

FINAL TRANSCRIPT

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OC - Q4 2007 OWENS CORNING Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the fourth quarter 2007 Owens Corning earnings conference call. My name is Maria, and I will be your audio 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 of today's conference. (OPERATOR INSTRUCTIONS) As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to Mr. Scott Deitz, Vice President of Investor Relations and Corporate Communications. Please proceed.

Scott Deitz - *OWENS CORNING - VP, IR, Corp. Comm.*

Good morning Maria. Thanks for joining us today for the Owens Corning conference call and review, as Maria said, of our business results for the fourth quarter and full year 2007. Joining us today are Mike Thaman, our Chairman and Chief Executive Officer, and Duncan Palmer, Chief Financial Officer.

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Following our brief presentation this morning, we will open this one hour call to your questions. We ask that you limit yourselves to one question and one follow-up, so that we can take as many questions as possible. By now, most of you have had an opportunity to review the earnings news release we issued about three hours ago.

Also, about 15 minutes ago, we posted presentation slides that we will refer to during this call. For those of you participating via the Internet, or sitting near a computer, you can access the slides at www.OwensCorning.com. You will find a link on our home page. And will is also a link on the investor section of our website as well. And of course, this call and the supporting slides will be available on our website via archive.

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. So please refer to the cautionary statements and risk factors identified in our SEC filings, for a more detailed explanation of the inherent limitations of these forward-looking statements.

We currently plan to file our 2007 Form 10-K this evening, after the close of the New York Stock Exchange. And importantly, we ask that you understand that certain data included within this presentation contains non-GAAP financial measures. For example, some of today's prepared remarks will exclude 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 on our website.

During our fourth quarter year-end results discussion today, remember that we have undertaken a number of significant strategic changes to our business portfolio, in particular the sale of our Siding Solutions and Fabwell businesses. These divested businesses have been classified as discontinued operations in our financial statements.

Therefore as we present our results today, you should keep that in mind depending upon the context it may reflect total operations, continuing operations, or discontinued ops. When we comment on discontinued operations, we will certainly point that out. For those of you that have the slide presentation in front of you we will begin on Slide 4.

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

Mike Thaman - OWENS CORNING - Chairman, CEO

Thank you, Scott. Good morning everyone. And thank you for your continued interest in Owens Corning. Today we reported fourth quarter and full-year 2007 results.

Full-year revenue came in at \$5 billion, and adjusted EBIT for our ongoing operations finished at \$344 million. Duncan will provide you a complete reconciliation of this in his comments. Our performance is slightly better than the guidance we provided on the last call. Cash performance was good. We finished with net debt of slightly more than \$1.9 billion.

All-in, we are pleased with the way we finished. Our results were in-line with our expectations, in what I can only characterize as a very difficult market environment for our North American building materials businesses. 2007 was a year of significant accomplishment for Owens Corning. I will highlight four particular areas of significance.

First, we continued our six-year track record of safety improvement. Owens Corning has reduced the number of employee injuries by over 80% in this timeframe. This is outstanding performance. And it is great recognition to Dave Brown, our retired CEO, who brought a passion for safety to Owens Corning that continues today.

Second, we completed the most significant acquisition in our Company's history, with the fourth quarter purchase of the Reinforcements and Composites business of Saint-Gobain. This acquisition combines the global #1 and #2 players into a clear

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market leader. We are off to a fast start, and we are more optimistic every day, that this is a real winner for our customers and our shareholders.

Third we were able to fund this divestiture in large part, with the divestitures of our Siding and Recreational Vehicle businesses. We have no regrets having acted early in 2007 on these businesses, for the market outlook and deal environment weakened dramatically in July and August.

Fourth, we recently announced an agreement to divest our Battice, Belgium and Birkeland, Norway reinforcements plants, to meet the regulatory requirements of the European competition authorities, associated with completing the Vetrotex transaction. In addition to those achievements, we have taken aggressive action to enter 2008 fully prepared to perform.

On the Composite side of the business, we continue to seek solid global growth and demand. Our pre-acquisition planning has allowed us to exit 2007, with 100 fewer salaried employees than OC and Vetrotex had at the beginning in 2007. We expect that further integration in 2008, could result in the reduction of up to 200 additional salaried positions.

On the Operational side, we have already begun the process of the transitioning the fleet of melters that we acquired from Saint-Gobain, to OC glass formulations. These formulation changes reduce raw material costs, reduce energy consumption, reduce energy costs, and reduce environmental emissions. While no two melters are identical, an average conversion reduces costs by 4 million to \$5 million per year.

Each of these conversions also resulted in increasing capacity, further leveraging our asset base for growth. We are planning to convert about four melters per year over the next three or four years. We have also initiated programs to reconfigure our plants in China and South Carolina, from two line plants, to plants configured with one scaled low cost melters. These investments will get done in 2008.

In the Technical Fabrics unit of this business, we recently announced the consolidation of our four North American plants, into two facilities in Maine and Texas, resulting in the reduction of more than 150 positions. Upon the acquisition of Vetrotex, we had disclosed that we assumed leases for \$320 million of metal used in production tooling. We have developed plans to recapture about 50% of this metal through productivity programs. This productivity is achieved by combining the best bushing design concepts of the two companies, and integrating them into the glass forming tooling around the world.

All told, these actions make us comfortable with achieving in excess of \$30 million of synergies in 2008, and puts us on-track to achieve \$100 million in synergies by year four. As a result, in 2008, we expect to see an improvement in the operating margins of our Composite segment, of more than 200 basis points versus '07, with margins in this segment approaching 10%.

On the Building Materials side of the business, we are dealing with a very difficult macro economic environment. We are expecting the 2008 U.S. housing starts will be in the range of 1 million units. This level of housing activity will result in a third consecutive year of decline in residential insulation demand, with both 2007 and 2008 expected to have declined by more than 25%.

In Residential Roofing, we are expecting a third consecutive year of double-digit decline in demand in this market. Given this environment, we are pleased to report that we are on-track to deliver the \$100 million cost reduction program that we announced in the fourth quarter. This program has impacted 1,100 employees, resulting in annual savings of \$55 million. To be clear, this estimate is additive to the head count and savings that I discussed when I talked about the Composite synergies.

In addition, we have completed the further curtailment of our capacity in our Insulation business, resulting in operating capacity that is matched to our outlook for 2008. We have an established contingency plan for this business, should the housing market weaken further than our expectations. In addition, we have completed reductions in delayering in our Roofing and Asphalt segment, to respond to expectations of weaker demand there. We completed the sale of two standalone asphalt facilities in Texas and North Carolina. As we have reduced the infrastructure of the business, without impacting our shingle production network.

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We have closed our Cultured Stone facility in Ohio, providing the opportunity for progress in our margins in this business on flat volumes. And needless to say, our cost reduction program also impacted all of our corporate staff areas. We will continue to work the costs out of the equation through 2008, and ensure that we are disciplined in our management of head count, capacity, and discretionary spending. However, our team does not believe the cost reduction alone is sufficient to defend and build our Building Materials franchise in 2008.

In Roofing, we have completed the national rollout of our Duration with SureNail technology roofing product. This upgrade product continues to be well-received by our customers, and represents an opportunity for their growth in this difficult market.

In Insulation, we made great progress in 2007 in understanding what it will take to create re-insulation growth in 2008. In 2008, we intend to invest in developing a re-insulation industry, which involves providing the products, the equipment, the channels and the selling tools, to put multiple classes of contractors into the business of creating and satisfying re-insulation demands. We expect that we can grow the re-insulation segment of our Insulation business by 10% in 2008. While this does not offset the dramatic impact of the current housing cycle, these actions will create a cumulative effect that will only serve to hasten the recovery of our Insulation business.

Many of you may have attended an Investor Conference, where you heard me talk about energy efficiency as the first fuel. Clearly the most renewable form of energy for this country is the energy that we never consume in the first place.

We were pleased at a recent National Association of Home Builders Survey of consumer preferences revealed that 91% of recent and prospective homebuyers would choose a home with lower utility bills, over a home that costs 2 to 3% less and lack these efficiency measures. This is a big opportunity for our Company. And we do not intend to be deterred from pursuing it due to the current weakness in the market.

In today's press release, we offered adjusted EBIT guidance for 2008. Before I turn it over to Duncan for a further review of our 2007 financial performance, I wanted to comment on the guidance. In the release, we said that we expect 2008 adjusted EBIT to exceed \$240 million, down from our 2007 performance. Clearly, we are confident that our Composites business will show great promise, both in terms of revenue and operating margin growth this year.

On the other hand, while we are confident in both the cost and the market actions that we are taking to strengthen our Building Materials franchise, our ability to forecast these businesses is overshadowed by the weakness and uncertainty of these markets. Market uncertainty has made it difficult to forecast not just volume, but its impact on pricing and cost performance.

Our philosophy continues to be to manage our costs and capacity to be ahead of the curve. To invest in market opportunities that create growth for our customers, and to ensure that we maintain our market-leading positions in each of our market segments. That said, we look forward to having the Building Materials market find a bottom, so that these businesses can begin to rebuild their financial performance, and enjoy some of the same leverage on the way up that we have been managing for the last two years on the way down.

With that, I will turn it over to Duncan for a further review of 2007.

Duncan Palmer - OWENS CORNING - CFO

Thanks, Mike.

Let's start on Slide 5, where we detail key financial figures for fiscal 2007 and for the fourth quarter. Keep in mind, as we complete this review, that our financial results reflect the sale of our Siding Solutions business and our Fabwell units during the third quarter of 2007. The financial results for these businesses have been segregated, and are reported as discontinued operations

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in the consolidated statement of earnings for all periods presented. Business segment results of Composites and other Building Materials and services, exclude the results of Fabwell and Siding Solutions.

We will use comparisons to 2006 to illustrate our performance where we think it is useful and important. Because we emerged from asbestos-related Chapter 11 at the end of October 2006, our results for that year are reported as both predecessor and successor companies. All of the detailed comparisons may of course be found in the financial tables of today's news release, and Form 10-K that will be filed after the close of today's U.S. financial markets.

Today we reported 2007 consolidated net sales of \$5 billion, an 8% decrease compared to 2006. For the fourth quarter, consolidated net sales were \$1.3 billion, which represents a 4% increase compared with sales one year ago. For full year 2007, the overall decline in sales is primarily related to the reduced construction of new homes in the United States, and the consequent reduction in sales of insulation and asphalt roofing singles for new and existing homes.

Net earnings totaled \$96 million in 2007 which includes 27 million in earnings from continuing operations, and 69 million in earnings from discontinued operations. Discontinued operations include a net gain on the sale of businesses of \$60 million. Diluted earnings from continuing operations were \$0.21, and diluted earnings from discontinued operations were \$0.54. For the fourth quarter of 2007, we incurred a net loss of \$46 million, including continued and discontinued operations.

The loss from continuing operations was \$0.31, and the loss from discontinued operations was \$0.05. The fourth quarter reflects charges totaling \$57 million, related to restructuring and other charges, and a \$50 million impairment relating to the announced sales of the Company's Composite manufacturing facilities located in Battice, Belgium and Birkeland, Norway.

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 will review our reconciliation of items affecting comparability to get to the adjusted EBIT. These items totaled \$199 million in 2007, and \$131 million during the fourth quarter. Our adjusted EBIT from continuing operations for 2007 was \$344 million, which is in-line with the guidance of \$335 million given in the Q3 earnings call. The adjusted earnings from continuing operations for 2007 were \$158 million, or \$1.21 per diluted share.

Adjusted EPS from continuing operations for the fourth quarter of 2007 was \$0.36 per diluted share. In 2007, Marketing and Administrative expenses increased about 1 point as a percent of sales compared to 2006, primarily due to a reduction in building material sales. We recorded \$30 million of reduced employee compensation associated with our pay-at-risk program when compared to 2006.

Depreciation and Amortization from continuing operations totaled \$333 million in 2007. This was higher than our guidance of \$310 million, because of the accelerated depreciation taken as part of capacity reductions. Without these charges, our D&A would have been in-line with the guidance estimates.

Our capital expenditures totaled \$278 million during the year, in-line with our guidance. This comprised \$247 million in property and equipment, and \$31 million of investments in affiliates and subsidiaries. We ended 2007 with total debt net of cash on hand of \$1.91 billion, consistent with guidance.

Yesterday, Moody's Investor Services announced that they have downgraded our debt rating from BAA3 to BA1. While we are disappointed with their action, the downgrade makes minimal difference to our interest expense, and we continue to have ample liquidity to manage our operations.

Now if you move to Slide 6, you will see an illustration of adjusted EBIT performance, again comparing 2006 with 2007 results based on the business segment contribution. Year-over-year decline in adjusted 2007 EBIT performance is primarily due to our Insulating systems and Roofing and Asphalt businesses, with improvements seen in Composites, Other building materials and services, as well as in corporate.

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Moving to Slide 7, you can see the detail associated with the reconciliation of our 2007 reported EBIT from continuing operations, \$145 million, so adjusted EBIT from continuing operations of \$344 million. We provide this to give a better comparison of our financial results.

Included in this reconciliation is \$54 million in Restructuring and Other costs. These charges resulted from the cost reduction actions that we took in 2007 to close facilities, and to reduce operating costs. 28 million of the charges related to restructuring, with most of the remaining cost being accelerated depreciation. Asset impairments totaled \$60 million. You also see that we adjusted for \$28 million in transaction costs associated with the acquired Saint-Gobain Reinforcements and Composite businesses, as well as \$13 million primarily related to inventory written up to fair value as part of the acquisition.

Next, as you have seen in prior quarters, we adjusted for the noncash amortization and costs associated with employee mergers equity program a total of \$37 million. You will recall that shares the Company stock awarded to employees at the time of the our emergence from Chapter 11 last year. These shares will have a 3-year vesting and will be amortized in the P&L until October of 2009. We included a \$7 million associated with our fourth quarter 2006 exit from the HOMExperts service line, for the most part these expenses were incurred in the first quarter of 2007.

I should note in looking at Slide 6, that the \$105 million favorability in year-on-year Corporate adjusted EBIT is in three primary areas. \$54 million is due to the impact of adopting fresh start accounting upon emergence of bankruptcy, primarily due to reduced charges and pension expense. Excluding the impact of adopting fresh start accounting, general corporate expense for 2007 decreased by \$51 million for the corresponding period in fiscal 2006. This decline was primarily the result of a decrease in approximately \$29 million in the charge for valuing inventories using the LIFO accounting method, and decreased performance based compensation expense totaling \$30 million.

For corporate adjusted EBIT in 2008 we would expect no impact year-over-year due to fresh start accounting. Achieving our targets in 2008 would result in approximately \$40 million in additional incentive payments. Given the inflationary environment we currently see, we expect an inventory expense in 2008 of less than \$20 million, due to valuing inventories using the LIFO method.

With that as background, turn to Slide 8, and we will begin a more detailed review of our business segments starting with Composites. Our Glass Fiber Composites business represented 35% of our total reportable segment EBIT in 2007, compared with 22% in 2006. This is clearly the most international and the most diversified of our businesses. Features which are serving us well in the midst of market weakness in U.S. building materials.

Year-over-year net sales in Composites were up nearly 23%. Sales increased during the year by about \$160 million, due to our ownership of the former Saint-Gobain business in November and December of 2007. Volumes were up in 2007, overall selling prices improved, and we benefited from the translation of sales in foreign currencies to the U.S. dollar.

We estimate that in 2007, our revenue mix in composites was 61% international business, and 39% from the U.S. and Canada. Excluding previously-disclosed 2006 gains, year on year EBIT from continuing operations was up \$29 million, and 2007 EBIT as a percentage of sales was 7.4%. As Mike mentioned, we expect that the Composites business will deliver EBIT margins approaching 10% in 2008. We express EBIT margins before subtracting financial costs associated with alloy leasing.

Next on to Slide 9, our Insulating Systems business. According to the Census Bureau, U.S. housing starts dropped 25% in 2007 to 1.36 million units, compared with 1.8 million units in 2006. Fewer houses are being started, fewer existing homes are being sold, mortgage credit markets are tight, and home values are declining. Our Insulation business is clearly feeling the impact of these market conditions. New residential housing construction demand has weakened 50% since the peak in 2005. We have acted decisively to match our production capacity and cost structure with market demand.

In 2007, Insulating Systems represented 53% of our total reportable segment EBIT, compared with 67% in 2006. Net sales in this segment were \$1.8 billion in 2007, down 15% compared with 2006. About three-quarters of this decline was due to a

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reduction in sales volume and product mix. The remainder was due to lower sales prices as a result of competitive pressures. EBIT in this segment fell to \$192 million, compared with \$467 million in 2006. EBIT as a percent of sales declined from 22% in 2006, to 11% in 2007, and 12% in the fourth quarter.

Next Slide 10 provides an overview of our Roofing and Asphalt business. The completion of the national rollout of our Duration Series shingle with SureNail technology, six months ahead of schedule, was a major achievement in the Roofing business in 2007. These innovative asphalt singles have transformed the value proposition for many of our customers. In 2007, our Roofing and Asphalt business represented 8% of Owens Corning's reported segment EBIT, as compared to 10% in 2006.

The decline in demand from the housing market, and the second season of below-average storm-related activity, combined to drive down sales in this segment. Full-year 2007 sales were down 20%, compared with 2006. EBIT dropped from 4% of sales in 2006, to 2% of sales in 2007.

There was however, limited material cost inflation in 2007, because of the Company's active management of asphalt purchases, and productivity gains at the manufacturing facilities. Reportable EBIT was a loss of \$9 million, compared to a loss of \$25 million in 2006. The year-on-year EBIT decline was a function of strong demand in the first half of 2006. Overall market demand declined further during 2007, and there was an overhang of shingle supply, as two significant producers consolidated through acquisition, and took steps to liquidate excess inventory.

Next, the Other Building Materials and Services segment on Slide 11. With the sale of our Siding Solutions business in August of 2007, this segment is now comprised of our masonry products business and our construction services business. Full year sales of \$301 million in 2007 were down 20% compared with 2006, primarily due to the closure of our HOMExperts service line in the fourth quarter of 2006, which accounted for \$76 million in sales. Despite the decline in sales, EBIT improved by \$13 million in 2007. We are very pleased to have turned this business around.

Before turning the discussion back to Scott, I will wrap up on Slide 12 by providing some additional guidance for 2008. We project that the level of net debt for the Company defined as total debt less cash in hand, will be about \$1.9 billion at the end of 2008, in-line with 2007. We will continue to manage the level of debt to the Company, to provide more than sufficient liquidity, and to ensure flexibility in our investment plans, to take advantage of strategic opportunities as they arise.

Our debt guidance for 2008 does not include any specific plans for such opportunities. We continue to have Board authorization to repurchase up to 5% of our common stock. As of the end of 2007, we have not made any repurchases under this authorization. Our guidance for debt at the end of 2008 does not include any specific allowance for buybacks, but we continue to believe that share repurchases could under the right conditions, be a tool for managing our capital structure.

Regarding our Depreciation and Amortization in 2008 we estimate that it will total about \$315 million. The level of D&A in 2008 will be a function of our D&A from continuing operations including new investments, plus additional D&A from the acquisition of the reinforcements business of Saint-Gobain.

Our current investment plans include Capital Expenditures during the year of about \$325 million, which is about \$50 million higher than 2007 levels. This increase is a result of capital spending required to integrate the acquired reinforcements business of Saint-Gobain, and additional opportunities, with attractive returns that we have already identified to grow the combined business. The budgeted capital expenditures within our Building Materials business is lower in 2008 than it was in 2007. We ended 2007 with a \$3 billion federal tax net operating loss, resulting from the distribution of cash and stock to settle our prior Chapter 11 case in 2006.

Regarding estimated 2008 taxes, we anticipate that our global effective tax rate will be approximately 30%. We expect that our overall cash taxes paid in 2008, will be less than the \$40 million paid in 2007. Many of you will recall that at about \$320 million of precious metals used in our recently acquired Composites facilities was leased by the prior owner. We have decided to continue with the acquired leases, while working to achieve reductions in the alloy employed in operations in the new combined

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business. We view the decisions regarding the leasing or owning of precious metals, to be financing and risk management decisions, managed in an appropriate way to minimize long-term costs while mitigating risk.

The financial costs relating to the acquired leases for the two months of operations which are consolidated in our 2007 results, was approximately \$5 million. We expect that we will reduce this financial lease cost in 2008, as a result of synergy projects that will improve the amount of alloy used in our combined operations. Because this is a financing cost, which could be material, we will refer to adjusted EBIT from 2008, excluding the financial leasing costs of precious metal, to provide better comparable numbers that are independent of how we manage this expense.

Our guidance for 2008 adjusted EBIT reflects this. In-line with U.S. GAAP, our reported Composite segment results and our reported EBIT will both be on the basis that is net of the aggregate lease costs. Metal lease costs will therefore be reported as an item that adjusts for comparability.

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

Scott Deitz - OWENS CORNING - VP, IR, Corp. Comm.

Thank you, Duncan. With that, Maria, I think we are ready to poll those participating, please.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, (OPERATOR INSTRUCTIONS) Your first question comes from the line of Dennis McGill with Zelman. Please proceed.

Dennis McGill - Zelman & Assoc. - Analyst

Good morning, guys. How are you?

Mike Thaman - OWENS CORNING - Chairman, CEO

Good morning, Dennis. How are you?

Dennis McGill - Zelman & Assoc. - Analyst

Doing great. Thank you. Just quickly, on the point you addressed right at the end of your slide there, on the financing cost, do you have an estimate for what that would be in 2008?

Mike Thaman - OWENS CORNING - Chairman, CEO

I will let Duncan speak to that. Duncan?

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Duncan Palmer - OWENS CORNING - CFO

I think what we were trying to convey there, we saw it was \$5 million for the last two months of 2007, and we expect that it will be less in 2008, because the amount of alloy we are employing in the business that relates to those leases is going down significantly, so that is how that cost gets written down. So if you are looking for guidance, it would be essentially that it is lower than it was in 2007.

Dennis McGill - Zelman & Assoc. - Analyst

Okay, but you can annualize the 5 million?

Mike Thaman - OWENS CORNING - Chairman, CEO

Yes.

Dennis McGill - Zelman & Assoc. - Analyst

Okay. And bigger picture question, on the Insulation segment, can you talk about the sequential improvement in margin in the fourth quarter, what you guys were able to do to drive that higher? And then any help you can give on what your expectations are for margin in that segment for '08?

Mike Thaman - OWENS CORNING - Chairman, CEO

Certainly. Let's start with the fourth quarter, and then we will talk a little bit about 2008. I think we have talked in the past about the fact that our Insulation business works on a lag to housing starts. And as a result of that, typically our two best quarters from a volume point of view are third and fourth quarter, and because those would be the quarters we are tending to have at least new construction get insulated, based on second and third quarter housing starts, which seasonally tend to be the greatest levels of activity in housing.

2007 was a little bit different than that, because of declines through the year. We did see on a lag basis that second and third quarter absolute amount of activity was still better than what we had seen in the first quarter. So we saw some reasonable strength related to the summer starts now coming through our business in the fourth quarter.

We also had taken some curtailments in the second and third quarter of the year, as we were adjusting our capacity based on the expectation that the market wasn't going to recover in '07. As a matter of fact, it was going to weaken. That hit second quarter and third quarter operating margins. By the fourth quarter we had gotten our capacity and production pretty much back in balance with what we expected, in terms of demand.

And then I think finally, as the residential new construction portion of the business has become less material, some of the other portions of the business, the commercial and the industrial and our polystyrene foam business, have become more material to the result, and they held margins up a bit.

As we look at 2008, if you look at '07, basically, each of the four quarters of '07, we trailed '06 by about 10 points of margin, plus or minus. That is not an exact rule. But if you look through the four quarters, the full year was about 10 points off of the operating margin of '06, and each of the four quarters was round numbers about 10 points off. So we enter '08, probably about 10 points weaker in that business than where we finished '07. Given that the business was, very low double digit margins in '07, that would say that we are expecting to see some pretty significant margin weakness in '08. Obviously, we have done a lot on the cost side. So as a result of that, we think we would offset some of that deleveraging that we would expect to see.

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And we also have, continued reasonable demand in our commercial and industrial business and our foam businesses, some of the other pieces of the portfolio that aren't new construction, so we would say that we would expect insulation to make money in 2008, we would expect that margins would be weaker than what we delivered in 2007, just because of the annualizing effect of what we have seen through the year, and then depending on how volume and pricing plays out, we would expect either to see some margin stability through the year, or maybe some margin weakening through the year.

Dennis McGill - *Zelman & Assoc. - Analyst*

Okay. That is extremely helpful, guys. And just it would be fair to say that pricing hasn't hit a floor yet?

Mike Thaman - *OWENS CORNING - Chairman, CEO*

You know, we talked about this and we have a pretty good feel, based on history, of how pricing reacts to capacity utilization, but I would tell you that our models generally have operated in a range that is much less dramatic than the kind of downturn we have seen in this downturn.

So we have not seen a lot of instances where housing is corrected down 50% that we can model against, so we are really dealing with somewhat of an extraordinary downturn. I would say given what we have seen in the downturn, we think the industry and the way the industry is operating is pretty rational and pretty reasonable.

We would expect as prices get further lower, that at some point the cost equation of the manufacturers starts to play in, in terms of how much lower prices can go. But we certainly established a mindset in '08, that we would like to do everything to defend the margin structure of our business, but given the size of the downturn, we also want to make sure that we maintain our position in the market.

Dennis McGill - *Zelman & Assoc. - Analyst*

If I could just sneak in one other, just on the Composites business, can you elaborate a little bit on what you're hearing from some of your global customers, what they are expecting for next year, and what they're seeing in their end markets for the year, whether you're hearing of any incremental slowing or strengthening in the market?

Mike Thaman - *OWENS CORNING - Chairman, CEO*

Sure. I think generally, we are continuing to see reasonable demand growth in Composites around the world. And we are hearing that from our customers. We have some particular sweet spots in that business.

We obviously are quite exposed to wind energy. And we have talked about that in the past. And with the acquisition of Vetrotex and their Composites business, which is their Fabrics, their Technical Fabrics business, we have actually gotten more exposure to wind energy, and we continue to see that business growing, and we have a very strong market-leading position there.

So we have seen good strength in wind energy. We continue to see pretty good strength in the infrastructure markets, particularly in the Middle East, obviously with what is going on in the oil prices, and the well creation in the Middle East, we have seen a fair amount of infrastructure investment. I think the broader more general market applications of Composites, we are probably seeing a little bit of weakening, but we're not seeing anything that would resemble weakness.

Dennis McGill - *Zelman & Assoc. - Analyst*

Okay. Thanks again, guys. Good luck.

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Scott Deitz - OWENS CORNING - VP, IR, Corp. Comm.

Thanks, Dennis.

Operator

Your next question comes from the line of Jack Kasprzak with BB&T Capital Markets. Please proceed.

Jack Kasprzak - BB&T Capital Markets - Analyst

The NOLs that are the \$3 billion that are mentioned on page 12, can you update us on what you think the present value of those are right now?

Duncan Palmer - OWENS CORNING - CFO

I think we guided last year that the present value was round about 500 million or \$600 million. I think as we look forward, obviously that is a function of when we see that getting used up against U.S. taxes. I don't think we can give you a new and net present value, but I think it would be fair to say that we see our U.S. cash taxes being probably more deferred in time, than they were when we gave the guidance at the beginning of last year. So it is hard to give you a precise number, not that we have a precise number to give you, but I think you can model on that kind of basis.

Jack Kasprzak - BB&T Capital Markets - Analyst

And when you guys made the Saint-Gobain acquisition, I think in the press release, you said it was composites was now \$2.2 billion of sales pro forma, I think Duncan mentioned in his remarks you got \$160 million of sales in November and December, so maybe that means '08 sales are in the \$2 billion range, and if you can come close to that double-digit EBIT margin, that would imply maybe \$200 million of EBIT from just Composites, so with regard to the '08 guidance, I mean I know have you corporate expense underneath that, but that would seem to imply a pretty dramatic decline in the assumptions, profit assumptions for the other segments? Is this sort of a worst case scenario in your mind? It obviously reflects a lot of the uncertainty out there with housing, but maybe if you you could maybe talk a little bit more about that?

Mike Thaman - OWENS CORNING - Chairman, CEO

Happy to do that. I think that, let me start with some of the revenue numbers related to Composites. What we have said previously is with the Vetrotex acquisition, we have acquired about \$900 million of revenue. And we've also said that the Battice and Birkeland divestiture, which we expect to complete really at the end of this quarter, we would sell off about \$300 million of revenue. So it is a net add to the business of about \$600 million of revenue.

So your basic math and the conclusion you came to about the improved operating margins in Composites is a reasonable conclusion. And I think if you take the pieces of the puzzle which we have been laying out and then you take the \$30 million of synergies that we talked about today, building to 100 million over time, as we transform the melters, and get to further integration, that we not only see margin improvement in Composites in '08, but we would expect to see continued margin improvement in the business as the synergies come through.

Related to the conclusion about what this means for the rest of Owens Corning, the building materials side of the house, if you look at the Insulation numbers from '06 to '07, we saw a delevering in that business of about \$250 million of EBIT from '06 to '07, and really as we talk about our market outlook for '08, we are expecting the overall market to be down about the same

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amount in '08, 25%, as to what we saw in '07. Had we not taken a lot of the cost actions that I talked about in my opening remarks, I think it is conceivable we would even be talking about potential Insulation business that would lose money in 2008.

Based on where we see housing activity, we don't see that happening. I think in Dennis' earlier on questions, I talked a little bit about operating margins. We certainly think they will be positive but we do expect that they will be kind of less than the 10 or 11% that we delivered in '07. So we don't expect a big contribution from Insulation in the near term.

Obviously, over the long term, this is a wonderful industry structure. It is an incredible franchise, and our view is that if we build 1 million starts this year, if employment stays reasonable and mortgage rates stay low, we will see a pretty rapid recovery of our Insulation business, and we will start to see some positive leverage that brings Insulation back to the kind of performance we saw in '04, '05, '06.

The other piece we would love to bet on some big improvement, would be on the Roofing side. I think every on the call is probably aware of the fact that GAF and Elk merged in early '07. In a lot of regards the Roofing industry structure is actually better than Insulation, the Top 4 players in Roofing have more market share of that industry, than the Top 4 players do in the Insulation industry.

Unfortunately in the decline that we have seen in Roofing, the basic equation of buying materials, fabricating them into product, and then re-selling them to customers just has not been an improving equation, and we have seen margin compression in that business which we have offset in some regards by some product innovations and some upsells, that we brought to our customers. We are expecting at some point here that the overall industry profitability in Roofing will begin to improve.

I would say in the outlook we have given you for 2008, we are not really banking that into the outlook we have given you. But with that said, the comments, I wouldn't characterize the guidance we have given you as a worst case scenario, but I would say it is guidance that we are comfortable with based on a million housing starts for 2008.

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

Thank you very much. I appreciate it.

Operator

Your next question comes from the line of Mary Gilbert with Imperial Capital. Please proceed.

Mary Gilbert - *Imperial Capital - Analyst*

Thank you. I wanted to follow up on the Composite solutions business, and the guidance that we are talking about, and incorporating Saint-Gobain. So it sounds like when we are looking at 2008, we are probably looking at revenues of somewhere around 2.1 to \$2.15 billion, somewhere in that range, does that sound about right incorporating in Saint-Gobain less the plants that you sold?

Mike Thaman - *OWENS CORNING - Chairman, CEO*

That is probably a little bit on the low end from our view. We did 1.7 billion in '07, Mary, and if you add kind of an additional 600 million on top of that number, you get to a number 2.3, and that would probably be closer to where we would see the business.

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Mary Gilbert - Imperial Capital - Analyst

And then we use like a 10% margin so we are about 230 million, right?

Mike Thaman - OWENS CORNING - Chairman, CEO

I mean if you listen very carefully, and we were pretty careful in our comments today, we said 200 basis points improvement approaching 10%. I don't know that we yet said that we believe we will achieve 10% in 2008, although that is possible.

Mary Gilbert - Imperial Capital - Analyst

Okay. And that incorporates the 30 million of synergies, right?

Mike Thaman - OWENS CORNING - Chairman, CEO

It does.

Mary Gilbert - Imperial Capital - Analyst

Okay. And then for D&A, what would we use for D&A incorporating Saint-Gobain. You had 104 million last year for the segment, so how much would be associated with Saint-Gobain?

Mike Thaman - OWENS CORNING - Chairman, CEO

Well, you know what, Mary, I tell you what. I don't have a good number for you right now. Why don't you continue with your next question, and I am sure by the time you get to the end of that answer, I will have a number for you.

Mary Gilbert - Imperial Capital - Analyst

Okay. Great. And then the other thing that I wanted to find out in looking at Composites, is the treatment of the metals. It sounded like what you said is that there is \$320 million value of metals. But that through the way you are transitioning the business there, you expect to reduce the amount that you will need from 320 by 50%, right?

Mike Thaman - OWENS CORNING - Chairman, CEO

That is right.

Mary Gilbert - Imperial Capital - Analyst

Okay. So when we're looking at the \$5 million lease rate. was that the full lease rate for the two months?

Mike Thaman - OWENS CORNING - Chairman, CEO

That was the full lease rate for the two months for the full 320.

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Mary Gilbert - Imperial Capital - Analyst

So that is about 30 million annually so that should be reduced to about 15 million. And where are we going to see that number flow through? Because it sounds like you are adding it back?

Mike Thaman - OWENS CORNING - Chairman, CEO

Let me make sure you don't come to a bad conclusion about how much lease cost we expect to see in 2008. We are kind of going now, the tooling that we use in our Composites operation, we refer to as bushings, and in order to get the metal reduction, you have to go bushing by bushing, and when they come out of usage, which they last a certain amount of time, a fairly long period of time, but we don't disclose on that, each time a bushing comes out of fabrication, it gets brought back to our metal processing facility, and we refabricate a new bushing. So our opportunity to put new bushings into the fleet, only occurs each time a bushing comes out of its useful life. And we have new bushing designs that we are now introducing in.

So it will take, a year or more for us to work some of these bushing designs through our metal operations, and then into our facilities, so I don't think it is fair to take the 30 million, which is the 5 million annualized, and just take half of that, against 2008, I do think it is fair, though, as you build long-term valuation, to come to the conclusion that we would have less metal required in that business, and that therefore our leasing costs might be \$15 million or less.

I will throw it to Duncan in terms of how we want to go handle the accounting, and I think he also has an answer for you on the depreciation and amortization in Composites.

Duncan Palmer - OWENS CORNING - CFO

On the depreciation and amortization in Composites as a whole, I think about 130 wouldn't be a bad way of thinking about.

Mary Gilbert - Imperial Capital - Analyst

Okay great. That is very helpful there.

Duncan Palmer - OWENS CORNING - CFO

So on leases, a couple of things on leases, one is that I think what Mike was saying about the rate at which lease expense would come down is very valid. Obviously, there are a couple of things that I look at with accounting.

The accounting, as lease expense, it is a permanent asset, as a piece of tooling in our business, as a lease expense it goes into our EBIT, the segment EBIT, it goes into our reported EBIT, and because it will manage it as a financing cost if we choose to own alloy or lease alloy over time.

And that could cause some ups and downs of our lease expenses, just because of how we choose to finance it. We will provide some transparency to that and when we calculate adjusted EBIT, we will exclude alloy expense from that, so you can see what the underlying business is making as though it owned all of it's alloy essentially, so that is the way we think about it.

Mary Gilbert - Imperial Capital - Analyst

That is fair and that is very helpful. The other -- sorry.

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Mike Thaman - OWENS CORNING - Chairman, CEO

Go ahead, Duncan.

Duncan Palmer - OWENS CORNING - CFO

Lease expense, over time, is also a function of the prices of the underlying precious metals that go into the alloy, and therefore there is potentially some volatility in that expense over time as well.

Mary Gilbert - Imperial Capital - Analyst

Okay. Great. That makes a lot of sense. Thank you on that.

And then I wondered if you could talk about, going back to Composites and what you are seeing, obviously you are getting good demand from the wind side of the business from the infrastructure in the Middle East, and then you said you were seeing some general weakness in some of the other areas? Could you expand on that, and talk about how we should look at the overall growth rate?

Mike Thaman - OWENS CORNING - Chairman, CEO

Well we have often said about that business that we think the long-term growth is 1.5 to 2 times global GDP. I was probably unartful in the way I described our current outlook to the market. We are not seeing weakness.

What we are seeing is we have pretty robust demand in 2006-2007, and I think our feeling is, with just some of the inflationary pressures and other things we have seen in countries like China, that we are probably going to see a bit of a slowdown in some of those economies, so we are not counting on quite as aggressive of a growth rate in that business in '08 and '09, as to what we have seen over the past couple of years. I wouldn't want that interpreted as we are seeing demand weakness.

Mary Gilbert - Imperial Capital - Analyst

Okay. So you are still seeing growth, but the rate of growth is slower than what you were seeing previously?

Mike Thaman - OWENS CORNING - Chairman, CEO

I think that is fair. Especially if you exclude wind energy, and the infrastructure stuff in the Middle East.

Mary Gilbert - Imperial Capital - Analyst

How should we think about that? Should we think about it in like the 2 to 4% type range?

Mike Thaman - OWENS CORNING - Chairman, CEO

I don't think that we are really good enough to sit in and kind of do demand forecasting over a 12-month period. I would say that we are still fairly comfortable saying that 1.5 times to 2 times global GDP is a reasonable near-term and long term outlook. We would expect to see global GDP maybe slow down a little bit, and certainly with the U.S. slowing down, that in and of itself will slow down global GDP a bit in 2008.

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Mary Gilbert - *Imperial Capital - Analyst*

Right. And could you talk about what is going on from a competitive standpoint, particularly from China, and how that is having an effect on pricing, especially given that the growth rate is not as robust as it was, as it once was?

Mike Thaman - *OWENS CORNING - Chairman, CEO*

That is a good question, Mary. Let me talk about that for a second. We have seen, and I think we have talked about on this call, and some Investor Conferences, I mean we have seen some aggressive growth in competitors in China. And in particular, we have seen kind of three groups develop in China who are not just actors in China, but kind of actors on the world stage now in this business, and we certainly saw in the 2002 to 2005 or '06 timeframe, that their investment in growth and capacity was putting pressure on global pricing.

And as a result of that, despite the fact we delivered we think very, very good productivity during that period of time, we had some inflation, we had pressure from pricing that was coming from China, and as a result, we didn't make much progress on operating margins over that kind of four or five-year period of time.

I think we disclosed today that we saw some positive on pricing in '07, and we are expecting to see again a little bit of positive on pricing in '08. Partly that is industry structure and inflation related, and partly we're seeing a little bit more balance in China from the Chinese producers, the cost of doing China is going up, some of the export duties that they enjoyed which gave them incentives to build in export are going away.

And so where I think in the past we characterized that as some headwind against the business, we had inflationary headwind and also competition from China, that was creating some headwind in the business, I don't know yet that we're ready to declare we have got tailwind, but I think as a minimum we're seeing some of the headwinds maybe die down just a bit, which is probably underpinning what gave us some confidence to give some guidance around operating margins and deposits for '08.

We feel like the market is relatively stable. Our position in the market is well defined as a market leader. We have line of sight to good synergies, and we think we will see good performance out of that business in '08.

Mary Gilbert - *Imperial Capital - Analyst*

Great. Thanks. That was very helpful. One thing on the wind energy side, with the new technology that you introduced last year, is that in production this year and are you able to use it or transfer that technology on to the Saint-Gobain platform, since they are so big in fabrics?

Mike Thaman - *OWENS CORNING - Chairman, CEO*

I will take that question and then we are going to move on to another questioner, and make sure everyone has some time. The technology announcement that Mary is talking about, is last year we announced a full product line of high strength materials, which were higher strength glass than our standard Advantex glass. Some of the applications for that, are the ballistics and armor-type applications, we also believe there are applications in wind energy, generally trying to bridge the gap between fiberglass and composites. Fiberglass and carbon composites. We have seen some progress in that.

That I think generally what we have learned is that some of the qualification times, and some of the times in getting that product line qualified with the end user, has been a little bit longer than we expected. We continue to see opportunity there. Saint-Gobain actually had its own high strength glass product platform, so now we are combining the best of the two technologies. While we think that is a good opportunity for the business, we don't think that is material to the 2008 results.

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Mary Gilbert - *Imperial Capital - Analyst*

Okay. Thank you.

Mike Thaman - *OWENS CORNING - Chairman, CEO*

Thanks, Mary.

Operator

Again. Ladies and gentlemen, please be mindful, only one question per caller. Your next question comes from the line of Ken Zener with Merrill Lynch. Please proceed.

Ken Zener - *Merrill Lynch - Analyst*

Good morning.

Mike Thaman - *OWENS CORNING - Chairman, CEO*

Hey, Ken.

Ken Zener - *Merrill Lynch - Analyst*

It seems as though from your press release when you talked about the delta in profit for your Insulation business, you're implying about 28 to 30% contribution margins?

Mike Thaman - *OWENS CORNING - Chairman, CEO*

Okay. I don't think we --

Ken Zener - *Merrill Lynch - Analyst*

I am affirming that.

Mike Thaman - *OWENS CORNING - Chairman, CEO*

We may not have disclosed that but you may have somehow worked to that number based on our disclosure.

Ken Zener - *Merrill Lynch - Analyst*

And a third of the profit decline was due to volume, so it seems like you could easily be looking at record low margins in Insulation, and I just wanted to kind of confirm the language that you were describing?

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Mike Thaman - OWENS CORNING - Chairman, CEO

Well in our disclosure we try to frame, what is the impact we are seeing in the business, and right now we are seeing impact from both volume loss, as well as pricing. And those two things go hand in hand. The weaker the market gets, the less volume we have, which loads our facilities and de-leverages our fixed costs, and then also we are seeing pressure on pricing.

I think if you look at the 10-K which we will file tonight, and look at the MD&A section, we tried to put reasonably quantified disclosure into our public disclosures, in terms of what we are seeing in price and what we are seeing in volume. I think Duncan's prepared comments today he said about a fourth of the revenue decline was related to price.

Ken Zener - Merrill Lynch - Analyst

Right. No, I think you guys have very good disclosure there. I am not trying to say you didn't. So I just wanted to affirm it since I was surprised to see it.

Mike Thaman - OWENS CORNING - Chairman, CEO

Okay.

Ken Zener - Merrill Lynch - Analyst

Looking at Composite, it seems like the delta and the D&A, and this was a big piece of our analysis, you said 104 going to about 130, which implies a 25 delta for the acquired businesses, that seems substantially lower, the D&A than what we had seen coming from Saint-Gobain's own, when they owned the business. Which was closer to 100 million on, well, I guess a much higher percentage of D&A. Can you explain why it is only 25, given the acquisition assets, because it does seem like it is light, and that would make obviously your 100 million EBITDA contribution a lot more EBIT rather than DA. Thank you.

Duncan Palmer - OWENS CORNING - CFO

Thanks, Ken. As I am sure you know, when you buy a business like we did, you have a valuation exercise to do under U.S. GAAP, generally known as purchase accounting. You have to marker all of the assets to fair value through the balance sheet and the liabilities, and you actually have a period of one year to do that after the acquisition. We have completed our valuation exercise obviously for our year end of those assets, and then we have allocated the overall purchase price over the, allocated the purchase price over the assets according to their fair value in-line with U.S. GAAP.

And as a result of that, the dollar that you can get from the business is a function of how much of that purchase price ends up getting allocated to assets which are depreciating. And so it doesn't necessarily bear a relation to the historical dollar of the business, or the historical book values of the business.

It all has to do with what the fair value mix and the purchase price and the allocation was, as you do the purchase accounting exercise. From that point of view, you can conclude that the amount of the purchase price consideration that went to the depreciable assets, was lower than you were modeling.

Ken Zener - Merrill Lynch - Analyst

The last piece on the Composite, the margins, again for the third straight year we have seen very high fourth quarter margins backing out metal sales and stuff. Can you address why margins peak so much, and why that should be forecast going forward?

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Mike Thaman - OWENS CORNING - Chairman, CEO

Well, Ken, this is Mike. There is a little bit of seasonality in the Composites business. I think generally, particularly given how international the business is, and how much of our asset base and our business is in Europe, we tend to see the business be a little bit weak in the third quarter, kind of in the August timeframe when Europe slows down, our piece of the business that is in the U.S. tends to cycle a little bit like the roofing market, and you know, we disclosed today that 10% of the volume in our Composites business is related to residential construction in North America. That tends to be fairly weak in the first quarter of the year, and then maybe pick up steam a little bit through the second, third, and fourth quarter. So I think, it is one of those cases where kind of each quarter has its own story.

And then the fourth quarter probably has the least story of others. But as we plan the business, I think our internal planning generally has the margins a little bit flatter through the year, and it has just worked out that way the last couple of years that it has picked up at year end. I think what you are seeing particularly in this fourth quarter is a result of the additive effect of bringing Vetrotex on board, combined with the fact we have not yet divested Battice and Birkeland, so we have really got a business that we intend to get running on all eight cylinders actually ran on 10, for the last two months of the fourth quarter.

Ken Zener - Merrill Lynch - Analyst

Thank you.

Mike Thaman - OWENS CORNING - Chairman, CEO

Thanks, Ken.

Operator

Your next question comes from the line of David MacGregor with Longbow Research. Please proceed.

Garik Shmois - Longbow Research - Analyst

Hi, this is Garik Shmois in for David. Just wondering if you could talk about the inventory situation. During the quarter, they shot back up after you saw a decline in the September quarter. Can you just give us some color on that?

Mike Thaman - OWENS CORNING - Chairman, CEO

I think our inventories we felt were in good control throughout the year. I think what you are probably seeing when you look at the fourth quarter is the impact of the acquisition. We consolidated the Vetrotex business in the fourth quarter.

The Composites business, because of the complexity of its product line, we really do make multiple product forms for our different customer bases around the world. And given kind of the global nature of that business, and the number of facilities and footprints, that business runs at a little bit higher level of inventory than say Roofing or Insulation would. So you are seeing a bit of mix, but fundamentally what you're seeing is growth, because of the acquisition and because of the growth in our Composites business, we are now supporting that with a bit more inventory.

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Garik Shmois - *Longbow Research - Analyst*

And so the increase in inventory from this time last year was not due to the Roofing, and the absence of another hurricane season this year?

Mike Thaman - *OWENS CORNING - Chairman, CEO*

No, I think that is one of the things we're pretty proud of when we look at 2007, is if you remember back to this call last year, 2006, the Roofing business went pretty well upside down, and it did that because there was this big inventory overbuild in the third quarter, there were no storms, and we characterized third and fourth quarter demand in Roofing as kind of world-class weak.

What we actually saw in the second half of '07 is the Roofing volumes that we shipped were actually lower than what we shipped in the second half of '06. And we were able to do that and make more money than we made in the second half of '06, and have our inventories under control. And not need to take a lot of inventory adjustments or dramatic curtailments of our manufacturing.

So I think our operating model in Roofing is dramatically improved. And over the last 18 months, that team has made a lot of really good progress in putting their arms around how to meet market demand, and how to make sure we don't get over our ski tips on inventory.

Scott Deitz - *OWENS CORNING - VP, IR, Corp. Comm.*

Maria, we are approaching the top of the hour but if we could, let's go out of respect for those still in the queue, let's go an additional five minutes, please.

Operator

All right. Your next question comes from the line of Keith Hughes with SunTrust. Please proceed.

Keith Hughes - *SunTrust Robinson Humphrey - Analyst*

Thank you. Your commentary earlier regarding inventory in Roofing and some of the competitive situation there, as we move into the first quarter, during the early buy period, is that kind of de-inventorying still continuing from competitors in the roofing market? Or has it improved?

Mike Thaman - *OWENS CORNING - Chairman, CEO*

It is still continuing, and it has improved. So I guess I would answer your question on, yes and yes, when we saw GAF & Elk go together in early 2007, they had multiple product lines they needed to work their way through, the distributors had multiple product lines, and we really spent a lot of '07 trying to move, the industry did, trying to move multiple product lines through the channel, and get down to a unified product line for GAF Elk, and it obviously owns Corning's CertainTeed, and some of the others, and playing the way we did similar to the past. I think there was still some pressure on inventory at year end, but it wasn't the same kind of challenges that we saw, as we faced these issues throughout 2007. We are seeing asphalt prices go up. There were some price increase announcements in the first quarter that did get deferred, based on some buys, so we didn't achieve the kind of pricing that we needed in the first quarter.

Obviously, with asphalt prices going up, the big challenge for us is going to be, can we get pricing to begin catching up with some of the asphalt inflation we expect to see. We don't see a reason why it wouldn't. So we are obviously committed to trying

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to make sure that we get the operating margins of that business to an acceptable level, based on our standards, and based on investor requirements. We are hopeful that will happen in the second quarter, but the industry doesn't have a great track record on that one right now. I think we are a little bit in wait and see mode.

Keith Hughes - SunTrust Robinson Humphrey - Analyst

Okay. And final question, to beat the leases into the ground a little more, when you make, I believe some of your metals, you made the decision to own them, and I believe there is no amortization associated with that, due to the fact they last, or not much amortization, due to the fact they last and the perpetuity, is that correct?

Mike Thaman - OWENS CORNING - Chairman, CEO

We amortize a small amount in the P&L, I talked about the cycle, where we make a bushing, we ship it out to the plant and the plant has that bushing for a sizable period of time, and what happens you kind of lose tolerances on your tooling, and the tooling is no longer capable of making a product that meets the quality spec, when it gets sent back to be refurbished and rebuilt, there has been some small amount of metal loss, due to corrosion, and that is run through the P&L as part of the cost of goods. It is not, relative to the overall size of our metal portfolio, it is not material in terms of the metal loss.

Keith Hughes - SunTrust Robinson Humphrey - Analyst

That is why I was surprised you made the decision to lease the metals associated with the Saint-Gobain acquisition. If you could just briefly go through kind of the thought process there?

Mike Thaman - OWENS CORNING - Chairman, CEO

Well, right now it is pretty cheap capital, to be honest. If you run through the numbers, we said that they were leasing around \$320 million worth of metal at the time of the acquisition. If you annualize that, it is about \$30 million of annual costs.

Keith Hughes - SunTrust Robinson Humphrey - Analyst

Under 3%. Okay.

Mike Thaman - OWENS CORNING - Chairman, CEO

The lease market as of today is not real expensive, and then based on some of our productivity programs, we think our need for that metal is only temporary. So rather than buy it in and take a bunch of price risk, and wonder what the metal market is going to be in the future, when we potentially have excess metal, it made sense for us to bridge at least on that half of it, that we think we can offset with productivity.

On the other half of it, I think it is a capital decision. Duncan and the treasury team spend a lot of time looking at what our cost of capital should be, and what is the right thing to bring on balance sheet, and what is the right thing to lease, and I think at this point in time drawing on our revolver to buy into metal doesn't look like it is a winner for us.

Keith Hughes - SunTrust Robinson Humphrey - Analyst

All right. Thank you.

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Operator

Your next question comes from the line of Nitin Dahiya with Lehman Brothers. Please proceed.

Nitin Dahiya - *Lehman Brothers - Analyst*

What is the pro forma adjusted EBITDA once you adjust for one-time items, and factor in full-year impact of acquisitions?

Mike Thaman - *OWENS CORNING - Chairman, CEO*

For 2008?

Nitin Dahiya - *Lehman Brothers - Analyst*

No, for '07, trailing.

Mike Thaman - *OWENS CORNING - Chairman, CEO*

Oh, trailing. Well, based on our disclosure, we disclosed 344, as our result for 2007. That would only include, that would take out the discontinued operations portion of Siding and Fabwell. It does, however, only include two months of Vetrotex.

If you go back to our prior call in the third quarter we tried to walk through the puts and takes, and what we basically said in that call is, we believe the portfolio of assets that we ended the year operating probably produced around \$700 million of EBITDA in 2007. And the transcript of that call is still available.

But we have reconciled out Siding and Fabwell, we took in \$100 million of EBITDA for Vetrotex, which is what we disclosed we believe they did in 2007, and then we took out 40 million of EBITDA for Battice and Birkeland, which are not long term parts of our portfolio, and we went through a walk in that call, that guided to the fact we think the portfolio produced about \$700 million of EBITDA in 2007. You won't find that though, in any of our GAAP numbers or any of our adjusted figures.

Nitin Dahiya - *Lehman Brothers - Analyst*

Fair enough. And the fourth quarter, on comparable, you were down only 10 of \$15 million, so that should be still be -- should still be right?

Mike Thaman - *OWENS CORNING - Chairman, CEO*

I think that is fair. I didn't follow your math, but I imagine based on the disclosure you have got the right conclusion. If you want to, you can call Scott Deitz in Investor Relations, and he will walk you through that.

Nitin Dahiya - *Lehman Brothers - Analyst*

I will do that. Secondly, on the ratings downgrade, now that the Company is not investment grade, does that change your focus, in terms of how you look at your target capitalization or leverage levels?

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Duncan Palmer - OWENS CORNING - CFO

Yes, thanks. This is Duncan. I think that as we look at our balance sheet, we remain very pleased with the amount of the liquidity that we have on it. We have a \$1 billion bank revolving credit line, which has a lot of capacity in it at the moment.

We have some debt, bond debt expounded, that comes due in 2016 and 2036, and we have a bank note that comes due in 2011, so we have plenty of liquidity, so we feel very comfortable with the level of debt we have at the moment, with the liquidity of the balance sheet overall, in terms of thinking about what our target capital structure is, I think we have always said that we think that long-term, we would like to pursue our capital structure which is consistent with the investment grade numbers over the cycle, and I think we still believe that, obviously there is opportunity at first to optimize that over time, and optimize through the cycle and look at our capital structure, but I don't think the downgrade per se makes a big difference to the way we are thinking about that at this stage.

Nitin Dahiya - Lehman Brothers - Analyst

Fair enough. And lastly, on the net debt, you mentioned that you expect net debt to be unchanged for the year. So does that imply that you are already modeling in the 5% share buyback that is authorized you? Are you modeling that getting executed during the year?

Duncan Palmer - OWENS CORNING - CFO

I specifically said in my prepared comments that it did not include an allowance for that.

Nitin Dahiya - Lehman Brothers - Analyst

I am sorry, I missed that.

Duncan Palmer - OWENS CORNING - CFO

We specifically said that. So that does not include an allowance for that, obviously it is a treasury tool which we look at in terms of overall capital structure and our uses of free cash flow, and we will monitor for when that becomes an effective tool for us to use, we haven't made any repurchases as of the year end, and I think our current projections for cash flow that we have disclosed for the year, did not include an allowance for that.

Nitin Dahiya - Lehman Brothers - Analyst

I was a little confused because I was coming with a positive free cash flow number for the year, excluding that, but if net debt was unchanged I was not sure where the gap is but I can follow-up offline.

Mike Thaman - OWENS CORNING - Chairman, CEO

I think our guidance there, you are right that if you take that guidance, absolutely literally, I would say that we don't generate free cash flow for the year. We do expect that we will generate free cash flow for the year. I think that what we are really trying to say with our net debt guidance is we would not expect in any circumstances debt to go up in 2008. And obviously, to the extent we do generate a lot of free cash flow, or some free cash flow, we may be a little bit more aggressive than the guidance we gave today.

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Nitin Dahiya - *Lehman Brothers - Analyst*

Okay. That is helpful. Thank you very much.

Mike Thaman - *OWENS CORNING - Chairman, CEO*

Thank you.

Operator

And your last question comes from the line of Jim Barrett with CL King & Associates. Please proceed.

Jim Barrett - *CL King & Assoc. - Analyst*

Good morning, everyone.

Mike Thaman - *OWENS CORNING - Chairman, CEO*

Good morning, Jim.

Jim Barrett - *CL King & Assoc. - Analyst*

Mike, the 240 guidance for '08, actually this might be a better question for Duncan, the 240 guidance, Duncan, how should we model corporate overhead and can you separate out any credits in corporate overhead, versus your underlying spending in that area, either by quarter or for the year, versus '07?

Duncan Palmer - *OWENS CORNING - CFO*

The changes, it might be useful to go through the changes in what we think corporate might look like '07 to '08. As we talked about on the slide, that was in the presentation, Slide 6, that was a big change year-on-year '06 to '07, and there are some items in that will not occur '07 to '08, for example the emergence related adjustment, and also there was a big shift in LIFO year-on-year.

What we expect going '07 to '08 is one thing you will notice in '07 was that there was a very low expense, 30 million lower than '06, for incentive payment as a result of obviously the results we have seen this year. As we think about cash flow going forward and think about 240 guidance, we are including in that, that we pay bonuses to the staff in-line with meeting targets, so that is probably I think we guided that be would in the range of \$40 million more than we had seen in '07. So I think you might think about that as a change in corporate year-on-year.

The other thing I mentioned was that one of the items we put through corporate every year, is any LIFO adjustments, and LIFO adjustment tends to get caused, particularly when we see price inflation occurring year-on-year, in some of our materials businesses that is sensitive to price movements, and we have seen that, haven't seen a big LIFO charge in 2007, but given where materials inflation, we project it to be in 2008, we would see a LIFO charge appearing in corporate. And I think we said in my prepared comments that it would be less than \$20 million. I hope that helps you model corporate.

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Mike Thaman - OWENS CORNING - Chairman, CEO

Jim, this is Mike. The other piece of that though that we didn't talk about is, is in the \$105 million of corporate, which was a positive in '07, we did have a \$54 million benefit associated with fresh start accounting. At the same time, in the business unit, bars on Slide 6, we had about an additional \$44 million of depreciation, primarily in our Insulation business that was pushed in. So about half of the 105, which we have on Slide 6 was pressed into the businesses, so as a result it just skewed the numbers, and it made it look like we made all of our money in corporate last year, and in effect about half of that was really made out in the businesses.

The other half was the relief obviously from the incentive compensation, we have all of our salaried employees on a global business on a pay-at-risk program, and our view of that is, that is the right way to run a shareholder-driven enterprise. We did not meet the targets that we had set out for the Company in 2007. As a result, that was broadly shared by all of our employees in the lack of bonus payments at year-end. We believe we have set realistic goals for this year, and therefore in the guidance today, we are budgeting that we will fund a bonus for this year.

Jim Barrett - CL King & Assoc. - Analyst

Very good. Well, thank you both.

Duncan Palmer - OWENS CORNING - CFO

Well, thank you.

Scott Deitz - OWENS CORNING - VP, IR, Corp. Comm.

Thanks everyone for joining the call today. We hope you found it helpful. Apologies to those that we didn't get to in the Q&A queue. You are certainly welcome to give us a call. With that, I will turn it over to Mike for any closing comments.

Mike Thaman - OWENS CORNING - Chairman, CEO

Thanks, Scott. In summary, we believe that Owens Corning is prepared for 2008. We are excited about our Composites business. It is bigger. It is more global. And it will be more profitable.

We believe that our portfolio of businesses and our strong global Composites presence, differentiates us from other building materials companies, and it will serve us this year and throughout the cycle. We do know that the U.S. housing market will one day return to more normal demand levels. When it does, we know that our portfolio of assets and the actions that we are currently taking, will drive financial results that will deliver substantial returns for our investors. New homes will be better insulated, perhaps with more fiberglass insulation than ever before.

Existing homes will be reinsulated because of the ever-increasing need for energy efficiency, and new and existing homes will have asphalt shingles and feature manufactured Stone veneer products. When housing demand strengthens, the performance of our Building Materials business segments will combine with our global Composites business, to deliver our consolidated business results. In 2008, we will remain focused on those things that we can control, and where we can differentiate ourselves. We will demonstrate the promise of our Composites business. We will win with our customers and focus on our combined growth.

We will continue to streamline our cost structure, and our production capacity. We will continue our aggressive rate of safety improvement. And we believe that we will deliver financial results that meet or exceed the expectations that we laid out today.

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As we close this call, thank you to all of you for joining us today. We currently have plans to announce our first quarter results on May 7th, and we hope you will join us then. Have a good day.

Operator

Thank you for your participation in today's conference, ladies and gentlemen. All participants may now disconnect. Enjoy your day.

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