

Armstrong



Annual
Report
2003



Corporate Profile

Armstrong World Industries, Inc., is a global leader in the design and manufacture of floors, ceilings and cabinets. In 2003, Armstrong revenues totaled \$3.26 billion, with sales to both commercial and residential markets. Based in Lancaster, Pennsylvania, Armstrong operates 44 plants in 12 countries and has approximately 15,200 employees worldwide.



Chairman's Award Winners

Throughout this annual report, we proudly present the 2003 Chairman's Award winners. These Awards for Excellence are given to employees who have demonstrated extraordinary effort in activities that had a major impact on reducing costs or increasing company revenues. Each winner (listed alphabetically) contributed greatly to Armstrong's continual improvement and ability to provide its customers with quality products and outstanding service.

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The Voices of Armstrong

The voices of Armstrong can be heard around the world. Our 15,200 employees create, produce, improve and deliver some of the most beautiful and functional building products you can find. Their voices drive our innovation...push us to design new styles...improve quality...and provide nothing less than excellent customer service. You can see the results in our products. They cover your floors. Span your ceilings. Organize your kitchen and bathrooms. And they do so in thousands of colors and styles.

To Our Shareholders

The year 2003 was a year of significant change for Armstrong. There was a great deal of progress in our Chapter 11 case. We undertook a large number of cost reduction initiatives to improve our cost position. We saw a record housing market in the United States, weak U.S. commercial markets and very weak demand in Europe. Our earnings declined during the year largely due to increased lumber costs in the wood business, weak European markets and operational issues in the cabinets business.

To understand the financial results of our businesses, the reported results should be viewed prior to asbestos costs, expenses of cost reduction initiatives, and the effect of a change in our relationship with our 13 vinyl distributors. It is also necessary to take into account the translation effect of the stronger euro. The following table shows operating income prior to these items:

<i>In Millions of Dollars</i>	Year	
	2003	2002
As reported Operating Income (loss)	\$ (10)	\$(2337)
Add back:		
Asbestos charge	81	2500
Expenses of cost reduction initiatives	55	2
Changed distributor agreements	—	8
Effect of weaker dollar in translation	—	2
Adjusted Operating Income (non-GAAP)	\$126	\$ 175

Asbestos costs in 2002 were \$2.5 billion, reflecting the charge associated with the revised estimate of our liability for asbestos personal injury claims. In 2003, the effect of asbestos on our financials was \$81 million.

In 2003, we spent \$55 million on cost reduction initiatives. We ended stencil production, closed the Port Gibson, Mississippi and Sykes, Arkansas engineered wood plants, closed the woven textile plant in Oss, Netherlands, closed a small plant in India and wrote down the investment in a joint venture plant there. We closed the Dallas, Texas headquarters of the wood business, merging these operations into Lancaster, Pennsylvania. Our worldwide employment declined by over 1000 people. Over 800 job eliminations were the result of the initiatives. In 2002, we spent \$2 million



Mike Lockhart

Chairman and Chief Executive Officer



on restructuring. Additionally in 2002, we changed terms of our distributor agreements related to the sale of products to the Big Box customer. To compensate for this change, we needed to increase 2002 sales and operating income by \$21 million and \$8 million, respectively.

The euro was substantially stronger in 2003. This affects our results in two ways: translation of our European results from euros into dollars and the transaction effect of raising the cost of imported materials. Applying the current year's foreign exchange rates to 2002's foreign currency, amounts increased 2002 sales by \$143 million and operating income by \$2 million.

Allowing for the increased strength of the euro, total sales declined 1.7 percent. European sales declined \$76 million; Cabinets sales fell \$22 million. Wood and the Pacific Rim units increased sales. Sales in the Americas for resilient floors and ceilings combined declined less than half a percent, allowing for the changed distributor agreements.

The shortfall in European sales was largely the result of a weak market, but we feel that we lost share in our flooring businesses in Europe in 2003. We begin 2004 with more salespeople, better products and improved customer service in an effort to improve floor sales in Europe. Most people are forecasting stronger economic growth in the Euro zone. We hope this will stop the decline in our markets.

The cabinets sales shortfall was largely the outgrowth of substantial service problems in 2002. Customer service (product quality, on-time performance) has been restored to excellent levels, and we are slowly regaining the trust of our customers. Plant productivity increased in 2003, but remains below what we would like. The Armstrong name will be converted to our cabinet service centers, which sell to builders and consumers.

Wood sales increased despite quality issues and a decision to substantially reduce our participation in the unfinished wood flooring market. The quality issues derived from new competitors offering better quality than Bruce historically offered. The effects of this were most visible in engineered wood sales.

Since the middle of last year, we have had Six Sigma teams working on improving our wood product quality. The dimensional consistency of our products (both solid and engineered) is

dramatically better. We have reduced the number of defects in our products by almost 70 percent! Initially this came at the cost of increased manufacturing expense. The teams remain in place, working on lowering the cost of the better product.

The performance of our commercial businesses in the Americas was very satisfying. The commercial markets declined, but both the ceilings and floor businesses outperformed the market. This is the result of good new products and excellent marketing programs.

Our residential flooring business benefited from strong new housing growth. This shift toward builders reduced both price and margin of our vinyl sales.

One aid to sales in the second half of the year was demand for vinyl sheet products, which use our new MasterWorks™ Technology. This technology produces significantly better visuals. We are now working to make the same improvement in our residential tile manufacturing process. Our sales of residential tile were disappointing largely due to mediocre visuals. The residential tile team is working as hard and as fast as it can to redress this disadvantage. There are three dimensions to the problem; each is being worked to ensure by the third quarter of 2004 our capabilities will be truly world class.

Operating income, prior to the items listed in the second paragraph, was down \$50 million compared to 2002. Income was down \$30 million for the wood business. The balance of the decline was from lower sales volume impacting European and cabinet earnings. The decline in earnings is due to reduced direct margins, which resulted from lower volume and price/cost pressures. Our manufacturing period expenses declined 1 percent year-over-year. Our SG&A spending fell over 10 percent.

The wood business suffered all year with rapidly rising lumber costs. The Hardwood Market Report price for our largest volume grade of lumber increased 15 percent over the year. This was exacerbated by material shortages that forced us to buy higher grades of lumber to serve our customers, causing another 8 percent increase in lumber cost. We implemented a price increase late in the year to offset some of the increased lumber cost.

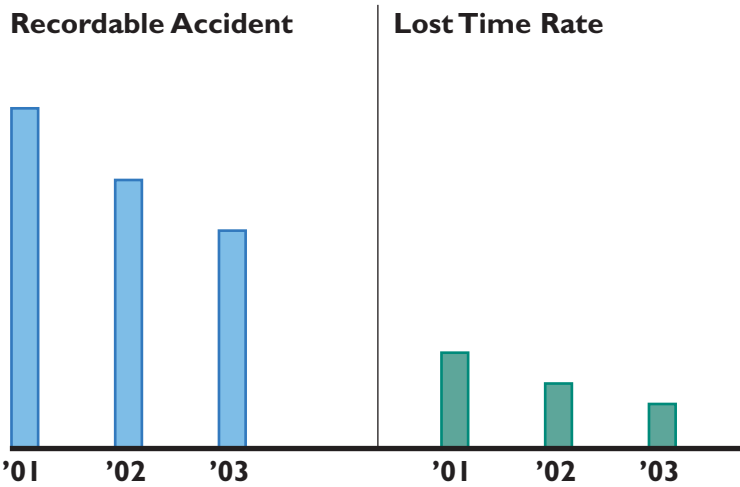
The European businesses did a nice job of controlling cost in their declining market environment. The ceilings business did a particularly good job of reducing cost in both production and SG&A. The weak dollar brought added competitive pressure from U.S. exports to Russia. The productivity growth of our European ceilings plants outstripped the market growth, allowing us to consider closing a plant. We announced our intention to negotiate the closure of our plant in Hoogezand, Netherlands. The resilient business encountered significant manufacturing problems that led to much higher than planned costs in the second half. Many of these problems have been resolved; the remaining issues are being addressed and there are good action plans in place. It will be the middle of 2004 before all these issues are successfully resolved.

The DESSO® business closed a textile plant and integrated its staff into a combined Armstrong Floor Products business, substantially reducing SG&A costs. The business improved its customer service levels during the year, particularly in the UK and France late in the year.

Cash flow was \$104 million, bringing the year-end cash balance to \$484 million. Our major businesses tended to use cash early in the year and generate cash beginning in the second quarter through year end. Working capital turnover improved slightly in 2003. Capital expenditures were less than depreciation.

Safety: We had the best year in the history of Armstrong. This occurred because of dramatic improvements in safety at the cabinet and floor plants in North America.

Almost 300 fewer people had an accident than two years ago. 120 fewer people missed work because of an injury.



We increased our emphasis on people development by rolling out our supervisor training to all of our North American plants in 2003. We also trained 60 percent of our management team worldwide on how to manage in a high performance work environment. Both of these initiatives recognize the critical role our people play in the success of the company.

Our Chapter 11 case awaits action by the U.S. District Court in Delaware. In December, the Bankruptcy Court issued a proposed order confirming our plan of reorganization. District Court approval is required to obtain the long-term protection from asbestos liability that is the objective of our Chapter 11 filing. It is not clear when the District Court will act.

In the meantime, our focus is on continuing the good performance of our worldwide ceilings business, restoring the profitability of the cabinets business, growing the top line of the flooring businesses through new products, great customer service, and improved quality as we continue to become more productive in our manufacturing and administrative processes.

Mike Lockhart
Chairman and Chief Executive Officer
March 31, 2004

Financial Highlights

Dollars in millions, except per share

	2003	2002
Earnings		
Net sales	\$ 3,259	\$ 3,172
Charge for asbestos liability, net	\$ 81	\$ 2,500
Operating (loss)	\$ (10)	\$(2,337)
Chapter 11 costs, net	\$ 9	\$ 24
Net (loss)*	\$ (39)	\$(2,143)
Diluted net (loss) per share	\$ (0.97)	\$(52.91)
Balance Sheet		
Total assets	\$ 4,648	\$ 4,505
Total current liabilities	\$ 416	\$ 397
Total liabilities subject to compromise	\$ 4,859	\$ 4,861
Total other liabilities	\$ 704	\$ 594
Cash Flow		
Net cash provided by operations	\$ 166	\$ 224
Capital expenditures	\$ 78	\$ 125

*2003 includes an \$81 million asbestos-related charge. 2002 includes a \$2.5 billion asbestos-related charge and a \$594 million after-tax goodwill impairment charge recorded due to the adoption of a new accounting standard.

This summary table provides only overview financial information. Investors and others interested in the Company's financial performance and condition for 2003 should refer to the Company's Annual Report on Form 10-K to the SEC, which is available through the SEC, through the Company's Web site at www.armstrong.com or by request from our Investor Relations Office.

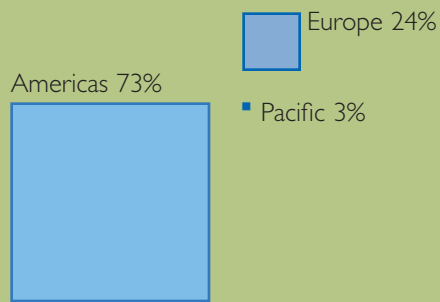
On December 6, 2000, Armstrong World Industries, Inc., the Company's operating subsidiary, filed for protection under Chapter 11 of the U.S. Bankruptcy Code to achieve a resolution of its asbestos liabilities.

During 2003, Armstrong reduced a previously recorded insurance asset for asbestos-related to personal injury claims by \$73 million, reflecting management's current assessment of probable insurance recoveries. Armstrong also recorded an \$8 million charge to reflect an agreement to settle claims from the Center for Claims Resolution and a surety bond insurance company.

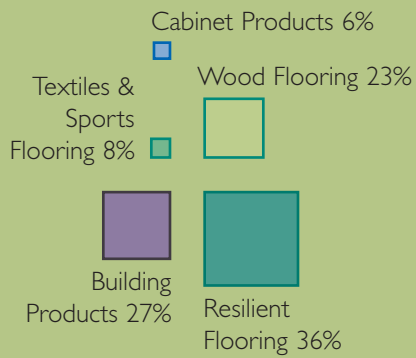
During the fourth quarter of 2002, Armstrong recorded a non-cash asbestos charge of \$2.5 billion to increase its estimate of probable asbestos-related liability. This charge was determined by calculating an implied liability based upon provisions of the Plan of Reorganization and proposed Disclosure Statement filed with the Bankruptcy Court during the fourth quarter of 2002. The revised recorded liability does not represent the total ultimate liability for asbestos-related current and future personal-injury claims, which will be resolved by the Asbestos Personal Injury Trust pursuant to implementing the Plan of Reorganization. The amount of such liability may be higher than the recorded liability.

A Plan of Reorganization is currently pending U.S. District Court confirmation. At this time, we are unable to predict when, or if, the Plan will be confirmed. The timing of emergence from Chapter 11 remains uncertain. For more details, visit www.armstrongplan.com.

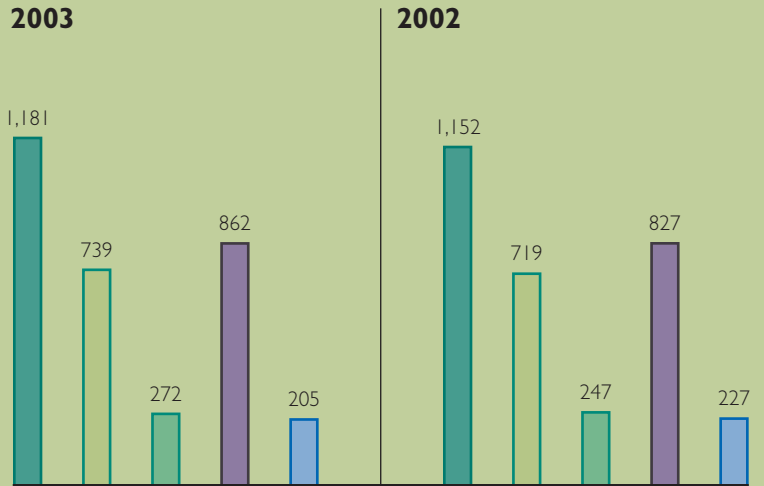
Geographic Sales 2003



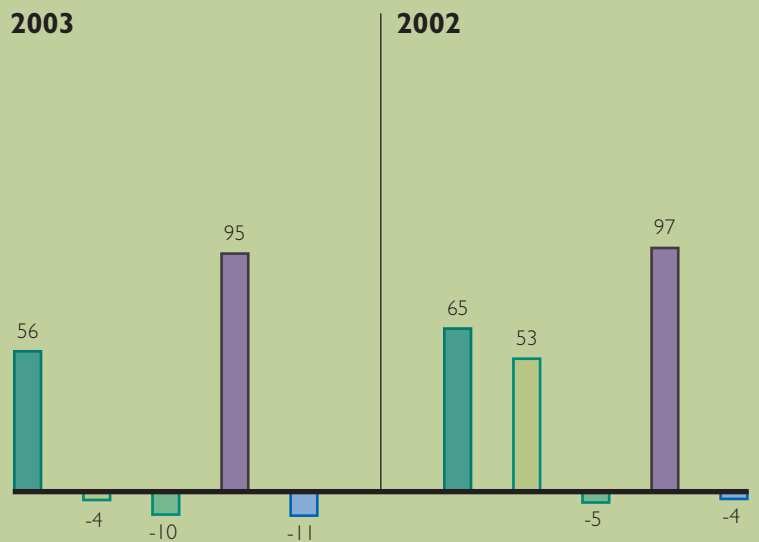
Segment Sales 2003



Net Sales Dollars in millions



Operating Income Dollars in millions



- Resilient Flooring
- Wood Flooring
- Textiles & Sports Flooring
- Building Products
- Cabinet Products

Armstrong Flooring Products



Business Profile

■ Armstrong is the foremost name and a worldwide leader in the design, manufacture and marketing of floors. The business mix is roughly 60% residential and 40% commercial. The Armstrong powerhouse family of brands, including Armstrong™, Bruce® Hardwood Floors, Hartco® Quality Wood Flooring, Robbins® Fine Hardwood Flooring, Desso® Textile Floorcoverings and Desso® DLW Sports Systems, offers the most extensive portfolio of flooring products available. It includes hardwood, vinyl sheet and tile, carpet, laminate, sports surfaces, Genuine Linoleum™, luxury vinyl tile, and ceramic tile.

Armstrong Building Products



■ Armstrong is a worldwide leader in the manufacture and marketing of acoustical ceilings and suspension systems. The business mix is nearly 90% commercial, with approximately two-thirds in improvement projects and the balance in new construction. Commercial products are used worldwide in offices, health care, education, retail, transportation and other segments. The residential market primarily consists of home improvement projects. As the most geographically diverse Armstrong business, Building Products is supported by regional manufacturing and local sales organizations around the world.

Armstrong Cabinet Products



■ Armstrong is a manufacturer of kitchen and bath cabinetry, providing a broad portfolio of styles in several natural hardwood species. The business mix is entirely residential, with 70% in new construction and 30% in home improvement projects.

Customers

- Residential customers who are remodeling or building a new home.
- Commercial customers include architects, building owners, facility managers and flooring subcontractors.
- Independent distributors who sell to independent specialty retailers, specialty chains, national and regional home center chains, residential remodeling contractors, residential builders and subcontractors, commercial flooring contractors, architects and facility managers.



Nature's Gallery®
Porto Alegre™
in Canyon

- Key influencers and decision-makers in the commercial market include architects, interior designers, facility managers and building owners.
- Commercial customers include independent acoustical ceiling distributors and contractors.
- Residential customers are served through retail channels, including national home center chains and wholesale distributors who serve thousands of retail locations in America.



WoodWorks™
Vector™

- Builders of residential new construction, including single and multi-family dwellings and government housing.
- Residential remodeling companies.
- Independent kitchen and bath cabinet distributors.
- Residential customers who are remodeling or building a new home.



Tuscany™ Birch
Buttercream Finish

Armstrong Flooring Products



“Customers want to see that we’re focused on the market and delivering what’s right for them. That is a major area of emphasis for us. We have become fanatical about customer service and delivering, on time, the kinds of innovative products they want with all the qualities they need.”

Frank Ready Senior Vice President of Sales and Marketing, North America
Armstrong Floor Products

Armstrong Flooring Products accounts for two-thirds of total company sales.

The Armstrong name is synonymous with quality flooring. We are well-regarded for several reasons. Our well-styled designs appeal to current tastes. We continue to innovate to improve visuals, durability and ease of maintenance. We have extensive offerings spanning resilient sheet and tile, laminate, hardwood, linoleum, ceramic tile and even specialty carpet and sports flooring. And we have a firm commitment to deliver great products, on time, with the quality and performance desired by our customers.

Speaking of choices...

Although markets have been challenging, with rising raw material costs and tough competition, we continue to be a market leader. Flooring options remain among the leading upgrades consumers choose, whether remodeling or building a new home. To meet their needs, we have renewed our emphasis on providing the kind of flooring innovations that customers have come to expect from Armstrong.

We also are working to improve our speed, so that we can move from new concept to design to market at a quicker pace — and do so cost effectively. This gives us the ability to offer a portfolio of the latest flooring options at multiple price points, giving consumers more choice and retailers more revenue opportunities as homeowners trade up to better products.

“That’s vinyl?” We hear that a lot from customers, just before they get down on their hands and knees to examine our latest innovations in resilient flooring. In 2003, we introduced several next-generation floors made with our new MasterWorks™ Technology: Highland Park™, sold through specialty retailers, and Canyon Creek™ was sold to the homebuilder market. The MasterWorks™ Technology process is the next generation of print capability, combining photographic imaging with embossed texture to achieve a greater clarity and fidelity to the flooring imagery.

Inlaid Color™ Graphics is another next-generation manufacturing process that replaces our stencil process and achieves greater design realism. At our Holmsund, Sweden, facility, we are incorporating our exclusive Inlaid Color™ process with rotogravure printing technology to give floors richer, more textured designs. Among the first collections to use this technology are Designer Solarian® and Patina™, which transforms residential vinyl sheet flooring into avant garde art.

The commercial flooring side of the business had a strong 2003, largely based on marketing programs, product quality



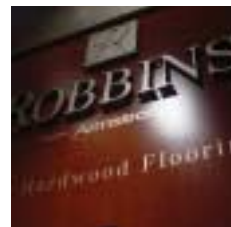
Alfred H. Adey
Principal Scientist
Armstrong Building Products
Lancaster, PA

2003 Chairman's Award Winner:

“My most meaningful experience at Armstrong has been the Marietta wastewater treatment plant installation, which involved treatment plant design with unique primary plant modifications and control systems. The project involved a real team effort resulting in an effective process.”



Highland Park™
Stevensville™ Multicolor



With Bruce®, Hartco® and Robbins®, Armstrong has three distinct hardwood brands that appeal to various consumer tastes and lifestyles.

Thomas L. Burgum

Sales Manager, Training &
Installation Services
Armstrong Building Products
Lancaster, PA



and customer service. We made gains in vinyl sheet and tile, luxury vinyl tile, and in segment-specific marketing programs like School Zone™ and MEDS™. School Zone™ promotes high-performance floors to the education segment, while MEDS™ — Medical Environment Design solutions — delivers the best flooring for health care settings.

In the faster-growing market for hard surfaces like ceramic tile and wood:

■ **Liz Claiborne Flooring by Armstrong™** debuted in Carpet One stores in 2003 with more than 160 different colors and styles of ceramic tile.

■ **Bruce® Hardwood Floors** introduced Studio B™, an exclusive line of 11 styles using seven exotic wood species from around the world, with an eclectic range of colors and patterns. Other new Bruce® collections include Turlington™ engineered plank and Liberty Plains™ solid planks featuring highly defined grain patterns, wider widths and traditional oak looks.

■ **Hartco® Quality Wood Flooring**, with more traditional hardwood products, introduced several collections of engineered and solid planks — Valenza™, Beckford™, and Verdone™ — that offer fresh and fashionable colors in a variety of regional and specialty species.

Our specialty business in sports surfaces continues to gain ground. In 2003, DD GrassMaster, a synthetically reinforced natural grass system, was installed at Lincoln Financial Field, the new home of the Philadelphia Eagles football team. DD GrassMaster now covers the fields

of more than 200 soccer, rugby and football teams worldwide, including the Pittsburgh Steelers' Heinz Field and the Denver Broncos' Invesco Field at Mile High Stadium.

Overcoming challenges

Customers buy Armstrong floors with confidence because of our long-standing reputation for quality. In our wood business, we have the opportunity to make quality a differentiating factor. We are focused on continuous improvement, especially as market competition raises the performance bar. We now have several teams working to improve quality, with a holistic approach that includes processes, facilities and products.

We continue to face weak European markets, yet we have remained competitive. In 2003, we completed the integration of our European flooring businesses — resilient, textile and sports systems — under the umbrella of Armstrong Floor Products. We expect to see significant cost savings and productivity increases from these changes. We also expect continuing sales from the commercial products introduced during the year to meet the needs of builders and architects, ranging from high-end luxury vinyl and carpet tiles for corporate offices to more basic offerings of vinyl sheet, linoleum and carpet tiles for social housing, education, health care and offices. ■

2003 Chairman's Award Winner:

“Armstrong Building Products has a clear, concise, consistent sales strategy that’s a roadmap for our priorities and resources. We plan our work, and work our plan — aligned closely with business objectives. We planned to significantly increase our customer training effort, and we met that objective.”



2003 Chairman's Award Winner:

“In 1988, we developed the first Safety Awareness program at West Plains. In December 2003, the plant surpassed one year and one million hours worked without a lost time accident. In 2004, Armstrong West Plains will introduce the first automated lumber processing rough mill to the wood division.”

Blaine E. Burroughs

Plant Manager
Armstrong Wood Products
West Plains, Missouri

2003 Chairman's Award Winner:

"I most enjoy helping others set high standards and meet objectives. I am obsessed with winning and highly focused on doing everything simpler, faster and better to grow our business together. It was truly a team effort that combined great leadership, products, marketing, distribution and ongoing support to ultimately achieve the results that we earned with our customers."



Thomas L. Cole
Distribution Manager,
Residential Flooring
Midwest Region
Cincinnati, Ohio

Patina™, Treadlock™, Wrought Iron



RiverStone™, Terra Villa™



Bruce®, Studio B™, Kambala

Imperial® Texture, Tea Garden Green, Brushed Sand, Mid Grayed Blue, Etruscan Red

Armstrong Building Products



“We work with architects, distributors and contractors to make sure they are getting the solutions they need. We can help them make a statement with dramatic ceilings that also have functionality — light reflectance, sound absorption, wireless networking — even mold resistance.”

Steve Senkowski President & CEO Armstrong Building Products

Armstrong Building Products is the largest global player in suspended ceilings and the market leader.

While 2003 was another difficult year for the commercial construction market, we continued to perform well, with improved manufacturing costs and high levels of customer service and product quality. Sales of new products introduced in the Americas are in line with our expectations, and we expect they will become even greater contributors as they develop into specified materials in new building projects. With residential products, we are seeing good response to our decorative alternative ceilings.

In Europe, where we sell only commercial products, some markets remain difficult. Our basic ceiling products are strong sellers in Russia and parts of Europe. We have introduced product improvements into our basic line to give architects and builders a greater choice for upgrades and performance characteristics at various price points.

Asia remains a growth market, with a successful year in winning a number of prestigious projects, including Raffles Tower in Shanghai and Taipei 101, the tallest building in the world. We have been expanding our sales force and distribution in China, growing our local presence through individual distributors, with

products sourced from our Shanghai plant and other global sites. We also continue to see good growth in Australia.

The voice of innovation

Our strength lies in applying the latest technology to innovative solutions for overhead spaces. Our history of innovation dates back to the industry's first commercial ceilings being classified by Underwriters Laboratories for fire safety in the 1960s. Following that, they received UL certification for their acoustical performance, a pioneering achievement in itself. Other advances include HumiGuard™ ceilings and i-ceilings® sound and wireless systems. Our 2003 product introductions — Infusions™ accent canopies and Axiom® Knife Edge perimeter trim for suspended ceilings — won Best of NeoCon awards in June 2003 at what has become the largest trade fair for contract interiors.

Beyond their aesthetic value in overhead spaces, our ceilings are engineered with special features that respond to specific customer needs such as sound-masking, wireless networks and sustainability. When appropriate, we form strategic partnerships to help integrate new high-performance features into a building's infrastructure.



Brent W. Davis

Manager, Environmental Health and Safety
Armstrong Floor Products
Lancaster, PA

2003 Chairman's Award Winner:

“Seeing the products that we produce in our plant in the homes of my friends and family. It gives me a good feeling to know that our floors look so good year after year, even with kids running through, muddy dog paws and all that goes with raising an active family.”

2003 Chairman's Award Winner:

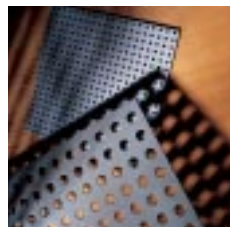
“Architectural selling is the most meaningful, challenging and rewarding work. Driving by the major projects with Armstrong acoustical ceilings installed is like driving by my personal trophy case.”



Timothy C. Hamilton
Distribution & Contract Sales
Manager
Armstrong Building Products
Sumner, WA



WoodWorks™ Custom Lay-in Ceiling Panels



MetalWorks™ ceiling systems offer a broad range of aesthetic and performance options.

"I have had contacts with all parties involved with projects all over Europe, both outside (customer, architect, carpet installer) and inside the company (sales, design and development, planning and production). This gave me the opportunity to learn about, and to work on, teamwork, creativity...and all that in an international and prestigious context."



Jan Slagmulder

Plant Manager
Armstrong Floor Products – Europe
Waasmunster, Belgium

■ Acoustical ceilings and sound-masking systems help owners achieve speech privacy in open-plan offices and health care environments. This is especially important for medical facilities, which now must comply with the privacy regulations of the Health Insurance Portability and Accountability Act, known as HIPAA.

■ HumiGuard™ Ceiling Systems with Bio Block™ paint help inhibit or retard the growth of mold and mildew.

■ i-ceilings® wireless systems have embedded antennas, hidden from view, that provide excellent performance of in-building wireless networks.

■ Our suspension systems manufactured by WAVE, our joint-venture subsidiary with Worthington Industries, have incorporated such innovative design features as PeakForm™ ceiling suspension systems that improve the ease of installation and cost efficiencies.

With our success in overhead spaces, we began test-marketing additional building products. In Atlanta and Denver, we introduced the Decorative Wall Finishes System that give homes the warmth and beauty of custom woodwork using durable, interchangeable components.

The voice of tomorrow

In 2004, we will continue to invest in new product development. Our goal in the Americas is to have 35 percent of sales come from products introduced in the past five years, and 10 percent coming from products just two years old. In doing so, we will broaden our ceilings portfolio with metal, wood and open-cell ceilings.

In Europe, we will leverage our leadership in our core products, with design and performance attributes and soft fiber products. In Russia and parts of Europe, we are working to improve our product mix beyond basic ceilings. And in all European locations, we are focused on continued manufacturing cost improvements.

As the product leader with a strong focus on quality, service and productivity improvement, we expect continued profitable growth from Armstrong Building Products. ■

Donita J. Swayne

Senior Administrative
Assistant III, Legal
Lancaster, PA

"My most meaningful experience at Armstrong has been with the Chapter 11 work. It was like beginning a new job, with all the rules and procedures I had to learn and follow. It has meant a lot to me to be able to get to the place where I feel comfortable enough in what I do regarding the billing procedures to actually give advice and guidance to others."



2003 Chairman's Award Winner:

"The most meaningful work experience for me is the successful development and implementation of the new coating process for residential sheet at the Lancaster plant, starting from lab experiments, then progressing to scale-up in the pilot plant, and finally launching the process in the plant."



Dr. Dong Tian
Senior Research Scientist
Armstrong Floor Products
Lancaster, PA

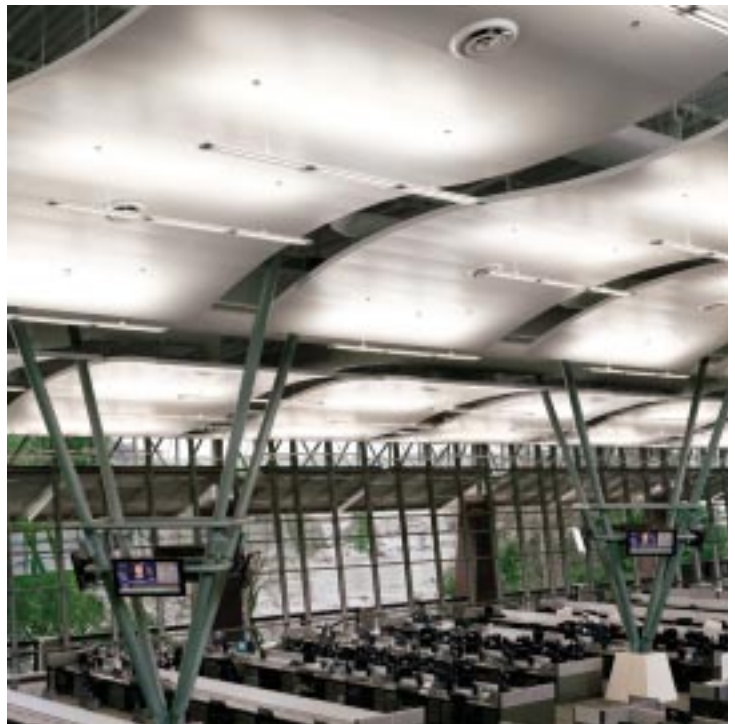
Serpentina™ 3-Dimensional Ceiling System



Infusions™ Accent Canopies



WoodHaven™ Decorative Ceilings, Decorative Wall Finish, Classic Traditional



Custom MetalWorks™ RH-215

Armstrong Cabinet Products



“We have a winning combination for builders. We offer a wider range of well-engineered products in terrific styles that meet or exceed their needs. We have brought service levels to industry-leading performance. And we’re selling cabinets under one of the most recognized brand names in home building materials: Armstrong.”

Dave Gordon *President & CEO
Armstrong Cabinet Products*

“Armstrong Cabinet Products makes terrific stock cabinets.” That’s the feedback we hear from our customers who are the builders working on residential new construction. Now we have excellent customer service to match. In 2003, we spent a lot of time addressing issues that had interfered with our ability to deliver on-time complete shipments to customers. Our employees came together to develop the right solutions. Through their efforts, our customer service levels improved to 98 percent on-time complete deliveries in the fourth quarter.

Our Genuine Allwood Cabinetry™, launched in 2002, continues to see strong demand. Allwood™ is a product upgrade that replaces the particleboard found inside most stock cabinets with hardwood veneer plywood. New engineering and the Allwood™ brand has led to continued growth in this product category.

Other strong sellers are our maple and birch cabinets. These have become increasingly popular as design trends and consumer tastes are now favoring light-colored woods. We have received rave

reviews on our Toffee and Buttercream finishes, which now outsell all our other finishes combined in this segment. Late in the year, we introduced a new Cider finish as we continue to keep pace with changing consumer tastes.

Our strategy in 2004 is to:

- Serve the builder market with cabinetry that has quality engineered into its construction.
- Deliver the highest levels of customer service.
- Leverage the name recognition of our Armstrong brands. ■



*LaCerise™ Cherry
Cordovan Finish*

Manuel Vicedomini
*Area Sales Manager Spain
Armstrong Building Products
St. Gallen, Switzerland*

2003 Chairman’s Award Winner:

“The work experience that has been most meaningful for me was the execution of various parts of the Airport Barcelona, including its installation.”



2003 Chairman's Award Winner:

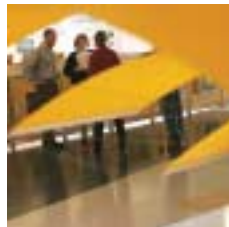
"My most meaningful work experience has been as national sales and marketing manager Australia and as strategic accounts/business development manager West."



Gregory D. Wilson
Business Development Manager –
Retail National Accounts
Armstrong Floor Products
San Francisco, CA



Waverly™ Maple, Natural Finish





Armstrong Avenue™: A showcase of leading products



The world of Armstrong products, all under one roof. That's Armstrong Avenue,™ our own on-site product display center...showing off our best to retailers, architects, building owners and distributors.

We're in a "show me" business. Before builders install a new product...before architects specify a new material...before distributors take on a new line...before retailers commit valuable store space, they all want to see a sample.

And what better place to showcase our samples than Armstrong Avenue,™ a two-story, 20,000-square-foot "permanent trade show," with an ever-changing display of our latest product introductions and line extensions. But customers see much more than a typical product sample. They get to experience actual installations. And they can do so while talking to the product designer; nibbling biscotti in the coffee bar; watching presentations in the dialogue room; working in the business center or sitting in the "decompression lounge." Every space is filled with Armstrong floors, Armstrong ceilings and Armstrong cabinets.

At Armstrong Avenue,™ customers can look, touch and feel our products in the same settings for which they're designed. And they can see all our award-winning products under one big, beautiful Armstrong ceiling. ■



Environmental actions speak louder than words

We have a legacy of recycling used and scrap materials to make new Armstrong products. Our founder Thomas Armstrong recycled scraps from his cork stopper business to create new cork boards and linoleum floors. Today recycling makes business sense — whether from an economical or environmental perspective.

Our acoustical ceilings are made of up to 82 percent recycled materials, and most of our ceiling products can be reclaimed and remade into new ceilings. Our ceilings are made from recycled paper, mineral wool (recycled slag from the steel industry), cornstarch and recycled acoustical tiles. Our Ceiling Recycling Program in North America is a huge success, reclaiming more than 17 million square feet of used ceiling material since 1999. In October 2003, we began a partnership with the Institution Recycling Network that provides more opportunities for renovators to recycle.



We also are partnering with telephone companies in certain areas to collect old directories, which will be recycled into new acoustical ceilings.

In our flooring business, we promote sustainable forestry practices. We buy from companies that can certify their loggers are trained in the industry's Best Management Practices program. Our hardwood floors come from forests that are continually replanted for future generations. Further, we use wood waste as fuel to produce electricity and generate steam for drying lumber.

Armstrong vinyl composition tile, a commercial floor product, is 85 percent limestone filler. Limestone is an inert mineral that is readily available and presents no environmental hazards. The manufacturing process produces little physical waste, with in-process scrap being recycled back into the product. These floors are extremely durable, often remaining in use for 30 years.

Our commitment goes beyond Armstrong. We are involved in industry and government organizations that foster environmental stewardship: The U.S. Green Building Council, the Hardwood Forestry Foundation, the American Forests Global Releaf Program, the National Arbor Day Foundation and the American Institute of Architects, where we helped develop a continuing education course on evaluating environmental building products. ■

The voices of Armstrong in the community

The voices of Armstrong employees can be heard in communities all around the world.

In early 2003, Armstrong joined Business Strengthening America, a peer-to-peer effort to mobilize the business community in a campaign to encourage civic engagement and service. Many Armstrong faces and places eagerly responded to the Company's renewed emphasis on volunteering and civic responsibility.

■ This past year, Armstrong employees built five KaBOOM! playgrounds nationwide. Volunteers came from the cabinet plant in Morristown, Tennessee; the Bruce® hardwood floor plant in Center, Texas; the ceiling plant in St. Helens,



Oregon; the resilient tile plant in Kankakee, Illinois; and the Armstrong management team in Lancaster, Pennsylvania.

■ Armstrong employees at all U.S. locations generously support the United Way annual campaign and volunteer their time for "Days of Caring" service projects.

■ For the second consecutive year, ceiling plant employees in Macon, Georgia, helped repair homes of low-income, elderly or disabled homeowners through the Rebuilding Together Christmas in April community project.

■ In Teesside, England, employees at the sheet flooring plant raised funds to supplement the Company's charitable contributions, extending support to the local police, fire brigade, hospitals, hospices, children's home, schools and cancer charities.



■ At the ceiling plant in Münster, Germany, several employees work for local emergency response teams. Volunteers help out at the German life-rescue organization, Deutsche Lebensrettungs Gesellschaft, and one is chief of the volunteer fire brigade.

The entire range of causes our employees support are as diverse as the people and towns of our entire Armstrong family. ■

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Corporate Address

Armstrong Holdings, Inc. &
Armstrong World Industries, Inc.
2500 Columbia Avenue
P.O. Box 3001
Lancaster, PA 17604.3001
Telephone 717.397.0611
www.armstrong.com

Transfer Agent & Registrar for Common Stock

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10007

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Investor Relations

Shareholders and other members of the investment community with questions about Armstrong should address them to:
Investor Relations
Armstrong Holdings, Inc.
2500 Columbia Avenue
P.O. Box 3001
Lancaster, PA 17604.3001
Telephone 717.396.6144
You may access or order, without cost, a copy of Armstrong Annual Report or the Company's 2003 Report on Form 10-K through www.armstrong.com. For inquiries concerning shareholder records or ordering printed reports by telephone, call:

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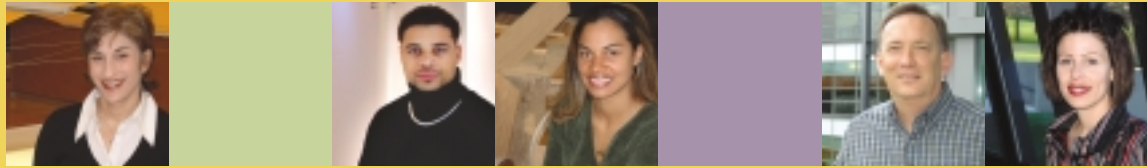
This book is printed on chlorine-free paper and is recyclable.

Advisory to Investors

Before you make any investment decision, you can help protect yourself by being an educated investor. If you are interested in Armstrong securities, we recommend that, at a minimum, you read our latest Forms 10-K, 10-Q, 8-K and other reports to and filings with the SEC. Materials filed with the SEC are available through the Web site <http://www.sec.gov>, and more recent materials are accessible through our Web site www.armstrong.com or by contacting our Investor Relations Office. It is also advisable to learn more about us and our industry through a variety of public materials. Chapter 11 related information and certain documents filed with the Bankruptcy Court are available through the Web site www.armstrongplan.com.

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Actual results could differ materially as a result of known and unknown risks and uncertainties and other factors disclosed in our recent periodic reports to the SEC. These include the outcome of Armstrong World Industries, Inc.'s Chapter 11 case; legislation that may affect our liabilities; our ability to maintain financial liquidity; our asbestos-related liability and any other litigation; variations in raw material and energy costs; our success in achieving manufacturing efficiencies and price increases; our success in introducing new products; product and price competition caused by factors such as worldwide excess industry capacity; interest, foreign exchange and effective tax rates; success in achieving integration of and synergies from our acquisitions; greater than expected working capital requirements; business combinations among competitors and suppliers; the strength of domestic and foreign end-use markets; effects on international operations from changes in intellectual property protection and trade regulations. Risks, uncertainties and factors other than those listed here could also affect the Company.

For additional information, see the discussion in Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Litigation and Related Matters sections in the Company's 2003 Annual Report on Form 10-K. Additional information on matters that could affect the Company's financial results is included in its 2003 Annual Report on Form 10-K as well as other recent reports on Forms 10-Q and 8-K filed with the SEC. We undertake no obligation to update any forward-looking statements.





Your ideas become reality™

ARMSTRONG WORLD INDUSTRIES, INC.
2500 COLUMBIA AVE., P.O. BOX 3001
LANCASTER, PA 17604-3001
www.armstrong.com