second quarter 2008 adjusted EBIT versus the first quarter of 2008 was the result of increases in Roofing & Asphalt and Composites Solutions. Partially offsetting these increases were declines in Insulating Systems, Other Building Materials & Services, and in corporate.

Now, if you move to slide six, you will see an illustration of adjusted EBIT performance comparing second quarter 2008 with first quarter 2008 results based on the business segment contribution. We provided this to show how our business segments had evolved over the year.

The $27 million increase in corporate expenses was primarily a result of increased performance-based compensation expense, foreign exchange effects, and a $9 million increase in charges for accounting inventories using the LIPO accounting method. The increase in charges for LIPO was largely due to escalating asphalt costs.

The $54 million improvement in Roofing & Asphalt EBIT was due to price increases put in place to offset raw materials cost inflation and increased roofing product demand related to storm activity in the United States.

We are pleased with the $7 million growth in Composites Solutions EBIT during the second quarter. Performance improved despite the divestiture of Battice and Birkeland in the quarter. As you may recall, the first quarter included the full quarter operating results related to the Battice and Birkeland operations, while the second quarter only included the month of April.

The $9 million decline in the Insulating Systems business was primarily related to lower selling prices and increased energy and delivery costs.

Moving to slide seven, you can see the detail associated with the reconciliation of our second quarter 2008 adjusted EBIT of $77 million to reported EBIT of $64 million. We provide this as a better measure of our current operating results.

As part of the integration of our Composites acquisition, we have an ongoing program to improve our efficiency in the use of precious metals as production tooling which enables us to reduce our metal lease obligations.

This program is ahead of schedule, and we were able to sell excess precious metals freed up from our combined operations during the quarter and to use the proceeds to purchase other precious metals to retire some of our lease portfolio. During the quarter, Owens Corning sold precious metals that resulted in a net gain of $22 million.

As part of the investment to combine the acquired Saint-Gobain business with our Composites Solutions operations, we are on track to achieve at least $30 million of savings in 2008. We incurred $20 million of integration and transaction costs in the second quarter associated with achieving these savings.

Next, as you have seen in prior quarters, we adjusted for the non-cash amortization of costs associated with the employee emergence equity program, a total of $7 million. You will recall that shares of company stock were awarded to employees at the time of our emergence from Chapter 11 in 2006. These shares have a three-year vesting and will be amortized in the P&L until October 2009.

We have also included a $4 million adjustment associated with the ongoing completion of our $100 million cost reduction program announced last year to drive 2008 results.

Also, as we had discussed in the first quarter call, we view the cost of leasing precious metals used in production tooling to be a financing cost. As a result, the $2 million expense in the second quarter has been excluded from adjusted EBIT, but has been included in our calculation of adjusted earnings per share.

With that as a background, turn to slide eight, and we will begin a more detailed review of our business segments starting with Composites.

Year-over-year, net sales in Composites were up over 70%. Approximately three-quarters of the growth in sales was driven by the Composites acquisition, net of the divestiture.

Composites is serving us well in the midst of market weakness in US building materials. We estimate sales in the second quarter to outside the US and Canada was approaching three-quarters of total Composites revenues.

Second quarter EBIT was $71 million compared to $26 million in the second quarter of 2007, up 173%. EBIT as a percent of sales was 11%. During the third quarter, we may see some weakness in EBIT margins consistent with seasonality, especially in Europe, as well as facilities shut down temporarily for planned furnace rebuilds.

We are comfortable with our guidance that Composites will approach double-digit EBIT margins in 2008 as a whole.

Next, on to slide nine, our Insulating Systems business. According to the census bureau, US seasonally adjusted annualized housing starts has been approximately one million units year-to-date, a 30% reduction from the same period last year.

Our Insulation business is clearly feeling the impact of a decline in new housing starts, fewer existing homes being sold, tight mortgage credit markets and further declines in home values.

Net sales in this segment were $413 million in 2008, down 6% compared with 2007. About one-half of this decline was due to a reduction in sales volume and product mix. The remainder was due to lower sales prices as a result of competitive pressures.

The Insulation business remained profitable in the very weak US housing market. EBIT for the second quarter of 2008 was $7 million compared with $42 million in 2007. We continue to expect that the Insulation business will be profitable in 2008.

Next, slide 10 provides an overview of our Roofing & Asphalt business. Sales of $475 million in the second quarter of 2008 increased 15% from the same period in 2007, primarily related to price increases to partially offset the impact of inflation in raw materials, primarily asphalt, and delivery costs.

In second quarter 2008, our Roofing & Asphalt segment earnings, before interest and taxes, were $37 million, a 28% improvement over the second quarter of 2007. The improved profitability over the second quarter of 2007 was due to increased manufacturing productivity, resulting from higher capacity utilization, supported by increased storm-related demand.

Next, Other Building Materials & Services on slide 11. This segment is comprised of our Masonry Products business and our Construction Services business.

Second quarter 2008 sales of $69 million were down 21% compared to with 2007, primarily due to declines in our Masonry Products business resulting from continued weakness in new construction and repair and remodeling. The decline in product volumes and increased idol facility costs in Masonry Products resulted a the second quarter loss in the overall segment of $5 million compared to a profit of $7 million in 2007.

Moving to slide 12 and 13, a couple of other items before turning to our Q&A.

We repurchased slightly more than one million shares for approximately $24 million in the second quarter. After the June purchases, we have approximately 5.5 million shares remaining under the announced share buyback program.

We are increasing our capital expenditure estimate of $325 million to approximately $350 million for the full-year, excluding precious metals. The increased capital will be targeted to achieve growth and synergies in the Composites business, as well as to accelerate energy reduction programs in all of our operations.

Now, some guidance regarding 2008 taxes. We expect that our overall cash taxes paid in 2008 will be less than the $40 million paid in 2007. Our 2008 effective tax rate for our US operations will be about 35%, and our effective tax rate for our non-US operations will be less than 25%. The blended average of these may vary significantly quarter-to-quarter as the mix of business varies across the world.

Given the rapid inflation in energy over the past year, we have decided to provide some additional information regarding our energy purchases. As we have discussed in the past, energy is an important component of our cost structure.

Natural gas and electricity associated with our manufacturing operations represents about 10% of our overall cost of sales. In 2008, natural gas represents approximately 60% of this spend.

At current utilization levels, the Composites Solutions segment represents approximately 60% of the spend, with our Insulation System segment representing the majority of the rest. We mitigate some of the volatility related to energy costs by hedging a portion of our exposure with a primary focus on the next six months.

Given the challenges in the building materials markets, we continue to be pleased with the strength of our balance sheet. We estimate net debt will be at or below last year's year-end level.

Our liquidity position remains strong with $121 million of cash-on-hand and $748 million of unused committed credit lines available at the end of the second quarter. We have access to more than sufficient funds for our investment plans, share repurchases and corporate financing requirements.

With that, Scott, back to you for Q&A.

Scott Deitz - *Owens Corning - VP, IR & Corporate Communication*

Thank you, Duncan, and thank you, Mike. Carmen, we are now ready to begin the Q&A session if you'd like to invite callers to join us.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS.) Ivy Zelman, Zelman & Associates. Please proceed.

Ivy Zelman - *Zelman & Associates - Analyst*

Good morning, guys.

Mike Thaman - *Owens Corning - Chairman & CEO*

Good morning, Ivy.

Ivy Zelman - *Zelman & Associates - Analyst*

Very impressive results in this marketplace and definitely I'm sure you're happy.

One of the things that I wanted to focus in, though, on is the concern we have about the non-res flowing and kind of your thoughts on the impact that will have on your business over the next 12 to 18 months and maybe ways to mitigate the expectation of that flowing.

And then, just secondly, your EBIT margins were up in the first half at 10.2% for Composites, realizing the seasonality involved. If you can kind of give us an expectation if that's sustainable in the second half, and what your expectations specifically is for that business segment?

Mike Thaman - *Owens Corning - Chairman & CEO*

Okay.

Well, first of all, thanks for your kind words. We are very happy with the quarter and saw a lot of progress in the things that we had our eye on in trying to make progress. So, it's nice to be recognized for that.

Regarding the non-res side, particularly as it relates to insulation, we don't do much in terms of non-res on the Roofing side or in Other Building Materials & Services. So, that would be primarily in Insulation exposure.

Our business plans are built believing that we will begin to see some slowdown on the commercial and industrial side of the business. That's a pretty good segment for us and it's relatively stable. And we're making reasonable profits there today.

So, we don't think it will slow down dramatically, similar to what we've seen in res. I mean, obviously, we've seen res come off almost 60% from its peak. But, we are prepared for the slowdown.

So, our guidance that says we will continue to make money this year I think incorporates our belief that we still will see some additional slowdown in commercial and industrial this year.

On the Composites side, I think Duncan's comments, he talked a bit about we do expect that maybe our margins will weaken a little bit in the third quarter. Obviously, the business is so much more non-US today than it ever has been historically, so this is a little bit different seasonality pattern for our Composites business than you'd get from looking at the historical numbers.

But, with our significant exposure to Europe in particular, and Europe typically being fairly weak in August, we would expect to see Composites be a bit weaker related to the market in the third quarter.

And then, we would also expect, because of some of the things we're doing on capital programs, that we'll have a couple of our very important low-cost facilities going through capital programs and things, which are just timing issues. They'll come back. We'll recost in better facilities when we're done.

So, given that, we're still comfortable saying we think margins will approach double-digits for the year. Obviously, on a year-to-date basis, we're there. I think we want to see where the economy is in the US and Europe, how strong demand is, before we really declare that we're going to get all the way to that goal of double-digit this year.

But, certainly, the momentum we saw in the business in the second quarter gives us a lot of confidence. We feel great about the business.

Ivy Zelman - *Zelman & Associates - Analyst*

Hey, great.

Mike, one more, sneak it in. Housing starts, what's your expectations for this year and next that you're assuming in your business, please?

Mike Thaman - *Owens Corning - Chairman & CEO*

We had said coming into the year that we thought starts would be kind of somewhere shy of a million. I don't think we ever really kind of pinned to a number. But, at the time we first talked about our guidance for the year, we thought kind of in the 950 to a million range.

I think that's still about where we are. I mean, year-to-date, starts had been about a million. They were a little bit weaker in the second quarter. So, we would expect that the full-year will probably come in at less than a million, and I think that's pretty consistent with consensus.

I mean, just of note, I think since the Census Bureau started keeping records, that's the first time housing starts will have been less than a million, if this in fact happens, since 1959 when they started publishing these numbers. So, it's bad out there.

The consensus seems to be that we're going to continue to see this for another year and that we might even see a second consecutive year of less than a million. We're certainly building our business plans, as we go into our planning season here in the Fall, not counting on a big market turnaround to drive performance.

And I think some of the things you saw us do this year, in terms of cost performance, productivity, trying to drive innovation, being out with our customers and trying to build their business, give them new ideas to make money would be the way you'd see progress in our business next year as opposed to counting on the macro market somehow moving our business forward.

So, we'll positioned, that if the market gets stronger faster, that we can take advantage of it, but we're not counting on that.

Ivy Zelman - *Zelman & Associates - Analyst*

Great. Thank you very much.

Mike Thaman - *Owens Corning - Chairman & CEO*

Thanks, Ivy.

Operator

Keith Hughes, SunTrust. Please proceed.

Keith Hughes - *SunTrust - Analyst*

Thank you.

Following up on the last question, given the international focus of Composites, have you-- and there's been some negative news there as well. Have you seen any change in the sales pattern there in the last three to four months?

And as a follow-up, could you kind of break out for us besides the windmills, what other are the bigger pieces now in the current mix of the Composites segment?

Mike Thaman - *Owens Corning - Chairman & CEO*

Well, thanks for your question, Keith.

I don't think, at least in terms of what we've seen so far in our order book, we've really seen any weakening or change in the patterns of orders. I think it's fair to say that there's a little bit less confidence, particularly in the US and Europe, related to some of the economic news, but I wouldn't say we've yet seen that translated into weakening in our business.

I think one of the reasons that's true is there a couple of core segments in this business where the confidence is very, very strong and, in some capacities, counter-cyclical to some of the bad news.

So, with high energy costs, with high oil prices, which is putting pressure on economies, at least in the developed world, wind energy is getting more competitive and we're seeing the wind guys get more excited and more confident than ever before.

So, that portion of our business would be one where we see a lot of strength. We're certainly seeing a lot of strength in some of the oil economies and, in particular, Russia. I think you saw our investment today, that we're expanding the facility that we bought in Gous-Khrustalny.

The Russian government has committed to a $1 trillion of infrastructure investments in the coming years, and we're trying to invest ahead of that and make sure that we have capacity on the ground in Russia to service that demand.

And we're continuing to see strong demand for pipe and infrastructure type products associated with the Middle East and also associated with the oil industries.

So, we've got a couple kind of counter-cyclical plays where, as oil prices go up, we're in economies that benefit from that. We're in applications that benefit from that. And then, I think some of the more mature applications, like automotive and transportation applications, will probably feel some pressure.

So, on balance, I think we think we still feel very good about the demand profile.

Keith Hughes - *SunTrust - Analyst*

Thank you.

Operator

Keith Johnson, Morgan Keegan. Please proceed.

Keith Johnson - *Morgan Keegan - Analyst*

Good morning.

Mike Thaman - *Owens Corning - Chairman & CEO*

Good morning, Keith.

Keith Johnson - *Morgan Keegan - Analyst*

Just a quick question. Could you give us a little bit of color of how much of an impact the inflationary environment has had kind of on a year-over-year basis in your operations?

Mike Thaman - *Owens Corning - Chairman & CEO*

Well, let me kick that off, and then maybe Duncan can lever off of some of the comments he made.

We did try to be a bit more-- have a bit more disclosure in this call regarding our overall energy costs. So, I'll let him talk a little bit about that.

I think beyond that, the other specific points I'd like to maybe make and mention would be our other big inflation item is typically asphalt in the Roofing business.

Keith Johnson - *Morgan Keegan - Analyst*

Right.

Mike Thaman - *Owens Corning - Chairman & CEO*

So, let me speak to that, and then I'll let Duncan speak to energy.

On the Roofing side of the business, we've seen a really rapid run-up in asphalt costs. And despite the fact that there's been a lot of pricing action in the marketplace, we actually did not recover all raw material cost inflation in the second quarter with our pricing actions.

So, pricing has been favorable in that we've been able to go out and try to recover our asphalt costs and our raw material costs. But, in fact, in the second quarter, we weren't able to do that, and we are still lagging behind a bit.

And I think that makes the second quarter performance of our Roofing business all that much more impressive. We beat last year and, in effect, had a negative variance of price-to-inflation. And all the benefits that you see coming through in that business has been on the cost side and the productivity side and the mix side.

So, while the storms have helped bolster weak demand and pricing has helped us offset some of the raw materials costs, really the story of Roofing's been excellent execution on the cost side and really good execution in the market in terms of mix and innovation.

As we look into the third quarter, if oil continues to stay off this top, we'd maybe see some relief in asphalt inflation. And at that point, the pricing actions may actually fully catch up with inflation, our good cost programs would continue to stay in, and we think some of the storm-related volume in the first half of the year gives us carryover.

So, we think the position for Roofing heading into the third quarter is very stable, and we have good momentum in that business. So, that's kind of a special item related to Owens Corning, which is our asphalt associated with Roofing.

I'll now let Duncan make a few comments about energy more generally.

Keith Johnson - *Morgan Keegan - Analyst*

Okay.

Duncan Palmer - *Owens Corning - CFO*

Thanks, Mike.

Yes, we talked in some of my comments today about our overall gas and power usage, and we disclosed that these are running at about 10% of our overall cost of sales.

In terms of what we're using that for, a lot of it, of course, is in areas where we melt glass and we use--.

Keith Johnson - *Morgan Keegan - Analyst*

--Right--.

Duncan Palmer - *Owens Corning - CFO*

--Gas-on power in those operations.

At the moment, current utilization levels-- and I say current utilization levels because obviously Insulation is running at lower utilization levels than maybe historically it's run at. But, about 60% of our overall energy, gas and power is being used in Composites, and about most of the rest is in Insulation.

As you'll appreciate, the Composites usage is both in the US, but also heavily outside the US. So, we're exposed to gas and power markets not just as a US matter, but also as a global matter. And so, therefore, they kind of-- the way in which those prices get set and whether they're market prices and what they're linked to is obviously different depending on what geographies they're in.

But, overall, we have a program of usage of gas and power across the world, across our mainly melting businesses that's about 10% of our cost of sales. We do hedge some of our exposure, really to take some of the volatility out off of our spend.

We're not trying to necessarily pick price. We don't think we have any particular sort of crystal ball where we can guess prices better than the market, but we are trying to take some volatility out. We tend to focus mainly on the next six months in terms of how we take that volatility out in terms of hedging. So, we do have a hedging program there.

But, overall, you've also seen this quarter that we have announced an insulation price increase, and one of the thing that that price increase aims to cover is some of the inflation we've seen in energy costs.

Keith Johnson - *Morgan Keegan - Analyst*

Okay.

Just a real quick follow-up. When we take a look at your dated 2008 guidance, what type of inflationary environment did you kind of carry forward to the rest of the year in that guidance?

Mike Thaman - *Owens Corning - Chairman & CEO*

I think that it's a little bit business-specific.

I think in the assumptions of that, improved guidance would be that we continue to have success recovering raw material cost inflation on the Roofing side of the business in the marketplace, and that we continue to show progress against that, and that we would we continue to see energy at elevated levels similar to what we've seen as of recent, not a big collapse in energy prices, but also not another big run-up in energy prices, maybe like we've seen over the last 90 days.

Keith Johnson - *Morgan Keegan - Analyst*

Okay, all right. Thanks a lot.

Mike Thaman - *Owens Corning - Chairman & CEO*

Thanks.

Operator

Garik Shmois, Longbow Research. Please proceed.

Garik Shmois - *Longbow Research - Analyst*

Hi, a nice quarter, gentlemen.

Mike Thaman - *Owens Corning - Chairman & CEO*

Thanks, Garik.

Duncan Palmer - *Owens Corning - CFO*

Thank you.

Garik Shmois - *Longbow Research - Analyst*

I'm just wondering if you could talk a little bit more about your guidance. Nice to see you increase it, but it looks like it's flattish to slightly up in the second half of the year relative to the first half of the year.

Is it really some of the Composites seasonality offsetting the seasonality of your Insulation and Roofing business leading to the relatively flattish sequential improvement, or is-- I mean, can you just walk us through that a little bit more?

Mike Thaman - *Owens Corning - Chairman & CEO*

Well, it is a little different profile for Owens Corning than I think maybe you've seen historically.

Historically, Owens Corning typically had a stronger second half, and we would produce more operating earnings in the back half of the year than we did in the first half of the year. And that was primarily related to how the new construction cycle works and the fact we worked off of a lag in new constructions.

So, if you go back to a very robust housing market where really the Insulation business has for a lot of years been the driver of our performance, we would tend to see better demand in the third and fourth quarter of the year than we saw in the first and the second because Insulation tends to go into a house on about a 90-day lag.

And in absolute basis, second and third quarter housing starts are typically stronger than fourth and first quarter just because of weather in the northern part of the United States.

I think what we're seeing this year in the guidance we've given is the guidance is approximately a doubling of the first half. So, if you take our first half year-to-date and double it, you'd come in pretty close to the $265 number we talked about today.

Obviously, a part of that is because Insulation's not the driver of our business this year. We think it will be in the future. It will be one of the drivers of our business in the future.

But, in the housing environment we're in today with a very weak kind of level starts in the second quarter with anticipated not a lot of improvement in the third, the number of houses we have out there to insulate in the second half of the year is not going to give us a big uptick in Insulation.

With Insulation going a bit sideways, Composites has been more of a four quarter earner. And Roofing has always been kind of a second quarter, third quarter business. So, it'll have a weak first or a weak fourth, but it tends to have pretty equal halves.

So, we're working at the businesses saying Insulation will not give us the big uptick in the second half that it's historically given us. Composites will show us a lot of earnings power through all four quarters. Roofing will certainly contain momentum and continue momentum into the third.

The fourth quarter's always a little bit of the roll of the dice. And then, in the less material segment, Other Building Materials & Services, we have some work to do to get it contributing.

So, we wouldn't expect to see a lot of big built-in gains in the second half, which typically come from Insulation.

Garik Shmois - *Longbow Research - Analyst*

Great, thanks for that.

And just a real quick question. Is it possible to parcel out the storm-related demand in the Roofing segment as a percent of the total?

Mike Thaman - *Owens Corning - Chairman & CEO*

No. I mean, obviously, everyone in the industry-- as we forecast our capacity and we forecast our production needs, we're making estimates to what we think the underlying level of demand is for new construction, what the underlying level of demand is for reroof, and then how much is the storm demand adding on top of that in terms of our forecast for the market?

We would have expected the second quarter market to be down from the second quarter of '07 just because of the things that are going on in the mortgage market, the lack of resell activity, the lack of home equity loans and things.

And in fact, the second quarter of 2008 looks like it was pretty flat with the second quarter of 2007 in terms of market demand. So, our conclusion from that would be that whatever weakness we saw related to reroof and new construction was offset by storm-related demand, but it's pretty hard to make an exact estimate of what that would be.

Garik Shmois - *Longbow Research - Analyst*

Fair enough. Thanks.

Mike Thaman - *Owens Corning - Chairman & CEO*

All right, thanks.

Operator

Jack Kasprzak, BB&T Capital Markets. Please proceed.

Jack Kasprzak - *BB&T Capital Markets - Analyst*

Thanks. Good morning, everyone.

Mike Thaman - *Owens Corning - Chairman & CEO*

Good morning, Jack.

Duncan Palmer - *Owens Corning - CFO*

Hello.

Jack Kasprzak - *BB&T Capital Markets - Analyst*

Morning. Congratulations on the quarter, very nice.

Mike Thaman - *Owens Corning - Chairman & CEO*

Thank you.

Jack Kasprzak - *BB&T Capital Markets - Analyst*

I had a question on corporate G&A which was in Q2 much higher than Q1, and I was just curious if anything unusual was in there and would we see the back half return more to a more normal level?

Mike Thaman - *Owens Corning - Chairman & CEO*

I'm going to ask Duncan to handle that question. Duncan?

Duncan Palmer - *Owens Corning - CFO*

Yes. Thanks, Mike.

I mentioned in some of my remarks that quarter-on-quarter, quarter one this year to quarter two this year, there was a move in corporate $27 million. And it was kind of a combination of three main items.

One was an increase in our accrual for performance-based pay. Obviously we're doing well this year, and so we're sort of making sure our accrual is in line with that. So, that's one thing that you'll see.

Secondly, we took an accrual for accounting for our inventory under the LIPO method. Typically, as we see particularly asphalt prices rise, the charge for LIPO over the year will be higher. And so, as we've seen asphalt prices rise significantly, we have increased our charge for LIPO during quarter two.

And thirdly, there were some foreign currency transactional effects between the two quarters in terms of making sort of a difference to inside that number, which we put in corporate rather than inside the businesses. So, those are the three main items in that sector.

In terms of the outlook for the rest of the year, I think it would be reasonable to assume that it would return to more normal levels. As a matter of fact, that, of course, would be what happens to material price inflation, particularly asphalt, and obviously how our performance goes, and that would make a difference to our ongoing pay accrual.

Jack Kasprzak - *BB&T Capital Markets - Analyst*

Okay, great.

And secondly, with regard to Roofing & Asphalt, your comments, of course, say sales were up 15% on higher selling prices, but you mentioned storm-related demand. Were volumes up in the quarter in Roofing at all?

Mike Thaman - *Owens Corning - Chairman & CEO*

Volumes were up a very small amount. I mean, I think most accurately you would characterize it as a flat quarter in terms of volume.

Jack Kasprzak - *BB&T Capital Markets - Analyst*

Okay, great. Thanks a lot.

Mike Thaman - *Owens Corning - Chairman & CEO*

Okay, thanks.

Operator

Mary Gilbert, Imperial Capital. Please proceed.

Mary Gilbert - *Imperial Capital - Analyst*

Yes, I wondered a couple of things. One, you have the gain on metals. That was included in the $71 million operating income, correct?

Duncan Palmer - *Owens Corning - CFO*

We did not include the gain on metals in our adjusted EBIT.

Mary Gilbert - *Imperial Capital - Analyst*

Okay.

So, I guess I was talking about for the segment, for Composite Solutions. So, if I'm looking at that $71 million of operating income, does that include the gain?

Duncan Palmer - *Owens Corning - CFO*

No.

Mary Gilbert - *Imperial Capital - Analyst*

It does not.

Duncan Palmer - *Owens Corning - CFO*

No.

Mike Thaman - *Owens Corning - Chairman & CEO*

It does not, Mary.

Mary Gilbert - *Imperial Capital - Analyst*

Oh.

Mike Thaman - *Owens Corning - Chairman & CEO*

So, let's--.

Mary Gilbert - *Imperial Capital - Analyst*

--That's good--.

Mike Thaman - *Owens Corning - Chairman & CEO*

--Back up on that just to make sure that all the people on the call understand that.

One of the things as we got into these more material alloy leases or metals leases than what Owens Corning has had historically is we've been pretty clear from the outset when we did the Vetrotech acquisition that we really see that as a financing decision, not an operating decision.

So, the results we're trying to produce in the segment are truly operating results. And we have pulled basically all the metals activities, both the gains on the sales, as well as the leasing activity up into the corporate books.

So, when we reconcile that, that's all in the corporate numbers. And what we try to produce in the Composites segment are basically the true operating cash flows of asset base there.

Mary Gilbert - *Imperial Capital - Analyst*

That's fantastic. Okay, great. That's helpful.

Could you talk about Chinese competition in Composites, how that's affecting OC? And what about plans to expand in that region?

Mike Thaman - *Owens Corning - Chairman & CEO*

Okay. Well, thank you, Mary.

We have continued to see formidable competition in China. We have seen aggressive expansions from Chinese producers. This is not a new theme.

I mean, this is something that the business has been working on and dealing with really over the last decade, and I think kind of with more urgency probably in the last five or six years, and I think, in a large regard, underpins the logic of why we wanted to do the Vetrotech acquisition and get the business globalized more quickly.

We have seen some good positives in the last year probably in terms of-- I guess I would describe it as leveling the playing field with the Chinese competition. Certainly, there's inflation in China today at higher rates than what we maybe saw over the last five years.

The currency is coming in more in line with maybe what's a truer value, at least relative to the dollar, and I think that's helping our North American business. Some of the export credits that some of the producers had been receiving in China have been taken away, so it's taken a little bit of some of the export incentives out of the marketplace.

And at least it's rumored that we're going to begin to see true energy costs start to appear in the Chinese markets, so that would increase cost and production, not to mention that a lot of the precious metals that you use for production have gotten more expensive, and so the capital cost of putting these facilities in has continued to escalate. And we think that is a global market.

So, we've seen some things that are helping get the playing field maybe a bit more level than it had been over the last decade, but we still think there is very strong and formidable competition on China in the ground while servicing the Chinese market and I think, over the long-term, servicing China, but in the near-term also exporting us out of China.

We had said back in November when we announced the Vetrotech acquisition that kind of the first two priorities beyond getting the synergies and the integration worked on were to look at an expansion opportunity in Russia, and then to look at expansion opportunities in China.

Obviously, last night and then on today's call, we announced what we're doing in Russia. We're working hard to look at what we would like to do in Asia and how that impacts our investment strategy in China and how it impacts, basically, our configuration of the remainder of that region. I think that's work yet to be done, and I think we'll have an announcement on that when we're ready.

Mary Gilbert - *Imperial Capital - Analyst*

Okay.

The other thing is you were able to-- you did put forth a price increase in Insulation. One, I wanted to find out the magnitude of that increase, and then is that sufficient to offset the cost increases you're expecting?

And then, second of all, since Composites is the biggest user of energy, what's happening there with regard to pricing and your ability to pass on the inflationary pressures that you're experiencing there?

Mike Thaman - *Owens Corning - Chairman & CEO*

Okay.

On the Insulation side of the business, we had announced price increases across kind of all of-- many of the product lines. We're really talking about fiberglass when we talk about the price increases.

If you look at the Foam side of our business, that business has been pretty effective over the course of the last two years at getting price increases to offset its key raw material, which is polystyrene.

So, leaving aside kind of the (inaudible) to polystyrene side of our business, which has been fairly stable in terms of pricing on raw materials, really it's the fiberglass side of the business where our energy consumption and the cost of our energy has put pressure on margin.

In that side of the business, we have price increases that have been in the 6% to 10% range, depending on the product line. Most of those were very late second quarter in terms of their timing, so we're working on them right now.

They would go a ways towards helping us offset some of the energy cost inflation that we've seen over the course of the last two years, but in capacity would get us anywhere near back to steady state in terms of offsetting the inflation we've seen over the last couple of years.

On the Composites side of the business, we have been able to get prices in some segments. Due to the nature of the business, some parts of the business are contracted through to kind of end-use projects.

So, if you think about the wind energy business, people are going to want some visibility to the availability of glass and some understanding of where pricing's going to be. There are other markets inside Composites that I'd characterize as more as kind of spot market type pricing.

And so, where we've seen opportunity to take price we have, our estimates is that, in aggregate, Composites has maybe come up short of offsetting inflation, but has gotten some positive price and has been able to make progress against the inflation they've seen.

Mary Gilbert - *Imperial Capital - Analyst*

Okay, great. That's most helpful. Thank you.

Mike Thaman - *Owens Corning - Chairman & CEO*

Thank you, Mary.

Operator

Jim Barrett, CL King & Associates. Please proceed.

Jim Barrett - *CL King & Associates - Analyst*

Good morning, everyone.

Mike Thaman - *Owens Corning - Chairman & CEO*

Good morning, Jim.

Jim Barrett - *CL King & Associates - Analyst*

Mike, to follow up on your comment about Composite, it appears based upon the slide presentation that even without Vetrotech, the Company experienced a very strong increase in the Composites earnings.

Beyond the pricing which you've already touched upon, could you give us an update-- and you've touched upon the Chinese dynamics as well, but are you sensing any underlying change in the level of competition, the overall price environment? What, in fact, drove the margin improvement? How much of it was external versus internal?

Mike Thaman - *Owens Corning - Chairman & CEO*

Well, it's really difficult for me to kind of put the genie back in the bottle and say what would the performance of the business be if we had not done the Vetrotech acquisition. So, obviously, we think that's a homerun acquisition.

And as we've put the two businesses together, I mean, we've been able to integrate so quickly that, from where we sit, we really see it as one global business today. It's very hard for me to separate out and say what is the contribution of the Owens Corning Heritage assets? What's the contribution of the Vetrotech Heritage assets? It really is a global Composites business.

I think if you do the math and take kind of high single-digit operating performance-- I guess we said 7% in the second quarter last year, so mid to high single-digit, and you try to do a walk in a $2.5 billion business on how you get from 7% to 11%, one of the things you'd expect to see is a pretty dramatic impact of the synergy work we're doing.

And we have said up to now that we expected at least $30 million of synergies in 2008. I think we've said we're feeling good about where we are versus those plans, and that we're generally ahead of all the plans that we've laid out. So, that would certainly give you a couple of points right off the top.

And then, I think you would see some of the things we've been in able to do in terms of mix, some of the things we've been able to do in terms of productivity, and some of the things we've been able to do in terms of price probably making up the balance.

So, I think it's an across the board performance--.

Jim Barrett - *CL King & Associates - Analyst*

--Yes--.

Mike Thaman - *Owens Corning - Chairman & CEO*

--Good work in each one of the markets, taking advantage of places where volume growth plays to our strengths and plays to our profitability-- I think wind is one of those-- and getting the work done early on the synergy side.

And despite the fact that our SG&A is up in total, we are getting leverage against our SG&A because of the fact that we did the acquisition. And our SG&A as a percent of total for the entire company is down, and I think that's indicative of the kind of synergies and leverage we're getting with the Composites acquisition.

Jim Barrett - *CL King & Associates - Analyst*

I see.

And as a follow-up, is a rough rule of thumb, in terms of the organic tonnage being shipped in that business, twice global GDP, or should we use something a little more or a little less?

Mike Thaman - *Owens Corning - Chairman & CEO*

Jim, we've said 1.5 to 2 times global GDP.

Jim Barrett - *CL King & Associates - Analyst*

Okay.

Mike Thaman - *Owens Corning - Chairman & CEO*

And I think that's-- our effort is to go back and look over 5 and 10-year periods of time and track to something. So, I would say I continue to be comfortable with that guidance.

But, I would also just caution any of the investors on the call to the extent someone updates fourth quarter GDP forecasts for Western Europe, I don't think it would sensible to multiply that times 1.5 and say that's the new volume forecast for Composites.

I mean, we work with our customers in terms of their inventory positions, our inventory positions, their unused applications. But, over one, two, three, five years, that's always been a good estimate, is 1.5 and 2 times global GDP.

Jim Barrett - *CL King & Associates - Analyst*

Good. Thank you very much.

Mike Thaman - *Owens Corning - Chairman & CEO*

Thank you, Jim.

Operator

Nitin Dahiya, Lehman Brothers. Please proceed.

Nitin Dahiya - *Lehman Brothers - Analyst*

Good morning.

Mike Thaman - *Owens Corning - Chairman & CEO*

Good morning, Nitin.

Nitin Dahiya - *Lehman Brothers - Analyst*

When you look at Roofing, the numbers are obviously very good in the last quarter. And when you're looking at July, there are things and signs that Asphalt is a gain going up very sharply. And how much success are you having in taking incremental pricing? And specifically, are you seeing a pushback or any demand response to the ever higher prices on the shingle side?

Mike Thaman - *Owens Corning - Chairman & CEO*

Well, I think we've talked about Roofing pricing a fair amount on the call. Let me try to hit the highlights of that. We have found asphalt prices very difficult to forecast.

Nitin Dahiya - *Lehman Brothers - Analyst*

Um-hmm.

Mike Thaman - *Owens Corning - Chairman & CEO*

They trade off of more than just crude oil prices. So, there's a lot of variables that go in-- crack spreads, gas demand, what the lighter end demands are, what is the demand for paving, and what is our competition for asphalt look like?

Typically, in the summer, we do see asphalt prices go up relative to crude. And historically, in the winter, we've seen asphalt prices decline relative to crude. So, if you're looking for a broad kind of rule of thumb, asphalt as a percent of crude oil prices tends to be higher in the summer and cheaper in the winter.

And we built our operating model to kind of take advantage of that and get some positive carryon on the asphalt with producing in the winters and--.

Nitin Dahiya - *Lehman Brothers - Analyst*

--Um-hmm--.

Mike Thaman - *Owens Corning - Chairman & CEO*

--Selling in the summer.

We have felt pretty good about the industry dynamic. I think if you have been on this call for the last six or seven quarters--.

Nitin Dahiya - *Lehman Brothers - Analyst*

--Um-hmm--.

Mike Thaman - *Owens Corning - Chairman & CEO*

--At least for six or seven quarters here, we've had a story about the roofing industry and either the absence of storms or the integration of [GFL] or big inventory positions out in the marketplace, all of which had made it very difficult, I think, for us to find a price level in the industry that we thought we could support.

I think, at this point, the industry feels like it's relatively stable.

Nitin Dahiya - *Lehman Brothers - Analyst*

Um-hmm.

Mike Thaman - *Owens Corning - Chairman & CEO*

Our inventories are in a reasonably good position. It feels like distribution's inventories are in reasonably good positions. People are buying what they need.

And obviously, on a value proposition basis-- and asphalt shingle is a great value proposition, provided you're buying it cost-competitively versus the competing asphalt shingles. So, there's no real problem with asphalt shingle pricing provided we don't get out of line with our value to our customers, and that's really where we're focused.

But, we feel pretty good going into the third quarter that we can continue to manage that issue.

Nitin Dahiya - *Lehman Brothers - Analyst*

Fair enough.

And looking, then, on the acquisition and (inaudible) that you're kind of through the last leg of that, when you look at your business mix today, do you see there are some gaps on some non-core businesses that might require rebalancing over the next 12 to 18 months?

Mike Thaman - *Owens Corning - Chairman & CEO*

We feel good about the businesses we're in today. I think you probably heard us say on this call when we divested our siding business and when we divested Fabwell and then we bought Vetrotech--.

Nitin Dahiya - *Lehman Brothers - Analyst*

--Um-hmm--.

Mike Thaman - *Owens Corning - Chairman & CEO*

--The challenge we give ourselves everyday is are we the best owner of the business, and do we have a game plan on how to make that business create shareholder value for our shareholders?

Certainly, if you look at the second quarter results, the kind of recovery we saw in Roofing was critical for us, I think, to be able to feel really good about making our internal plans and our internal expectations of that business come through into reported financials--.

Nitin Dahiya - *Lehman Brothers - Analyst*

--Um-hmm--.

Mike Thaman - *Owens Corning - Chairman & CEO*

--Which is always the measure we look at.

Certainly, Composites, we think we're creating tremendous value for our shareholders. And Insulation is a great industry structure in a great, great market with the premier franchise. So, I think those three, it's a very, very easy answer.

In Other Building Materials & Services, obviously the second quarter results weren't where we wanted them to be. We've taken a hard look at those businesses. We've got good game plans and are continuing to develop better game plans on how to make them better.

We have not operated those businesses through this kind of downturn before. And I would tell you I think on particularly the Masonry Products side of the business, the impact of the downturn in new construction and where the downturn regionally and the impact it's had on housing affordability has created a much more difficult demand environment than we expected.

So, I would still give us reasonably good marks in terms of execution on the--.

Nitin Dahiya - *Lehman Brothers - Analyst*

--Um-hmm--.

Mike Thaman - *Owens Corning - Chairman & CEO*

--(Inaudible) side. We didn't get the market right. We're now getting more conservative estimates in the market, and we're asking the business to get it right or relative to those more conservative estimates.

Having said that, I think we'll see some weakness persist there through this year, but we do think we can get that business positioned to be profitable and we do think we can get it positioned to make a lot of money in an upturn.

Nitin Dahiya - *Lehman Brothers - Analyst*

Okay.

So, your existing-- all the business are pretty much where you'd want them to be in terms of looking ahead. And from an acquisition point of view, any complimentary lines where you think it kind of just makes sense for you to go and get them?

Mike Thaman - *Owens Corning - Chairman & CEO*

I think we demonstrated with the Vetrotech acquisition that when we see something that creates a lot of shareholder value--.

Nitin Dahiya - *Lehman Brothers - Analyst*

--Um-hmm--.

Mike Thaman - *Owens Corning - Chairman & CEO*

--We're willing to go do it, even if it's of size.

And we think we've got the kind of balance sheet today that if we saw the right thing, even if it was of some size, if it fit and created a lot of shareholder value, we'd be willing to step up to do it.

But, obviously, we've got nothing that we're prepared to or willing to talk about on this call.

Nitin Dahiya - *Lehman Brothers - Analyst*

Fair enough. Thank you much.

Scott Deitz - *Owens Corning - VP, IR & Corporate Communication*

Carmen, as we approach the top of the hour, let's just do one more question, please.

Operator

Daniel [Carosel], Hiram Capital. Please proceed.

Daniel Carosel - *Hiram Capital - Analyst*

Yes, hi.

You had a healthy increase in revenues of 23% and a significant EBITDA decline as well, which I guess is consistent with a lot of residential and commercial construction exposure.

However, a couple of long-term unsustainable or non-organic factors are in those figures. I just want to understand their scope. First is the benefit of your Composites acquisition to revenues and EBITDA, and second is the benefit to storm-related demand to Roofing & Asphalt.

Can you comment on what the percentage revenue increase would have been excluding these items, or kind of on a broad-brush basis at least, and how much less EBITDA would have been if you were to exclude them as well?

Thank you.

Mike Thaman - *Owens Corning - Chairman & CEO*

Okay. Well, thanks for your question, Daniel.

I think related to-- again, trying to exclude the Vetrotech acquisition from the Company, from where we sit, we don't see a good logic in trying to do that, in that we bought it, we integrated it, it's ours, and it's who we are today.

So, the Composites business we have today is a bigger and more substantial and much more global Composites business than what we had a year ago. We see growth opportunities around the world as evidenced by our investment in Russia, in some of the conversations we've had on this call.

And we continue to think, from a volume point of view, we're participating in a market that in total will grow at 1.5 to 2 times global GDP organically with some segments like wind energy that could grow high double-digits for the coming decade.

So, we see pockets where there are growth opportunities in big double-digits and we see the overall business certainly growing kind of in the mid singles.

Related to Roofing, I think on this call we did say that volumes versus the second quarter of '07 were basically flat. We do think the overall roofing industry today is operating below a long-term trend line in terms of demand, even with the storms in the spring.

So, there is going to be a need at some point to the next two or three years for that industry to return back to some type of steady state associated with the repairs of roofs and the reroofing demand that needs to get done.

It is a repair and reroof business. It's not a discretionary purchase. It can get delayed. But, ultimately, people replace their roofs. And I mean, just based on the demographics of roofs, we think we're below trend line there.

And then, in Insulation, we think, in residential construction, we could be as much as 50% below trend line. We're 50% below, so there's an opportunity for as much as 100% growth in residential construction as we get back to what we believe is the long-term demographic need for 1.7 million, 1.750 million housing starts in our country.

So, depending on how long we stay low, that might impact how quickly we return to that kind of a macro. But, the spring is getting coiled today as we operate at 950,000 or a million housing starts. There's more people than that in our country.

And each month that goes by and year that goes by that we operate at that level, we're creating built-in demand that's going to cause the recovery to be that much steeper.

So, trying to estimate organic growth in a cyclical and seasonal-- or in a cyclical context for residential construction is pretty difficult. We do know which direction it goes, which is virtually straight up at some point in the next three or four years. And on a global basis with Composites, we stand by the 1.5 to 2 times global GDP in a macro.

Daniel Carosel - *Hiram Capital - Analyst*

Okay, thank you.

Can you just hazard a guess as to-- EBIT in Roofing & Asphalt was $37 million. You said volumes were probably about flat there. How much of the $37 million was storm-related demand in the third quarter-- or rather in the second quarter?

Mike Thaman - *Owens Corning - Chairman & CEO*

Well, what we said on the call is I think our last year number-- and please correct me, Duncan, if I'm wrong-- was $29 million--.

Daniel Carosel - *Hiram Capital - Analyst*

--Right--.

Mike Thaman - *Owens Corning - Chairman & CEO*

--At the EBIT line for Roofing. So, we said we had $8 million of improvement for the quarter, and we said that the $8 million of improvement was fundamentally driven by productivity and costs, in that volumes were flat and pricing did not recover inflation.

If we had not seen some storm-related demand, volumes would have been down marginally, and that probably would have hurt results some. But, we still think that the progress we made from the first quarter to the second quarter was really driven by our own execution. It wasn't driven by storms.

Daniel Carosel - *Hiram Capital - Analyst*

Okay, thanks very much.

Mike Thaman - *Owens Corning - Chairman & CEO*

Thank you.

Scott Deitz - *Owens Corning - VP, IR & Corporate Communication*

Carmen, if we can, we'll wrap up the Q&A with that. And I'll thank everybody who's been on the line, and turn it to Mike Thaman, our CEO, for any final comments he might have.

Mike Thaman - *Owens Corning - Chairman & CEO*

Well, thanks, Scott, and thanks, everyone, for joining our call today.

Let me just summarize a few key points from today's call. First I would say we are satisfied with our progress, and we're certainly pleased to be able to improve our guidance for earnings for the year. We take a lot of pride in being able to do that.

I think in this quarter you really saw the strength of the business portfolio of Owens Corning, not just the building momentum in Composites, which has offset some of the weakness we've seen in Building Materials, but the big quarter from Roofing, Insider

Building Materials Group, which balanced some of the weakness we've seen in the new construction side. So, the balance of our business and the strength of our portfolio both came through in two ways in the quarter.

The Composites acquisition is absolutely surpassing our expectations. It's ahead of virtually all of our key acquisition milestones. We really couldn't be happier with what we've done there.

And I think the evidence of that is our excitement about stepping up and expanding that platform acquisition in Russia and getting ourselves a nice position in Russia with the Gous-Khrustalny investment and positioning ourselves for growth in Russia and Eastern Europe.

This was something that was in our vision at the time of the acquisition. We wanted to get some of the blocking and tackling done, and now we're moving into some of the expansion modes where we think we can create additional and significant shareholder value.

Despite a really tough construction market, we believe we're performing well. We continue to have an outlook to a strong balance sheet and cash flow. And we think we have everything in place that we need to support global growth and also increase shareholder value.

So, with that, I'll conclude. I'll tell you we look forward to seeing and speaking with you again on October 29th for our third quarter call. Thank you again for your interest in our Company, and please have a nice day.

Operator

This concludes the presentation for today, ladies and gentlemen. You may now disconnect. Have a wonderful week.
