FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the fourth quarter 2008 Owens Corning earnings conference call. My name Shawn and I will be your coordinator for today. At this time, all participants are in a listen-only mode. We will facilitate a question-and-answer session toward the end of this conference. (Operator Instructions).

I would now like to turn the call over to your host for today, Mr. Scott Deitz, Vice President of Investor Relations and Corporate Communications. Please proceed, sir.

Scott Dietz - *Owens Corning - VP of IR and Corporate Communications*

Thank you. How are you this morning? And good morning, everyone. Thank you for taking time to join us today for our conference call. In review of our business results for the fourth quarter of 2008. Joining us today are Mike Thaman, Owens Corning Chairman and Chief Executive Officer, and Duncan Palmer, Chief Financial Officer. Following our presentation this morning we will open this one hour call to your questions. Please limit yourself to one question and one follow up so we can answer as many of your questions as possible during the 60 minutes we have together.

Earlier this morning we issued a news e release that detailed our results for the quarter and the full year of 2008. Form 10-K further detailing our results was also filed this morning. For the purposes of our discussion today, we have prepared presentation slides that summarize our performance and our results for the fourth quarter and the year. We will refer to the slides during this call. For those of you listening to this call via the internet or if you have on the telephone and near a computer, you can access the slides at Owenscorning.com. You will find a link on our home page. There's also a link on the Investor section of our web site. This call and the supporting slides will be archived and available on our web site for future reference. This call is being recorded.

Before we begin, we offer a few reminders. Today's presentation will include forward-looking statements based on our current forecasts and estimates of future events. These statements are subject to risks, uncertainties, and other factors that could cause our actual results to differ materially. Please refer to the cautionary statements and factors identified in our SEC filings for a more detailed explanation of the inherent limitations of such forward-looking statements.

Now, Mike, let's turn it to you.

Mike Thaman - *Owens Corning - Chairman, CEO*

Thanks, Scott. Good morning, everyone. Thank you for joining us today. Owens Corning completed a successful 2008 in a difficult global market. Full-year revenue came in at 5.8 billion, up 17% compared with 2007. Sales were up because of solid performance and acquisition-related revenue in our Composites business. In our Roofing business, we enhanced our product fix, increased selling prices and improved volumes. Excluding items affecting comparable, adjusted EBIT from continuing operations was $290 million. This result was in line with the guidance that we had sustained throughout 2008. Our cash performance was good. We finished the year with net debt below 2 billion consistent with expectations. We have ample liquidity and cash to meet our financial obligations and support our growth. Duncan will provide a complete reconciliation of our fourth quarter and full-year results in his comments.

We said that we would achieve a number of important objectives during the year, we said that we would continue our journey to create an injury-free work place. Our safety performance improved for the seventh consecutive year. Owens Corning has reduced the number of employee injuries by more than 87% in this time frame. We said we would reduce our costs by $100 million in 2008. We surpassed that mark. We said the Composites operating margins would approach double-digit for 2008. Through the first three quarters the business demonstrated this level of performance. Obviously, we saw a significant weakening of volume in the fourth quarter. I will address this further when I discuss our outlook for the Composites business.

We said we would achieve $30 million in acquisition-related synergies, we are pleased to report that we surpassed this goal with 50 million of synergies in 2008. We said that we would reduce the size of our acquired precious metal leases through technology and productivity programs. In other words, without using cash. We did. We began the year with over $300 million in leases.

Today, we have less than $25 million remaining dramatically improving the quality of the Composites asset base. We said that we would improve our Roofing and Asphalt business, we did so, and we did so on a fast time frame and with great impact. Sales were up 35% compared with 2007. EBIT was up more than six times and operating margins were 10% for the year. It was the best year in the 30 year history of this business.

We said that our installation segment would be profitable in 2008, and it was, despite a very difficult year in the US construction market. We said that we would continue to manage a strong balance sheet. Owens Corning benefits from a strong capital structure that provides ample liquidity.

Finally, we said that adjusted EBIT for 2008 would be at least $265 million. And we said there was an additional upside of as much as 10% because of the performance in our Roofing business. As noted earlier, today we reported adjusted EBIT of $290 million in line with that guidance.

In summary, we achieved our primary goals for 2008. Despite a significantly more volatile market than we had anticipated. The strength of our portfolio and strong execution allowed us to achieve our objectives.

Now I'll provide a review of each of our businesses. Let's start with Composites, the integration of the November 2007 acquisition of [Sacra Ban] Reinforcements and Composites Fabric business, is a success. Our execution was sound and we demonstrated the earnings power of this business in 2008. During the fourth quarter our Composites group saw a dramatic reduction in demand.

As the industry supply chain responded to the expectation of weaker global growth, we saw significant curtailments and inventory destocking by our customers. This resulted in as much as 45% volume losses in the month of December. In response, we begun to balance our capacity, by expending down times and rebuilds. We stopped operations of three of our furnaces. We have delayed significant capital projects including the expansion that we previously announced in Russia. We expect that these weak market conditions will persist in our Composites business, at least through the first half of the year.

Despite expectation of weaker global growth through 2009, our internal analysis suggests that we may see more balanced demand levels in the second half associated with inventory equilibrium in the supply chain. When this happens, we anticipate that margins should recover to the double-digit level exhibited in first three quarters of 2008. Until then, we anticipate weaker margins associated with historically weak volumes.

Now let's turn to Roofing. Solid improvement and performance in Roofing and Asphalt segment led the way for building materials in 2008. We benefited from gains and productivity, a streamlined asset base, improved selling prices, enhanced mix, and significant storm-related demand. Some of that storm-related demand will carry into 2009. The outlook for Roofing and Asphalt continues to be good for 2009. We expect that this business will have another strong year assuming normal storm activity. Many of the gains achieved in 2008 are sustainable. I am personally very proud of the progress we have made in this segment. We have satisfied customers, and we have delivered shareholder value in an otherwise dismal US building materials marketplace. It is worth noting that asphalt prices have not declined at the same dramatic rate as crude oil. With the impact of stimulus on highway paving and infrastructure spending and with the spring storm season approaching, the balance between supply and demand for asphalt could continue to remain tight.

Finally, let's talk about our installation business. Housing starts in the US were down 33% in 2008 compared with 2007. Demand for Insulation continues to decline. Our commercial and industrial markets had not faced the same severe downturn, but we are now seeing accelerating demand weakness in these markets as well.

Despite another challenging housing start number announced this morning our view to analysts estimates is that the housing market for 2009 should be in the range of 550 to 650,000 units. Without a significant change in this outlook for the US housing market, we expect our Insulation segment will lose money in 2009. Eight of our Insulation lines are already idled. We will take further actions to reduce our production as necessary and to lower our costs. On a positive note, we did see evidence of prices stabilizing in the second half of 2008. Sales volume in our residential re-Insulation market, was up about 10% from a low base in 2008.

The recently enacted economic stimulus plan in the US has provisions that will drive energy efficiency actions that should benefit Owens Corning. The plan increases funding to the existing deweatherization program to $5 billion. This is 10 times higher than the prior funding levels. The plan also includes allowances for the Insulation of antics and it increases the number of homes that qualify. Under the plan, households that are at or below 200% of the poverty line are now eligible for up to $6500 of weatherization for their home.

In addition, this Stimulus plan provides for tax credits for home energy efficiency products, including Insulation. The tax credit is 30% of the incurred costs, up to $1,500 through 2010. We believe both of these provisions create opportunities for our company to rebound in the Insulation segment. Our Composites group should also benefit from the Stimulus Bill . A three year extension of the protection tax credit is established for electricity derived from wind. In addition, the tax incentives for wind development have been enhanced. An investment tax credit option has been established. And developers will have the ability to exchange these investment tax credits for cash. We are hopeful these provisions will help sustain the momentum in the US wind market.

As I reflect back on 2008, I am somewhat amazed by the amount of economic and market instability that we experienced. The uncertainty which we had been managing in the US residential, new construction market has now spread to all of our markets. Despite the instability, our company performed well and responded to the challenges.

As we look ahead to 2009, it is clear from our 2008 performance that Owens Corning now has three great business franchises. Our Roofing and Asphalt business segment demonstrated tha it is a changed business. It is proven that it can be a strong performer regardless of the cyclical nature of the US housing market. Our Composites business is now global with a proven ability to generate growth and profitability. It is a solid business platform serving customers in growth markets around the world. And despite the current market challenges, our Insulation franchise is still without peer. Across cycles, this business has consistently demonstrated outstanding performance with increased emphasis on energy efficiency and an inevitable recovery in the construction markets Insulation best days continue to be in the future.

Before we turn to Q&A, I will turn it over to Duncan to further review the fourth quarter and full-year 2008.

Duncan Palmer - *Owens Corning - CFO*

Thank, Mike. Let's start on Slide 5 where we detail key financial figures for fiscal 2008 and for the fourth quarter. You will find more detailed financial information in the tables of today's news release the Form 10-K that was filed earlier. Today, we reported 2008 consolidated net sales of $5.8 billion, a 17% increase compared to 2007. For the fourth quarter, consolidated net sales were $1.3 billion, which is flat compared with quarterly sales one year ago.

For full year 2008, the growth was driven by two of our business segments, the Roofing and Asphalt segment delivered record annual sales of 35% increase over 2007 as a result of higher selling prices and higher sales volume. Composite sales increased by 39% during the year largely because of the Company's fourth quarter 2007 acquisition. As a reminder, when we look at period over period comparability as our primary measure is adjusted earnings before interest and tax. Adjusted EBIT.

In a moment, I will review our reconciliation of items affecting comparability to get the adjusted EBIT. These items totaled $94 million in 2008 compared to $196 million in 2007. For the fourth quarter of 2008, these items totaled $33 million compared to $134 million during the same period in 2007. Our adjusted EBIT, from continuing operations for 2008 was $290 million. This is in line where the guidance of $265 million with upside of up to 10% given on the third quarter earnings call. Given the marked environment, we are very proud to meet our guidance. Adjusted earnings for 2008 were $124 million or $0.95 per diluted share.

For the fourth quarter 2008, our adjusted EBIT was $48 million compared to $88 million for the same period in 2007. The adjusted earnings from continuing operations for the fourth quarter 2008 were $16 million or $0.13 per diluted share. Later in the presentation I will further discuss how we are adjusting tax expense and calculating adjusted earnings, which we believe will provide a more comparable measure of our performance. In the fourth quarter, marketing and administrative expenses increased by $26 million. The increase was attributable to operating the acquired Composites business for the fourth quarter and increased performance-based compensation expense.

Depreciation and amortization totaled $331 million in 2008. This includes an additional depreciation expense recorded as a result of finalizing the purchase price allocation related to the Composites acquisition. Our capital expenditures total $366 million in 2008 excluding purchases of precious metal, this is in line with our guidance. The increase capital accelerated synergies in the Composites business and funded energy reduction programs in all of our operations. Net debt stayed below $2 billion at the end of 2008 consistent with our expectations.

Moving to Slide 6, you can see the detail associated with the reconciliation of our fourth quarter adjusted EBIT of $48 million to reported EBIT of $15 million. We provide this as a better measure of our current operating results. The integration of the Composites acquisition delivered synergies of $50 million in 2008 well ahead of our original plans. In 2009 we expect to deliver an additional $25 million in synergies. We incurred $23 million of integration and transaction costs in the fourth quarter of 2008 associated with achieving these on going savings. Next as you have seen in prior quarters we adjusted for the noncash amortization of costs associated with the employee emergence equity program a total of $6 million. These shares which have a three year vesting schedule and will be amortized in the P&L until October 2009 were awarded to employees at the time of our emergence from Chapter 11 in 2006.

As part of capturing the value from integrating our Composites acquisition we have an on going program to improve our efficient use of precious metals as production tooling. This program is significantly ahead of schedule. As part of the acquisition, we assumed a portfolio of over $300 million in precious metal leases. Today we have reduced that exposure to less than $25 million.

Now, if you move to Slide 7, you will see an illustration of adjusted EBIT performance comparing fourth quarter 2008 with the same quarter in 2007 based on business segment contribution. We illustrate this to show how our business segments have evolved. Adjusted EBIT declined $40 million from the fourth quarter 2007 to fourth quarter 2008. Our Roofing and Asphalt business continues to deliver outstanding results in the quarter and capped off the most profitable year in our history for this business. This improvement was offset by both the Insulation and Composite's businesses facing weaker demand in their respective markets.

Now, if you move to Slide 8, you will see an illustration of how the full year adjusted EBIT performance has evolved from 2007 to 2008, again, based on business segment contribution. Adjusted EBIT declined $51 million from 2007 to 2008. The Roofing and Asphalt business had a six-fold EBIT improvement and the Composites business had a successful integration of the 2007 acquisition. This was offset by EBIT declines in the Insulation and Other Building materials businesses driven by weaker demand.

Adjusted EBIT was impacted by increased general Corporate expenses. This included an increase $57 million in performance-based compensation expense from a low pay out in 2007. In addition, there was a $39 million increase in charges to value our inventories using the LIFO accounts method primarily related to higher Asphalt costs in our Roofing business. Starting in 2009, we will include the LIFO charge within the business segments results to evaluate our operating performance. In our first quarter results we will provide recast prior period numbers for comparability.

With that as background, turn to Slide 9 and we will begin a more detailed review of our business segments starting with Composites. Composites (inaudible) the global economic slow down during the fourth quarter especially in December when volumes were down as much as 45% year-over-year. This drove year-over-year net sales down 17%.

Fourth quarter EBIT for the business was $19 million compared to $46 million for the same period in 2007. The precipitous weakness in demand resulted in higher inventory levels throughout the composites industry supply chain. We have taken aggressive action to manage our cost structure by stopping operations at three of our furnaces. Delaying capital projects such as our announced expansion in Russia and decreasing 2009 capital spending. We will continue to take action to align our capacity with market demand which we expect to be weak into 2009.

Through the first three quarters of 2008, EBIT margin was 10%. While EBIT margin for the fourth quarter 2008 slips to 4%, we expect Composites EBIT margin to return back to levels similar to those exhibited in the first three quarters of 2008, once inventory equilibrium is reached within the Composites industry supply chain.

Next, onto Slide 10, our Insulation Systems business. Our Insulation business continues to feel the impact of 10 consecutive quarters of progressively declining US housing starts. Fourth quarter net sales in this segment were down 17% compared to the fourth quarter 2007. Substantially all of this decline was due to a reduction in sales volume as prices stabilized in the second half of 2008. Fourth quarter 2008 EBIT was a loss of $9 million due to decreased volume and material and delivery inflation. We are proud that our Insulation business was profitable for the full year 2008. However we expect that 2009 market conditions will be even more difficult. In light of these conditions, we will continue to take actions to align our production capacity with market demand and to lower our costs. Despite these actions this business will struggle to achieve profitability in 2009. This is a great business in a well structured industry. Owens Corning Pink Fiberglass Insulation is a powerful and enduring brand. We our the clear market leader well positioned to return to historical levels of performance when the housing market bottoms and improves as we know it will.

Next, Slide 11 provides an overview of our Roofing and Asphalt business. Fourth quarter 2008 completed a record year for the Roofing and Asphalt business with a 69% improvement in net sales over the fourth quarter 2007. The business achieved $70 million of EBIT in the fourth quarter of 2008 a tremendous turn around from last year. EBIT for the year was up over six-fold from 2007. We are proud of the sustainable productivity improvements we have created within this business. With level of performance in 2008, Roofing and Asphalt has emerged as a strong franchise within our portfolio.

Next, Other Building Materials and Services on Slide 12. This segment is comprised of our Masonry Products business and our Construction Services business. Fourth quarter 2008 net sales of $46 million were down 31% compared to the same period in 2007 primarily due to declines in our Masonry Products business resulting from continued weakness in new construction and repair and remodeling. The decline in volumes and increased idle facility cost in Masonry Products resulted in a fourth quarter EBIT loss of $13 million for this segment. This result is disappointing. The dramatic downturn makes it likely that we will continue to endure losses in this businesses in this market. In response, we have taken further actions to curtail capacity and reduce costs in Masonry Products. We will maintain a keen focus on cash flow in this business.

Next, moving to Slide 13, we have a few additional items to cover before turning to our Q&A. We repurchased 1.8 million shares at an average price of $19.43 per share in the fourth quarter. During 2008, the Company has repurchased 4.7 million shares at an average price of $21.47 per share. After the 2008 repurchases we have 1.9 million shares remaining under the previously announced share buy back program.

On Slide 14, you will see a description of both our cash tax position as well as reported tax expense. Over year 2008, overall cash taxes paid out were $33 million, which was lower than the $40 million of guidance provided in the third quarter. We expect cash taxes in 2009 to be less than we paid in 2008. As we discussed in the third quarter earnings call, we recorded a noncash charge to establish an accounting valuation allowance in accordance with FAS 109, Accounting for Income Taxes.. For the year, this charge totaled $909 million. The charge to record the valuation allowance is a noncash charge and will have no impact on Owens Corning's cash flow, liquidity, credit facilities or our $2.7 billion US net operating loss carry forward to offset future profits. We believe that we will have sufficient US profitability during the tax loss carry forward period to realize substantially all of the economic value of the net operating losses before they expire. We estimate that our long-term effective tax rate will be 25% based on a blend of our US and nonUS operations. Therefore, to improve comparability of our adjusted results beginning this quarter we will apply this 25% tax rate to pretax earnings to arrive at adjusted earnings.

Now to slide 15, we have a strong balance sheet. We have no material debt maturities coming due until the fourth quarter of 2011. And we have $615 million available in our revolving credit facility as of the end of 2008. In addition, we have $236 million of cash on hand. We expect that the cash we have on hand coupled with future cash from operations and other available sources of funds will provide ample liquidity to allow us to meet our cash requirements, capital investment plans and endure significant additional market volatility. Capital expenditures will be less than $275 million in 2009. Depreciation and amortization expense will be approximately $350 million.

All indicators point to another challenging and rapidly changing business environment for our business in 2009. However, we believe that the fundamentals drivers of our key markets all support sustained long-term growth. We are taking action to maximize our cash flow in 2009. We will manage our capacity to align production with demand through curtailing operations, closing select facilities, extending down time for machine repairs, and delaying expansion projects. We will reduce capital expenditure by almost $100 million from 2008. We will continue our focus on driving working capital efficiency across all of our businesses.

These measures along with our operating performance will help us generate positive free cash flow in 2009 and maintain a strong balance sheet. With that, Scott, back to you for Q&A.

Scott Dietz - *Owens Corning - VP of IR and Corporate Communications*

Thank you, Mike. Thank you, Duncan. Before we move to the Q&A, we offer a reminder and ask that our listeners understand that our slide presentation today, our prepared remarks and our Q&A discussion may contain non-GAAP financial measures. Also note that GAAP to non-GAAP reconciliations are found within the financial tables within our earnings release and our Form 10-K. Again, please limit yourselves to one question and one follow up so we can get to as many questions as possible. So, let's turn to the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from Michael Rehaut with JPMorgan.

Mike Rehaut - *JPMorgan - Analyst*

Thanks, good morning, everyone.

Scott Dietz - *Owens Corning - VP of IR and Corporate Communications*

Morning, Michael.

Mike Rehaut - *JPMorgan - Analyst*

First question, just on Roofing, certainly you are still getting the benefits of the re-Roofing demand and the price increases put in place in mid '08. I just wanted to ask, I guess more of a longer term question, the results here are record results and historically, I believe Roofing is always generated more of a high single-digit, mid to high single-digit-type of margin, over the next two or three year, I mean what are your expectations? Are there things that, structurally, have changed or, how would you, I guess guide us thinking in terms of either on a competitive or structural standpoint in terms of industry players and cost structure. I mean is that mid teens margin sustainable or longer-term should we think more in terms of, you know, something closer to, it has been achieved historically?

Mike Thaman - *Owens Corning - Chairman, CEO*

Let me take a shot at that. It is a very, very good question, and I think if you look at the slide we presented today, Slide 11, we do graph the operating margins on there and I think that's probably a good backdrop to the comments I would make. The big change in the Roofing market for certain was the [JAF] acquisition of [Elk] Corporation in late 2006. I think if you have been following these calls, since we have been public now, in late '06, what we saw during that period of time was a significant storm activity in '05 and '06, which was followed by a boom and a bust at the same time that [Elk] and [JF] were going together. There was a fair amount of dislocation in the marketplace. Our results in 2006 and 2007, I think show that from an operating margin point of view where we were low single-digit. We had said during that time that we always thought the industry structure, our position in the market, our capability, and product line should allow that business to be high single-digit r or maybe even double-digit operating margin business. And if you go back to the first quarter 2008 when we made a loss, we said that we thought better times were coming, that Asphalt prices had been coming through the mark, we were able to recap include that in terms of pricing to our customers. Our customers were having success passing that through to contractors and we got into a virtuous cycle in 2008, where the pricing environment and industry structure, our productivity programs, and our mix all came together in a way I think we can envision it would happen. We just wanted to see it happen before we committed to making it happen.

So we are comfortable as we head into '09 that the performance we delivered across all of '08 is reasonable performance, high single-digit or even that 10%-type operating margin is a reasonable target for the business. In '08 we did not have a gangbusters year in terms of overall industry demand. While there were some storms, new construction at one point was 25% of those markets, it is now much less. So as a result overall industry demand in '08 we think it was pretty well below trend. We think in '09, unless we have significant storm activity here in the spring that '09 will be below '08. So we are not expecting a big market in '09 but we are expecting another strong year as new construction recovers, as you see financing in the repair and remodeling market. As you see people have more confidence in the equity of their home, some of the things that would bring back the core re-Roofing market, we expect to see a stronger market that would benefit our performance too.

Mike Rehaut - *JPMorgan - Analyst*

I appreciate that detailed response. One quick follow up if I can before I move to the second question, the, are you seeing any incremental capacity coming on line or anything in terms of other competitors coming into the market, kind of enticed by these higher margins?

Mike Thaman - *Owens Corning - Chairman, CEO*

No, we are not. The competitive profile is pretty stable and one thing and I will say it again, we don't think it is unreasonable for Roofing manufacturers to earn these margins. While these are not the margins you have seen the last years in business, we don't think these would necessarily encourage a bunch of new entrance. It is relatively capital intensive business. It is important you have access to strategic supply of raw materials. The product lines are pretty broad and managed across distributions. There's fairly natural barriers that create a market that we believe should be stable and should allow Roofing manufacturers to make reasonable and acceptable returns which we think we now are.

Mike Rehaut - *JPMorgan - Analyst*

Second question, during the presentation, you mentioned that you will be be taking some restructuring actions with regard to the masonry business, which you said was the core driver to the downturn in profitability in other building materials and services. I was wondering if you is it possible to give more granularity there in terms of what those restructuring actions might be and to quantify it potentially in terms of costs and potential, cost savings and benefits in '09. And similarly, for Insulation as well, given how that margin, profit level continues to slide, if there are any incremental actions you might be taking and what benefits that might be for '09.

Mike Thaman - *Owens Corning - Chairman, CEO*

Okay. Let me start with Masonry which is the business we operate under the market name Cultured Stone. That business, I think probably has the strongest exposure inside Owens Corning to both new construction and I would describe it as kind of new construction production builder. It was a very strong market in the southwest and on the West Coast where you had kind of stucco-type construction where Masonry is a wonderful accent and improves the value of the home. Those markets have been hardest hit with the downturn in the new construction and that business continues to bear the brunt of that. We operate that business with two facility, one on the West Coast and one ton East Coast because it is freight cost sensitive. We did shut down a facility at the end of '07 and early '08 to get to a two plant network. It is pretty hard in our analysis to go from a two point network to a one point network because of the freight issues. We are moving more aggressively to reduce our ship levels and head count in the plants in order to get the production level consistent with near-term demand. We don't typically give any guidance by segment.

So I wouldn't get into specific details or expectations with that segment. Suffice to say, that we understand that that is probably a market that is not going to recover in 2009 and that the game plan in that business is cost containment and managing to cash flow. On the Insulation side of the business we have taken strong action up to now. On this call we talked about the fact we now you have eight lines shut down. I would draw your attention to an analysis that I was looking at which is housing starts drop by 450,000 units from '07 to 2008. I'm sorry from '06 '07 and then, again from about 450,000 units from '07 to '08. So in absolute unit numbers the amount of downturn we saw in the market from '06 to '07 is about the same as what we saw from '07 to '08. If you look at the performance of our Insulation business, we actually declined almost $300 million of EBIT from '06 to '07 when we saw a 450,000 drop in housing starts and from '07 to '08 we only saw a decline in EBIT of about 175 million. We have having success taking cost actions too flatten out that cost curve to shed more of the costs associated with us losing capacity and absorption but we don't have enough levers to offset all of the implications for us with dropping demand.

As we look into '09 you shall expect from us we will continue to pull the levers to manage our capacity and our cost to continue to flatten that curve. We are expecting another year of significant down housing starts. I think you heard some optimism in my comments that maybe we have begun to see prices flatten a bit which you would expect to happen as our business and we would expect other businesses in the industry begin to go from making profit to making losses. You should expect we will try very hard to find opportunities to utilize this Stimulus Bill to do what we would like to do which is turn those eight lines back out and insulate a bunch of attic in America as part of energy efficiency and Stimulus. You will see us pulling levers on the cost and capacity side, managing price very carefully but also continuing to invest in those places where we can utilize the Stimulus Bill to drive growth for the business.

Mike Rehaut - *JPMorgan - Analyst*

Great. Thanks so much.

Mike Thaman - *Owens Corning - Chairman, CEO*

Thank you, Michael.

Operator

Your next question comes from Ken Zener with Macquarie. Please proceed.

Ken Zener - *Macquarie Research - Analyst*

Good morning.

Mike Thaman - *Owens Corning - Chairman, CEO*

Morning, Ken.

Ken Zener - *Macquarie Research - Analyst*

I guess it is actually a follow up question on your last comments about the operating leverage of the business, it looked like it was for the year around 60%, kind of 40% in 4Q. Is there any real reason to think that your operating leverage for sales contribution would change?

Mike Thaman - *Owens Corning - Chairman, CEO*

Yes, Ken I went into that a little bit. Let me maybe develop those means a bit further. Obviously, early on in the downturn, when we were losing volume we were not only losing the leverage associated with that volume but that volume was also very, very profitable. So we shedding both the profits associated with the trucks we wern't shipping as well as the leverage associated with those trucks. The business on a cash cost basis is still fairly profitable. It is a high fixed cost business, high asset business, and we still continue to make positive cash when we sale product. You would expect to see that the operating leverage would flatten because of the margin rate of the business and the operating leverage would also start to flatten because of the management actions that we have taken in order to pull costs and capacity out of the business.

Ken Zener - *Macquarie Research - Analyst*

Okay. Just a follow up to that is that, the (inaudible) plants that you guys have shut down or idle, what is that respectively?

Mike Thaman - *Owens Corning - Chairman, CEO*

You broke up at the end. Maybe you can repeat the last sentence of the question.

Ken Zener - *Macquarie Research - Analyst*

The three plants in composite that you idled or shut and the eight plants in Insulation. What is that as a percent of each segments capacity?

Mike Thaman - *Owens Corning - Chairman, CEO*

On the Insulation side, we have given broad outline of how the marketplace works and in broad terms we have said that we believe the market is about 40 melters in total, that will we would have around 40 to 50% of those melters. If we were to have 8 down, we would estimate that's probably 20% of the overall market in broad terms, that might be as much as 40% of overall capacity.

Ken Zener - *Macquarie Research - Analyst*

When you think about the 550 to 650 starts that you outlined. The risk is the down side not the upside, how do you think about bringing those plants back on line or shutting them what are the costs, what is the cost process that you think about because I know you had done a, kind of a slow down or lay off at a plant where they weren't getting paid. Can you explain how those plants might be actually shuttered in the event that starts stay where they are?

Mike Thaman - *Owens Corning - Chairman, CEO*

Yes. We have a lot of levers here beyond just shutting off lines. So we manage our capacity as you can imagine kind of in fine brush strokes as well as broad. The broadest thing we can do is to take a line out of the system and even beyond that is to take a plant out of the system. So as we sit right now we have one plant that is totally idled which is the plant outside of Montreal. We have lines that are idled in most of our other plants so we continue to maintain a national network. We have continued to maintain a national work force, technical resources and the labor experience that we need in our plants in order to bring them up quickly. As we get into further curtailments we have the ability to shut lines for a week during each month. We have the ability to run long weekends, the ability to run at lower shift levels or lower throughput levels so we would also be turning those knobs in order too make sure we keep some capacity available to ramp up relatively quickly. The next we can ramp up quite quickly within a month or so of deciding to bring capacity on would be to bring a line up in an existing plant where we still have a work force, technical resource where we have an asset base and just need to heat up and make glass. The longest start up would be if we were to decide to bring the plant that's down cold which is our plant outside of Montreal. We are well positioned, we believe, if we can get the market too get a little bounce from the Stimulus plan, that we would have all of the capacity online and available and ready to go if the market presented us with that challenge.

Ken Zener - *Macquarie Research - Analyst*

Thank you.

Operator

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

Mary Gilbert - *Imperial Capital - Analyst*

Yes, good morning.

Mike Thaman - *Owens Corning - Chairman, CEO*

Morning, Mary.

Mary Gilbert - *Imperial Capital - Analyst*

I wondered if you can talk about, specifically the markets in Composites that are being affected, where you are seeing the weakness, the excess capacity and also geographically, and then it sounded like you thought that you would see a rationalization of that capacity by midyear is that what you were thinking? Can you clarify that, please?

Mike Thaman - *Owens Corning - Chairman, CEO*

Sure, Mary. I appreciate you giving us the opportunity to clarify that. We have always said that we think over longer periods of time, the Composites grows at 1.5 to 2 times global GDP. We have not lost our confidence in those estimates. We come up with those by looking at 40 and 50 years worth of data for the Composites industry . We also know that when expectation of growth in an economy change and global economy probably six months ago was expected to grow around 3% in 2009, and today you see estimates anywhere from flat to even negative 1/2 or negative 1%. When you see that change in growth expectations you see various levels of supply chains starting to jump on the brakes in terms of wanting to curtail their orders of materials and wanting to curtail their production to start to get their inventories back in line with new expectations.

We talked in our third quarter call back in October that we have seen weakness in Europe coming out of the traditional August Holidays in Europe but not yet seen that in the rest of the world. What I would say is really on the heels of that call starting in November we saw pronounced weakness in the Americas, we saw it in Asia, particularly in Japan. We saw continued weakness in Europe and I would say not dissimilar from what you have heard a lot of the chemical guys talk about or what you have heard a lot of the big metal guys talk about. Aluminum guys and the steel guys as well as the DOWs and Duponts of the world. Those are the same markets we play in and it seems based on our are review that most of the companies out there are seeing between 30 and 60% declines in near-term order activity based on being in a B to B kind of business. This is an inventory correction.

The global economy has not started declining by 45%, or even 30%, we know it is relatively flat. The Composites market is a broad brush, kind of proxy for the global economy. So when we get back to stability, we know there's an order book out there, and as we look at our profitability and our margin rates, if we get to even, a flat market year-over-year by the second half of the year we would expect we would bring enough capacity on and have a good enough order book that we would get back to the double-digit margins we are able to demonstrate in the first three quarters of 2008. It is really working through an inventory correction and that does not provide for another leg down in the global economy. We would know how to respond to that and how to manage our business. I think the effect of that would be just a longer period of time through an inventory correction at the end of which we would expect to get back to production balance to demand and descent operating margins of the

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Mary Gilbert - *Imperial Capital - Analyst*

Okay. So you're saying currently I want to make sure I got this right, 30 to 60% declines in near-term order activity.

Mike Thaman - *Owens Corning - Chairman, CEO*

We said our reading of other companies who are positioned in similar markets we are seeing declines in order activity in that range from all of the people announcing earnings.

Mary Gilbert - *Imperial Capital - Analyst*

Okay. And are you experiencing that same level of activity?

Mike Thaman - *Owens Corning - Chairman, CEO*

We saw as much as 45% decline in December. The overall top line if the fourth quarter was more like down 17%. It was high teens. Obviously you are seeing some timing issues and we would probably expect month on month that we start to see our demands build as different ones of our customers come back on line as they work through their inventory issues ultimately allowing us to be back in full production. Our internal analysis and we were very clear in my comments, it is just our internal analysis would suggest that by the middle of the this year we shall be able to work through this inventory situation which speaks to some amount of optimism for that second half but the timing on that is very, very hard to call.

Mary Gilbert - *Imperial Capital - Analyst*

Okay. That's very helpful in clarifying that. Also, when you talked about being free cash flow positive in 2009, and you gave us some metrics like for example CapEx, cash taxes, it sounds like where we are going to see some of the benefit includes potential cash generation from working capital; is that true?

Duncan Palmer - *Owens Corning - CFO*

Mary, this is Duncan. It would be reasonable to expect that you would see some benefit from working capital and obviously in a, in an environment that such as we are in, we are looking for efficiencies across all of our businesses but also in an environment where our top line to be declining year-over-year we would expect our working capital to decline year-over-year. It is reasonable to expect to see cash generation from working capital in 2009.

Mary Gilbert - *Imperial Capital - Analyst*

And what kind of magnitude would it be to the same magnitude on a percentage basis as the decline on the top line? Is what that kind of estimate we should use in trying to model this out?

Duncan Palmer - *Owens Corning - CFO*

Relativity speaking, that would be a good place to start modeling, yes, because overall if you model our working capital, it is reasonably stable and you can model that out as how much cash flow might come out of working capital during the year.

Mary Gilbert - *Imperial Capital - Analyst*

Okay. Great. That's most helpful. Thank you very much.

Mike Thaman - *Owens Corning - Chairman, CEO*

Thank you, Mary.

Operator

Your next question cops from if line of Ivy Zelman with Zelman & Associates. Please proceed.

Dennis McGill - *Credit Suisse - Analyst*

It is actually Dennis McGill on for Ivy.

Mike Thaman - *Owens Corning - Chairman, CEO*

Good morning, den Dennis.

Dennis McGill - *Credit Suisse - Analyst*

Good morning. One question, having to do with the Composites inventory situation, can you put into perspective either from your guess of the industry or your position where you sit with inventory on a weeks basis or however you want to quantify it, relative to where you would like to be just to put this into perspective.

Mike Thaman - *Owens Corning - Chairman, CEO*

There's two issue, one is where we, from an inventory point of view and where the industry from an inventory point of view. From our perspective our inventories are a little higher than we would want them to be because the market changed very rapidly in November and December and we can respond but it typically takes 60 to 90 days between employee notification and technical issues and production qualification issues for us to decide and be able to take melters out of the network. We had rationalization in our business plan for '08. We had taken down some facilities as a part of us trying to rationalize and restructure Asia. Those are helping us today that we have done those actions and working on additional actions. We think getting our inventory where we would like them probable wouldn't expect to see a big change or improvement for us in the first quarter.

We would expect by the second quarter we will be under producing demand and get our inventories under control. Bringing capacity back on line when we see the order book demanding us to bring capacity online. From an industry point of view, these are fairly long supply chains, so we with would often sale glass to someone who might compound it or process it somehow with some type of resin who may sale it to a molder or someone to further process it, who would sale it to an OEM , who would sale it to some distribution or consumer. There is the opportunity here for there to be inventory piled three or four levels in the supply chain. That's where we are seeing 3% change in expectations of global economic growth resulting in the significant changes in volume we are seeing in the near-term. Each one of those chains are working their way through their inventory issues at different rates. That's why we have some optimism that our business will build monthly until we get back to

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Dennis McGill - *Credit Suisse - Analyst*

Do you have assumption as far as the composite manufacturers what will happen to pricing in the first half of this year?

Mike Thaman - *Owens Corning - Chairman, CEO*

We haven't given any, guidance or expectations around pricing. What I would say and we said this throughout '08 it was neither a tremendously positive pricing environment in '08 but it was not a negative price environment. Most of the manufacturers experienced a fair amount of inflation and our improvement in '08 was driven by productivity, synergies, integration benefits that was not driven by price. I don't think we face any type of pricing bubble in Composites that weaker demand would cause us to get into a aggressive price down scenario. We think we can manage the price and cost side of this, we are really now managing the volume side of it and that's been the bigger challenge.

Dennis McGill - *Credit Suisse - Analyst*

Okay. And then my follow up on your comments you just made about end demand where Composites would be a proxy for the global economy, over a longer-term we would agree with that but I would like to understand from an end product standpoint how you guys are thinking about. When I look at your exposure, whether it is construction, automotive, consumer, electronics those all seem like areas that are going to remain under more pressure significantly more pressure than the global economy at least in the near-term and particularly 2009. So could we see a situation where the global economy in the Composites proxy for that deviate more so in the near-term as some of these markets are adjusting?

Mike Thaman - *Owens Corning - Chairman, CEO*

I mean, certainly we could. When we look at this historically and various recessions going through our data. We intended not to see that. So while it is a big, big broad economy and I can understand from your perspective a fairly broad assumption, if you look at the plastic industry, which is a good proxy for Composites demand. Historically, the plastics industry has had enough new applications and other things going on they've offset places where there is weaknesses. The specific topic we touched on was wind , you can see where wind, because of credit issues and other things could have gotten weaker in the United States, though that's not the biggest wins market in the world, Europe would be, but, now you are seeing Stimulus focus specifically on try to get cash into the hands of wind developers to make sure we continue to make progress against renewable power. So there's I think there's an argument and counterargument almost market by market. WE have tried to do our internal analysis customer by customer that it tends to be fairly customer intimate business and that is how we would go about trying to understand what our customers are currently seeing. That's the basis that caused us to be able to say we can get through a large part or all of the inventory corrections through the first half but the timing remains to be

Dennis McGill - *Credit Suisse - Analyst*

Okay. That's very helpful. Thanks a locality, guys.

Mike Thaman - *Owens Corning - Chairman, CEO*

Thanks, Dennis.

Operator

Your next question comes from Jim Barrett with CL King & Associates. Please proceed.

Jim Barrett - *CL King & Associates - Analyst*

Good morning, everyone.

Mike Thaman - *Owens Corning - Chairman, CEO*

Morning, Jim.

Jim Barrett - *CL King & Associates - Analyst*

Good morning, Mike. Duncan, can you take us through your pension fund contribution in '08? And give us your thoughts on how we should look at the cash flow and earnings impact of what I assume is the drop in pension assets at year end?

Duncan Palmer - *Owens Corning - CFO*

Yes. Thanks. As you know we have a -- 8 -- round about 8, $900 million pension (inaudible), but by far our largest obligation is in the US. We invest our assets in a portfolio which you will see in our 10-K, if you look is reasonably conservative in comparison to the medium pension fund. So, while our asset returns were negative during the year . We feel when we benchmark that, we did pretty well in terms of being probably in the top as most of the other pension funds we have seen. From that point of view we somewhat sort of smooth out some of the impact. When you look actually the impact it is going to have in both our earnings and our cash flow in 2009 I think those impacts will be relatively moderate. So the impact for EBIT is quite small, and the impact in cash flow I think we disclosed that our pension contribution in 2009 will be in total globally will be at the order of $62 million. Just from memory in 2008 that number was round about a similar

Jim Barrett - *CL King & Associates - Analyst*

Correct. Okay. Very good. I appreciate that. Thank you.

Operator

Your next question comes from the line of Keith Hughes with Sun Trust. Please proceed.

Keith Hughes - *Sun Trust - Analyst*

Yes. On the composite business you mentioned you had three furnaces down, what are the total number of furnaces you have post to the transaction a couple of years ago?

Mike Thaman - *Owens Corning - Chairman, CEO*

We don't disclose specifically on number of furnaces for competitive reasons. What we have is three furnaces down in '07 and I mean in '08 and a lot of that was permanent. We had a facility in Thailand and another facility in Asia that wanted to rationalize and load production into the facilities we currently have in China as well as load our facilities in Japan. Some of that was a migration to get more productive and cost effective. Today the facilities or the lines we are talking about bringing down and focused on bringing down is more to adjust our production levels to demand levels. It is not as easily a modeled industry as Insulation because the product lines are unique and they're unique to end use applications and the tooling that you use to produce those are unique to individual facilities.

So it is not as, as kind of a uniform market as maybe what you would see for the fiberglass Insulation market where we are more comfortable talking about the total market and the total number of melters as being interchangeable. I think this business the asset base is a little more end use specific. We think we benefit because we have the largest fleet and most diverse asset base. That gives us the ability to get cost and production out of our environment in a lower cost way that our competition that would be less scale and less able to turn up.

Keith Hughes - *Sun Trust - Analyst*

Okay. As you pointed out, the Insulation business had a negative contribution margin when we went into this downturn and it has come back up. If we got a Composites, the way you produce your Composites products versus the Insulation, are there similar dynamic, something that makes less cyclical, what's your view there?

Mike Thaman - *Owens Corning - Chairman, CEO*

Well, I think if you look at our fourth quarter, we did see revenue down 17% versus the prior fourth quarter which is a pretty significant drop on the order of magnitude of $100 million, and we were still obviously positive in terms of our operating performance in the quarter. So, you clearly see some amount of negative leverage when you lose $100 million of revenue. But year-over-year we were showing something like a decline in EBIT of about $27 million. That feels to me kind of of the order of magnitude of the leverage in that business.

Keith Hughes - *Sun Trust - Analyst*

The fact it was so back end loaded you had to pull down production in December. It wasn't through the quarter. Does that not adjust the calculation?

Mike Thaman - *Owens Corning - Chairman, CEO*

It would a little but we did see, it did come through the top line. So the top line number, which is probably a strong October, a weakening November and a very weak December, we start to talk about the first and second quarter. We would talk about a weak January and improving February, March, and April. So as we really do see the market reacting I think year end is a particularly difficult time, most companies are trying to take action by year end. That probably put an exclamation point for most companies in terms of taking action to try and get out from underneath inventory positions and it backed up on us. Probably we are starting the year a little weaker than the fourth quarter on average but hope by the end of first, or second we are getting back to where we started the fourth.

Keith Hughes - *Sun Trust - Analyst*

Final question is accounting. On the goodwill and intangibles there was no impairment. I have seen multiple industrial companies have to take impairments due to stock price, whatever else the auditors have dreamed up. Your comment or why did you not see that? Is that a coming issue as you look to be in a pretty severe downturn at least for the rest of this year?

Duncan Palmer - *Owens Corning - CFO*

Thanks. This is Duncan again. We obviously take a hard look at our impairment testing on annual basis, we did so again this year and when we do that we take a very rigorous view of our assumptions and as you all have seen, we file a 10-K no impairments. If you look at where most of our goodwill is we do most of it on in the context of our fresh start accounting after we emerged from bankruptcy and most of that goodwill you will see is in our Insulation business. And we remain very confident and comfortable that our Insulation business will operate and will make a lot more money through the cycle as we look at more normalized level of housing starts and so when we come to value that business and think about that in the context of impairment testing , we are not applying values that typically would come out of 600,000 housing start-type number where we are using much more through the cycle type valuations and taking a much more long-term view. As you will have seen, because we have filed we have taken down no impairment charges and that remains our

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Keith Hughes - *Sun Trust - Analyst*

Okay. Thanks a lot Duncan.

Scott Dietz - *Owens Corning - VP of IR and Corporate Communications*

We will take one more question and then we will go to closing remarks.

Operator

Yes, sir. Your last question comes from the line of Garrett Shmois with Longbow Research.

Garrett Shmois - *Longbow Research - Analyst*

Thanks for taking my call. Just on the CapEx figure, is it essentially maintenance CapEx you have in the guidance?

Duncan Palmer - *Owens Corning - CFO*

I will take that. Our CapEx is a blend of maintenance CapEx and (inaudible) growth, limited growth prospects around our business. Obvious he we are taking a hard look at what we can do in terms of deferred some of the projects we had announced, we have announced deferral of our expansion project that we had announced for Russia. That's something in the (inaudible) market circumstances and looking at the Russian market we feel that is something that we, that we felt comfortable deferring in terms of managing our CapEx for 2009. So we have taken examples like that through our business, we have been going through line by line, all the items in our CapEx budget and making sure we are being as prudent as we can be in balancing and maintaining our current assets and taking advantage of growth opportunities but we have cut that back.

Garrett Shmois - *Longbow Research - Analyst*

Sure. Secondly on share buy backs, (inaudible) just your view as this cash.

Duncan Palmer - *Owens Corning - CFO*

Yes, thanks. In the past we have said that where we see clear line of site to free cash flow that we would, we would maintain the option of repurchasing shares in terms of how we would see free cash flow. In 2009, we see the value of liquidity to be very high. We are managing that very care think and keeping in view all of our uses of cash. So I think it would be fair to say to keep (inaudible).

Garrett Shmois - *Longbow Research - Analyst*

Sounds good. Thanks a lot.

Scott Dietz - *Owens Corning - VP of IR and Corporate Communications*

Closing comments.

Mike Thaman - *Owens Corning - Chairman, CEO*

Yes. You know, I think the bottom line for us, for 2008 as we look back wards is we really did complete a successful year. When we went into 2008 we knew that we had one business that had always been admired and you know, respected by investors and that was our Insulation business. It is a business that has consistently delivered 15% operating margins through cycles. Years above that and years below but we have always felt comfortable telling investors that we think over the long-term that's a business that can earn 15% or better margins. We went into the year saying we thought we could do better in Roofing and we went into the year with a lot of promise associated with our Composite business and as we come out of 2008 we are very comfortable talking about the fact that we believe Owens Corning has now created very strong business franchises in our Roofing business our Insulation and our Composites business.

Obviously, in the near-term, those three great businesses are being impacted by the market environment that we see, most notably our Insulation business because of exposure to new construction and our Composites business as it works through the issues that we talked about on this call. We do think our Roofing business will carry us through the first half of the year and provide us good strength and profitability. We are hoping soon we find it bottom to the global economy and new construction. And we can begin to build off of those bottoms. We think the Company is very well positioned that when that happens, we have a lot of positive earnings leverage that would continue to be in our Composites business and we have a great business in our Roofing business and we obviously have significant earnings leverage that is still embedded in our Insulation business when demand recovers. I wouldn't want it to be lost as we come off of the call on the importance of some of the macro trends that would be currently affecting our company.

It is not lost on us that when the United States responded to the economic challenges that we have and when money was put aside for Stimulus that very specific initiatives were put in place to fund insulating homes to encourage people to take tax credits to put more Insulation in their homes, to encourage the continuing building of renewable energy, the continued building of wind, to the continued benefit of our Insulation and our Composites business. At the bottom of a bad economy, it is easy to conclude that these are nice-to-have, not need-to-have and they're going to go away. We are see strong leadership globally, in other parts of the world where we operate that these markets need to continue to be developed, that the market for saving energy and the market for creating more renewable energy continue to be strong long-term trends and our company continues to be positioned to benefit from that.

So we go into 2009, with our eyes wide open, obviously we believe we have a track record over ten quarters in the new construction side of the business for our ability to manage costs, our ability to manage capacity, our ability to respond to market environments. We also have a nice track record of our ability to invest in businesses where we see opportunity like we have done in Roofing. We ask you to continue to expect that from us in 2009, and we look forward to having you on the call on April 30th for our update for our first quarter. Thank you very much for joining us and thank you for your interest in our company.

Operator

Thank you for your participation in today's conference. This concludes this presentation. You may now disconnect and have a good day.
