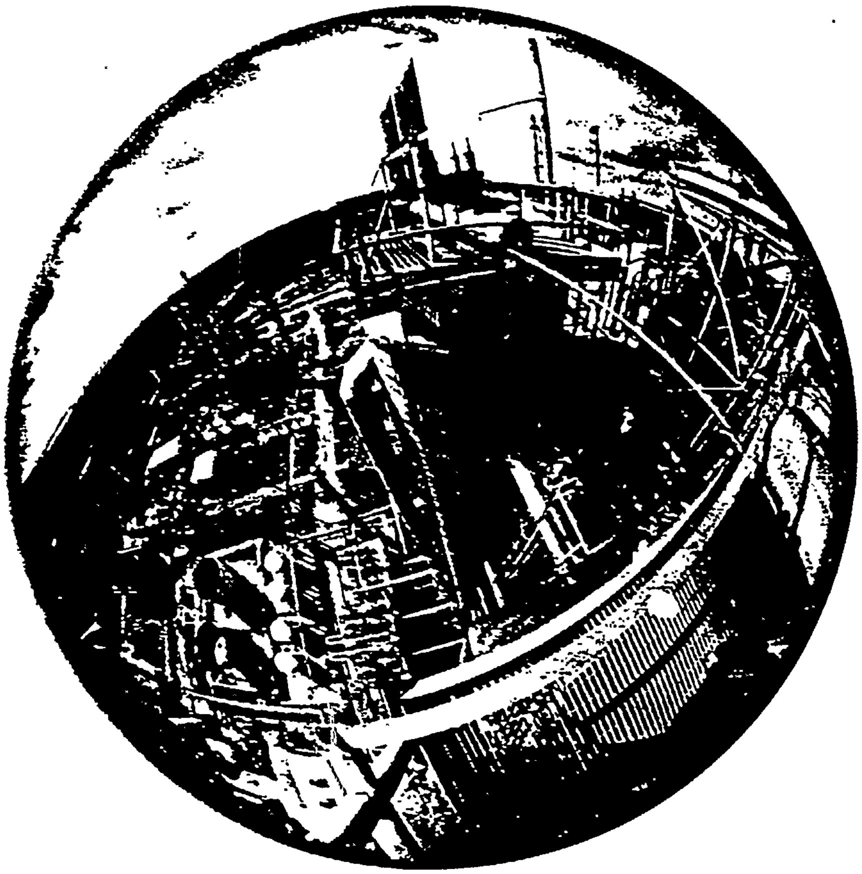
KOPPERS 1966 ANNUAL REPORT



"... we are adding manufacturing capacity to take full advantage of Koppers leadership potential in rapidly growing markets ..."

Notes to Financial Statements December 31, 1965

1. *Principles of consolidation*

The consolidated statements include the accounts of the Company, all of its wholly-owned subsidiaries and the Company's 50% share of the assets and liabilities and income and expenses of Sinclair-Koppers Company, a partnership organized January 2, 1965 by the Company and Sinclair Petrochemicals, Inc., a subsidiary of Sinclair Oil Corporation.

Based upon the latest available financial statements, in some instances as yet unaudited, the Company's equity in the net assets of non-consolidated subsidiaries and 50% owned companies at December 31, 1965 exceeds the carrying value of the Company's investment therein by approximately $1,500,000. The Company's equity in the net income of these Companies for 1965 amounted to $1,802,000 and dividends of $7,142 were received and taken into consolidated income.

On March 31, 1965 the business and net assets of U. S. Plastic & Chemical Corporation were acquired in exchange for Company common shares. The transaction has been accounted for as a pooling of interests and accordingly the results of the acquired business from January 1, 1965 are reflected in the consolidated financial statements. Results for the year 1964 have not been restated for the pooling of interests since the effect is not material. The $1,877,923 excess of the cost of 42,944 treasury common shares issued and 21,470 shares issuable in 1966 over the amounts paid-in for the capital stock of the acquired company has been charged to capital in excess of par value. Under the acquisition agreement up to 64,414 additional shares of the Company's common shares may be issued to the former shareholders of U. S. Plastic & Chemical Corporation dependent upon the earnings of the acquired business during the five years ended December 31, 1969.

2. *Pension plans*

The Companies' contribution under their several trusteed pension plans amounted to $3,000,000 in 1965 including $700,000 for past service costs and interest thereon.

The unfunded past service costs under all plans at December 31, 1964 approximated $8,500,000 which reflected a reduction of $7,700,000 as the result of the recognition in 1964 of appreciation in the common stock investments in one of the trust funds. In 1965 at the direction of the Company, the Trustee sold a sufficient number of common stock investments to realize the $7,700,000. If payments on unfunded past service costs continue at the rate of $700,000 per year as was paid in 1965, the unfunded past service liability of $7,500,000 for all plans as they presently exist will be completely funded in fourteen years.

3. *Income taxes*

The Company provides deferred income taxes for the excess of guidelines depreciation claimed for tax purposes over book depreciation, estimated taxes payable upon eventual transfer of earnings of consolidated foreign subsidiaries to the parent company, and deferred compensation. In the balance sheet the provisions for the first two items are included in deferred taxes and the provision for the latter item is netted against the related liability account.

4. *Notes payable to banks*

Under the Bank Credit Agreement the Company has agreed not to pay cash dividends or make other distributions on common stock except from consolidated income after December 31, 1962, plus $7,500,000 and to maintain consolidated net current assets of at least $50,000,000. At December 31, 1965, consolidated net current assets amounted to $92,817,750. Of $85,130,527 consolidated earnings retained in the business at December 31, 1965, $67,256,652 was not available for cash dividends on common stock under the dividend restriction. Interest on the notes is at the "prime rate" in effect at the beginning of each fiscal quarter and at December 31, 1965 was 4½%.

Under the Agreement the notes outstanding on November 1, 1966 can be converted into term notes, 50% of which will be payable in nine semi-annual installments commencing May 1, 1967 and the balance on November 1, 1971.

5. *Inventories*

Inventories aggregating $4,549,592 are stated at cost on a last-in, first-out basis which is less than current replacement cost. All other inventories are stated at the lower of average cost or market.

6. *Stock option plan*

During 1965 under the Company's stock option plan for officers and key employees, options on 1,000 shares were granted, options on 2,700 shares were terminated, and 21,750 shares were issued from treasury stock on exercise of options at prices ranging from $34 to $61 per share. At December 31, 1965, options covering 47,050 shares were outstanding and 39,420 shares were available for future grants at 100% of market value at date of grant.

Options granted prior to January 1, 1965 were at 95% of market value at dates of grant and the 1965 option was at 100% of market on date of grant. Options granted prior to January 1, 1965 are exercisable over a period of seven years from dates of grant and the option granted in 1965 is exercisable over a five year period from date of grant. The $103,718 excess of cost of treasury stock over the proceeds resulting from exercise of options during the year was charged to capital in excess of par value.

7. *Commitments and contingencies*

The 1966 rentals on properties operated by the Companies under long-term leases will amount to approximately $1,700,000. In addition, the Companies are required to pay taxes, insurance, repairs and maintenance and alterations under certain of the leases.

The unexpended balance of open fixed asset expenditure authorizations at December 31, 1965 amounted to $31,047,066.

The Company has guaranteed $5,725,000 indebtedness of 50% owned companies and other corporations.

The Company is defendant in a civil action in which the plaintiffs allege breach of a management assistance contract and are seeking damages in a substantial amount. The Company and its legal advisors believe the suit to be without merit.

Consolidated Balance Sheet December 31, 1965 and 1964 (See accompanying notes.)

Liabilities

	1965	1964
Current liabilities:		
Federal income tax	$ 2,137,403	$ 4,087,573
Other accrued taxes	3,386,007	3,257,372
Accounts payable and accruals other than taxes	37,917,667	28,488,014
Advance payments received on contracts	3,084,158	3,358,056
Term debt due within one year	872,218	481,401
Total current liabilities	47,397,453	39,672,416
Term debt due after one year:		
Notes payable to banks due November 1, 1966 (Note 4)	30,000,000	27,000,000
Other	4,251,686	1,051,758
	34,251,686	28,051,758
Deferred compensation (Note 3)	1,367,956	1,278,338
Deferred income taxes (Note 3)	7,027,163	5,205,447
Total liabilities	90,044,258	74,207,959

Stockholders' Equity

	1965	1964
Cumulative Preferred Stock, $100 par value:		
Authorized 300,000 shares; issued 150,000 shares, 4% Series	15,000,000	15,000,000
Common Stock, $10 par value:		
Authorized 3,000,000 shares; issued 2,317,594 shares (Note 6)	23,175,940	23,175,940
Capital in excess of par value (Notes 1 and 6)	47,511,233	49,492,874
Earnings retained in the business (Note 4)	85,130,527	78,174,173
	155,817,700	150,842,987
Less Common Stock held in treasury:		
21,470 shares issuable in 1966 as part of consideration for company acquired in 1965 (Note 1)	—	—
Other shares, at cost (42,798 shares at December 31, 1965)	2,498,956	4,080,969
Common stockholders' equity	153,318,744	146,762,018
Total preferred and common stockholders' equity	168,318,744	161,762,018
	$258,363,002	$235,969,977

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Financial Statements

Koppers Company, Inc. and Consolidated Subsidiaries

Five Year Financial Highlights

(All figures in thousands, except per-share information and number of stockholders)

	1965	1964	1963	1962	1961
Revenue from sales and other income	$373,808	$336,871	$295,158	$305,696	$274,446
Income before income taxes	$19,391	$18,452	$14,154	$13,823	$12,952
Income taxes	$7,339	$8,502	$6,872	$5,998	$6,231
Net income	$12,052	$9,950	$7,281	$7,825	$6,721
Earnings per share of common stock outstanding at year end	$5.03	$4.21	$3.01	$3.21	$2.67
Dividends declared and paid, per share of common stock	$2.40	$2.40	$2.00	$2.00	$2.00
Total of all taxes	$14,124	$14,639	$12,685	$11,557	$11,666
Taxes per share of common stock	$6.21	$6.59	$5.72	$5.14	$5.08
Number of shares of common stock outstanding at year end	2,275	2,222	2,219	2,248	2,296
Number of stockholders at year end	15,606	16,143	15,778	16,267	16,394
Earnings retained in the business	$6,057	$4,002	$2,219	$2,682	$1,526
Gross addition to fixed assets and investments	$29,[illegible]	$14,969	$17,980	$13,125	$21,268
Net book value of land, buildings, equipment and timberlands	$84,304	$87,466	$87,545	$87,923	$92,405
Term debt due after one year	$34,252	$28,052	$22,738	$29,665	$31,031
Wages, salaries and pension expense	$102,[illegible]	$89,324	$83,290	$82,626	$83,301
Materials, supplies and services	$233,438	$209,696	$177,865	$190,234	$159,102
Working capital at year end	$92,818	$81,541	$71,449	$78,332	$73,775
Book value per share of common stock at year end	[illegible]	$66.05	$64.44	$63.19	$61.52

Koppers Company, Inc., and Consolidated Subsidiaries

Consolidated Balance Sheet December 31, 1965 and 1964 (See accompanying notes.)

Assets

	1965	1964
Current assets:		
Cash	$ 7,993,572	$ 8,643,806
Accounts receivable less allowance of $446,639 for doubtful accounts in 1965	77,425,673	59,866,131
Inventories (Note 5):		
Product inventories including work in process	43,842,010	40,833,951
Raw materials and supplies	9,422,957	9,669,333
Prepaid insurance and taxes	1,530,991	2,200,166
Total current assets	140,215,203	121,213,387
Investments at cost less reserve:		
Investments in non-consolidated subsidiaries and 50% owned companies (Note 1)	9,641,613	11,550,098
Other investments (Current value at December 31, 1965—$11,249,000)	7,895,524	6,226,281
Notes and accounts receivable due after one year	13,845,661	7,987,997
	31,382,798	25,764,376
Fixed assets, at cost:		
Buildings and equipment	220,337,444	232,514,630
Less accumulated depreciation	143,178,412	152,833,036
	77,159,032	79,681,594
Standing timber and timberlands, less accumulated depletion	1,471,576	2,010,529
Land	5,673,049	5,773,733
Intangible assets, less amortization	2,180,865	1,141,257
	86,484,522	88,607,113
Deferred charges	280,479	385,101
	$258,363,002	$235,969,977

Consolidated Statement of Income & Earnings Retained in the Business

Years ended December 31, 1965 and 1964 (See accompanying notes.)	1965	1964
Net sales	$371,009,872	$334,817,069
Operating expenses (Note 2):		
Cost of sales	295,759,153	261,287,111
Depreciation and depletion	10,436,809	11,918,007
Taxes, other than income taxes	6,785,427	6,137,700
Selling, research, general and administrative expenses including special research charge in 1965	40,329,085	37,733,032
	353,310,474	317,075,850
Operating profit	17,699,398	17,741,219
Other income:		
Dividends (Note 1), interest, etc.	957,776	1,281,165
Profit on sales of capital assets, principally timber properties	1,840,040	647,712
Miscellaneous, net	—	125,043
	2,797,816	2,053,920
	20,497,214	19,795,139
Interest expense	1,106,757	1,343,370
Income before provision for income taxes	19,390,457	18,451,769
Provision for income taxes:		
Federal (Note 3)	6,568,376	7,675,124
State and foreign	770,554	826,627
	7,338,930	8,501,751
Net income for the year	12,051,527	9,950,018
Earnings retained in the business at the beginning of period	78,174,173	74,171,847
Earnings retained in the business of acquired company at January 1, 1965 (Note 1)	899,630	—
	91,125,330	84,121,865
Cash dividends paid:		
On preferred stock, $4.00 per share	600,000	600,000
On common stock, $2.40 per share	5,394,803	5,347,692
	5,994,803	5,947,692
Earnings retained in the business at end of period (Note 4)	$85,130,527	$78,174,173
Shares of common stock outstanding at year end	2,274,796	2,222,032
Net earnings per share of common stock	$5.03	$4.21

Domestic and Foreign Affiliated Organizations*

DOMESTIC

[illegible]
[illegible]

[illegible]
[illegible]

[illegible]
[illegible] Rupp, President

[illegible] Koppers Company [illegible]
[illegible] Meeney, President

National Plastics Company
[illegible] Koppers Company
Paul Ahlbrandt, President

Sinclair-Koppers Company
C. E. Brown, President

U. S. Plastic & Chemical Corporation
[illegible] C. Richman, President

[illegible] Molded Fiber Glass Corporation
[illegible] O'Connell, President

FOREIGN

Arranona, S. A.—Barcelona, Spain
D. Francisco Enrich Vals, Chairman

[illegible] Brasileira de Plasticos Koppers—São Paulo, Brazil
[illegible] Azevedo Silva, President

[illegible] de Madera de Guatemala, S. A.
Maderas del Norte, S. A.
Guatemala City, Guatemala
[illegible] Rose, General Manager

[illegible] Petroquimicas Argentinas Koppers, S. A.
Buenos Aires, Argentina
Francisco Masuan, President

[illegible] y Construccion Sigdo Koppers, S. A.
Santiago, Chile
Andres Donoso Larrain, General Manager

[illegible] Engenharia e Montagens Industriais, S. A.
São Paulo, Brazil
Paulo F. [illegible], Director Presidente

* [illegible] has an interest of 50 per cent or more

Report of Certified Public Accountants

ARTHUR YOUNG & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

[illegible]
[illegible]

The Board of Directors and Stockholders
Koppers Company, Inc.

We have examined the accompanying consolidated balance sheet of Koppers Company, Inc. and consolidated subsidiaries at December 31, 1965 and the related consolidated statement of income and earnings retained in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Koppers Company, Inc. and consolidated subsidiaries at December 31, 1965 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

Pittsburgh, Pennsylvania
January 21, 1966

Transfer Agents

Mellon National Bank and Trust Company
Mellon Square, Pittsburgh, Pa. 15230

Bankers Trust Company
[illegible] Wall Street, New York, N. Y. 10015

Harris Trust and Savings Bank
[illegible] W. Monroe Street, Chicago, Ill. [illegible]

Stock Registrars

Pittsburgh National Bank
P. O. Box 746, Pittsburgh, Pa. 15230

Morgan Guaranty Trust Company of New York
140 Broadway, New York, N. Y. [illegible]

Continental Illinois National Bank
and Trust Company of Chicago
[illegible] South LaSalle Street, Chicago, Ill. [illegible]

Dividend Disbursing Agent

Mellon National Bank and Trust Company
Mellon Square, Pittsburgh, Pa. 15230

Divisional and Departmental Vice Presidents

[illegible]

[illegible]

[illegible]

[illegible] DURFEES(?)
[illegible] Division

ROBERT T. EAKIN
Engineering and Construction Div.

[illegible]
Engineering and Construction Div.

[illegible] F. HALEY, Manager
Traffic and Transportation Dept.

MAX C. HANISCH
[illegible] Products Division

[illegible] A. HARTZELL
Engineering and Construction Div.

JOHN H. HAUSER
Tar and Chemical Division

W. B. JACKSON
Tar and Chemical Division

A. E. JONES, Manager
Procurement Department

NICHOLAS KAY
Metal Products Division

W. EUGENE [illegible], Manager
Industrial Relations Department

DONALD MacARTHUR
Washington Office

[illegible] C. MACON, JR.
Tar and Chemical Division

P. M. MARTIN
Engineering & Construction Div.

PAUL C. McCONNAUGHEY
Tar and Chemical Division

E. J. McGEHEE
Forest Products Division

CARL H. POTTENGER
Director of Research

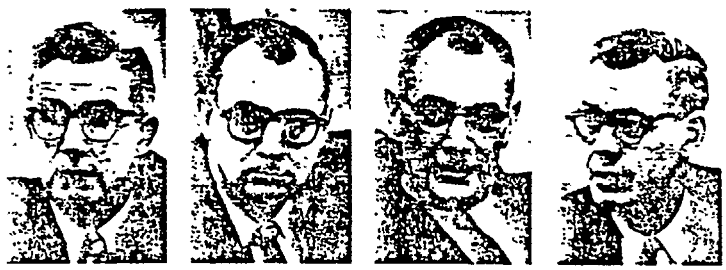
I. D. RICE
Engineering & Construction Div.

FRED W. RYS
Engineering & Construction Div.

FRANK B. VARGA
International Operations

B. OTTO WHEELEY, Manager
Marketing Department

R. G. WILSON
Engineering & Construction Div.



[illegible] · William B. Jackson · Alfred E. Jones · Jack D. Rice

Four executives assumed new positions of responsibility during 1965:

ARTHUR W. [illegible] joined Koppers as Vice President, Executive Department. With extensive experience in management, marketing and communications, his responsibilities will extend over a broad range of corporate interests and relationships. Mr. [illegible] was Executive Vice President of [illegible] incorporated, a leading [illegible] communications firm, before coming with the Company.

WILLIAM B. JACKSON was named a Vice President in the Tar and Chemical Division. He will continue to serve as Manager of Operations of the Division, a position which he has held [illegible]. Mr. Jackson has been with [illegible] chemical operations [illegible] past 22 years.

ALFRED E. JONES was appointed Vice President and Manager of Procurement for the Company. He had been Assistant Manager since 1960. Mr. Jones has been associated with nearly every phase of Koppers purchasing activities since he joined the Company in 1941.

JACK D. RICE was assigned to the newly-established position of General Sales Manager of the Engineering and Construction Division. He previously was Manager of Procurement for the Company and has been closely associated with the purchasing aspects of Koppers engineering and construction business for a number of years. He has been with the Company since [illegible] and a Vice President since [illegible].

[illegible]

Company Vice Presidents

HARRY B. CUMMINGS
General Manager
Metal Products Division

DOUGLAS GRYMES, JR.
General Manager
Forest Products Division

[illegible] DENNY
General Manager
Engineering and
Construction Division

JOHN D. JONES
Associated Operations

[illegible] D. LEYNON(?) JR.
Corporate Growth
Planning

T. C. KEELING, JR.
Director in Charge,
International Operations

JOHN E. SPEARS
Treasurer

[illegible]

All were deeply saddened by the death in December of Robert [illegible] who retired earlier in 1965 as Executive Vice President of Koppers. During his 42 years with the Company, Mr. [illegible] in addition to [illegible] corporate responsibilities served as General Manager of [illegible] largest operating units. He joined the Company's [illegible] in 1923 and rose to the [illegible] President in 1944 and General Manager of the then Tar Products Division in 1955. In 1958 Mr. [illegible] was elected an Executive Vice President of the Company, and four years later he also undertook the [illegible] General Manager of the then Plastics [illegible] during his years of operating management [illegible] to bear on a highly important sector of the [illegible]

Koppers Company, Inc.

Richard K. Mellon

Richard K. Mellon retired from the Board of Directors during 1965, concluding nearly 35 years of participation in the direction of Koppers affairs. His personal involvement and valued counsel have contributed immeasurably to the Company's development during this period. General Mellon, Chairman of the Board of the Mellon National Bank and Trust Company, has withdrawn from a number of business [illegible] recently in order to reduce the number of his direct responsibilities and to give younger men the opportunity to demonstrate their abilities in senior positions.

Board of Directors

JOSEPH BECKER
Former Vice President
Koppers Company, Inc.

VANCE BRAND
President, International
Investment Co.

STANLEY N. BROWN
Former Vice President
Koppers Company, Inc.

FLETCHER L. BYROM
President
Koppers Company, Inc.

FRED C. FOY
Chairman of the Board
Koppers Company, Inc.

CURTIS E. JONES
Vice President, Mellon
National Bank and Trust Company

T. C. KEELING JR.
Vice President
Koppers Company, Inc.

ANDREW W. MATHIESON
T. Mellon and Sons

ROBERT H. McCLINTIC
Chairman of the Board
Gordon Lubricating Company

ROBERT S. OELMAN
Chairman of the Board
National Cash Register
Company

NATHAN W. PEARSON
Vice President and
Governor, T. Mellon and Sons

O. P. THOMAS
President
Sinclair Oil Corporation

ARTHUR B. VanBUSKIRK
Vice President and
Governor, T. Mellon and Sons

O. P. Thomas

Andrew W. Mathieson

Two new directors were elected to Koppers Board of Directors in 1965.

O. P. THOMAS, President of Sinclair Oil Corporation, joined the Board in January. He is also a member of the [illegible] of the Sinclair [illegible] Company.

ANDREW W. MATHIESON, of T. Mellon and Sons, was named to the Board in June. Mr. Mathieson was previously with the Westinghouse Electric Corporation.

Walter P. Arnold

It is with deep regret that we report the death in December of Walter P. Arnold, Director and Executive Vice President of the Company. Mr. Arnold's career closely paralleled the development and growth of the present Koppers Company and his unexpected death preceded by only a few hours the planned presentation of his 40-year Koppers Service Emblem. Mr. Arnold's early service with Koppers included a number of positions of increasing responsibility in the then Wood Preserving Division. He was named Vice President in 1951 and General Manager of the Division the following year. Mr. Arnold was appointed Executive Vice President of the Company in 1958, and was elected to the Board in 1960. For the past three years he had served on the Corporate Growth Planning Group.

The Philosophy of Koppers

"These, then, are the major ground rules that we are currently using in the conduct of Koppers business.

"Recognizing that each company has its own individual problems and opportunities, we feel that the philosophy outlined in this Report is appropriate for Koppers at this stage in our corporate development.

"This operating philosophy is not a rigid thing, though, and we will not hesitate to alter or adapt it in response to changing conditions.

"However, for the present, we are convinced of the basic soundness of our current philosophy and the Company's progress over the past several years has reinforced this conviction.

"We expect Koppers performance through the remainder of this decade and in the 1970's to provide tangible evidence in support of our present optimism."

Fred C. Foy, Chairman

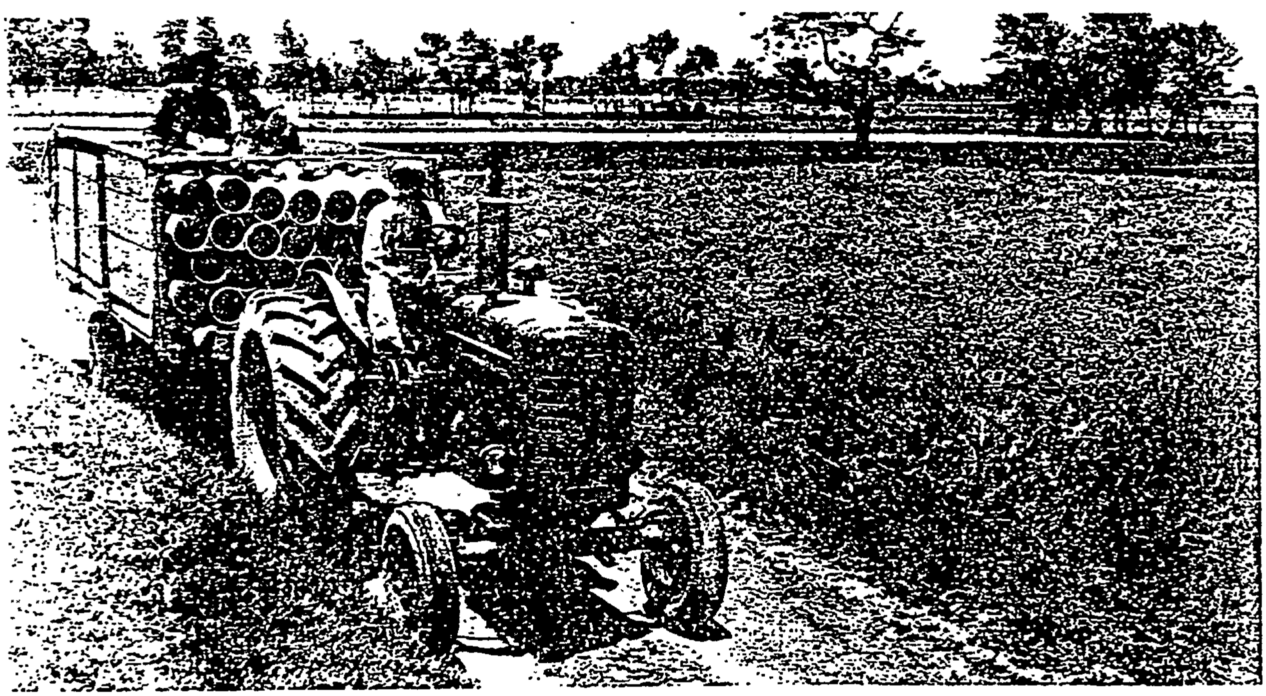
F. L. Byrom, President

We currently have large engineering and construction projects under way in the Philippines, Australia, Spain, and Chile. Seven additional projects are under consideration in various other countries around the globe.

We have seven manufacturing facilities located outside the United States, and two engineering and construction affiliates. These are jointly owned with local interests in the host countries, and they generally utilize Koppers experience and know-how.

Three of the manufacturing affiliates are chemical and plastics operations, three are wood-treating plants and one is a cement manufacturing unit. We plan further expansion of our overseas manufacturing capabilities.

The export sale of products manufactured in our plants in the United States has increased nearly 40 per cent since 1960. Exported products include chemicals, plastics, reinforced plastics, treated wood, tar-based chemicals and coatings, and couplings and container machinery.



HYSTRAN reinforced plastic pipe is delivered to a job site in the Middle East. The pipe is being used as well casings in a huge land reclamation project.

Each corporate action, each expansion and each proposed new Koppers product must be viewed in the light of world competition, resources, and markets.

In the last decade we have become increasingly involved in world markets. This trend will continue, as we successfully define the needs of overseas markets and determine which of these needs can be met by a Koppers product or process.

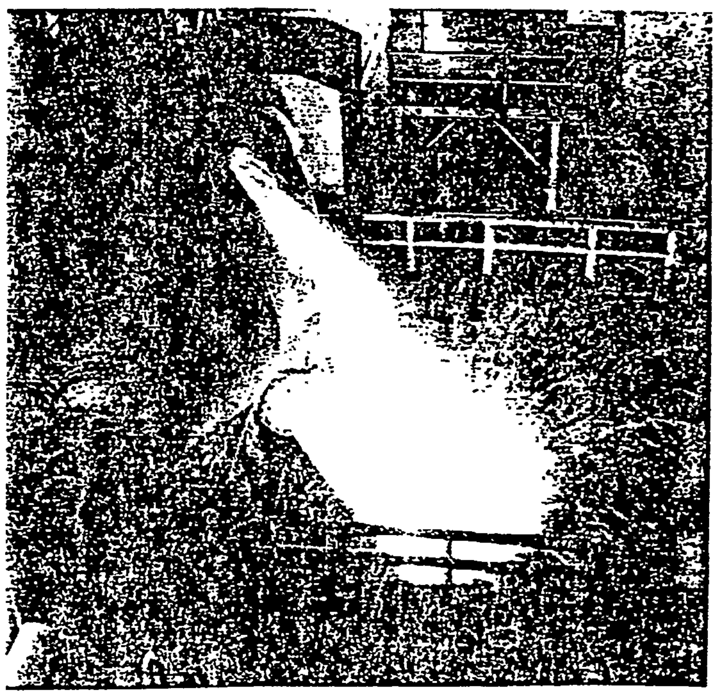
We regard our overseas business as a definite area of future growth, and one that will become progressively more important in future years.

Some of our most noteworthy overseas operations thus far have been in the design and construction of integrated steel plants and of specific steel plant units.

The large integrated steel plant at Eregli, Turkey, discussed at some length in our 1964 Annual Report, was completed early in 1965 and was formally dedicated in May. Production is increasing steadily, and we are targeted to bring the plant up to capacity over the next two years.

Below, left: Suleyman Demirel, at right—then Deputy Prime Minister, since elected Prime Minister of Turkey—and Fred C. Foy, standing in center, participate in planting a "tree of friendship" at the dedication of the new Eregli steel plant.

Below: Molten iron is transferred into a waiting ladle before being refined in Eregli's BOF steelmaking shop.



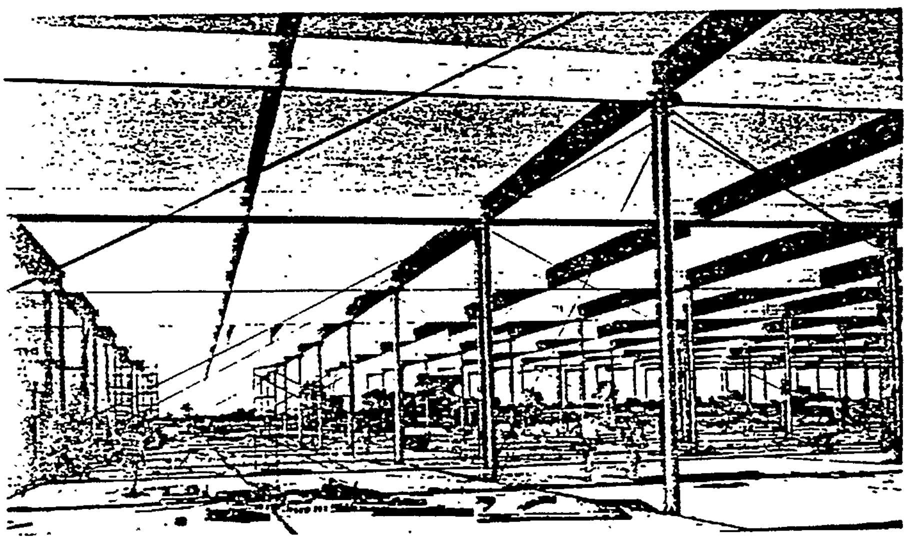
[illegible] a successful switch in marketing emphasis [illegible] Koppers foam-core BUILDING PANELS [illegible] potential markets for these panels, we launched an experimental effort to penetrate the home construction field.

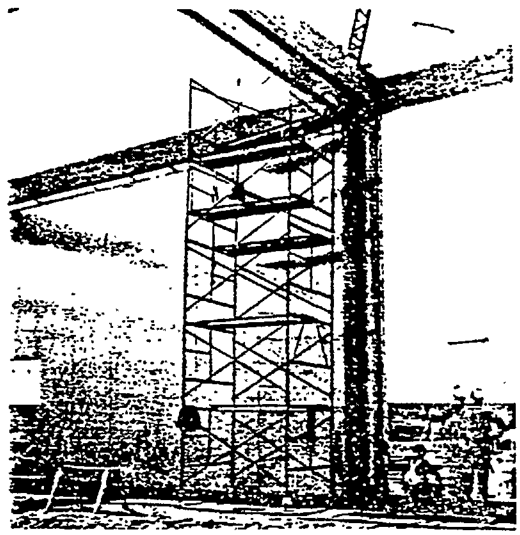
We found that while the panels were satisfactory from the standpoint of quality and cost, the residential market was just not ready to accept this abrupt departure from conventional home-building methods.

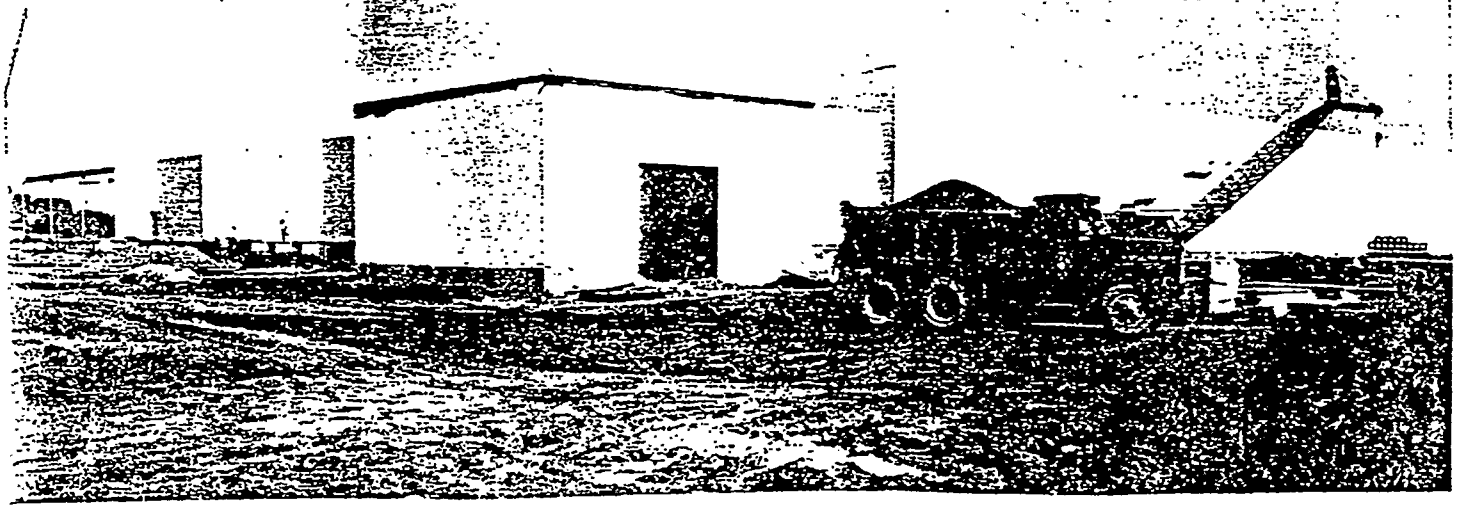
Therefore, in 1962 we turned our attention to refrigerated storage construction, where the high insulating value and ease of erection of the Koppers panels helped them find ready acceptance. Since that time over 500 cold storage structures have utilized Koppers BUILDING PANELS.

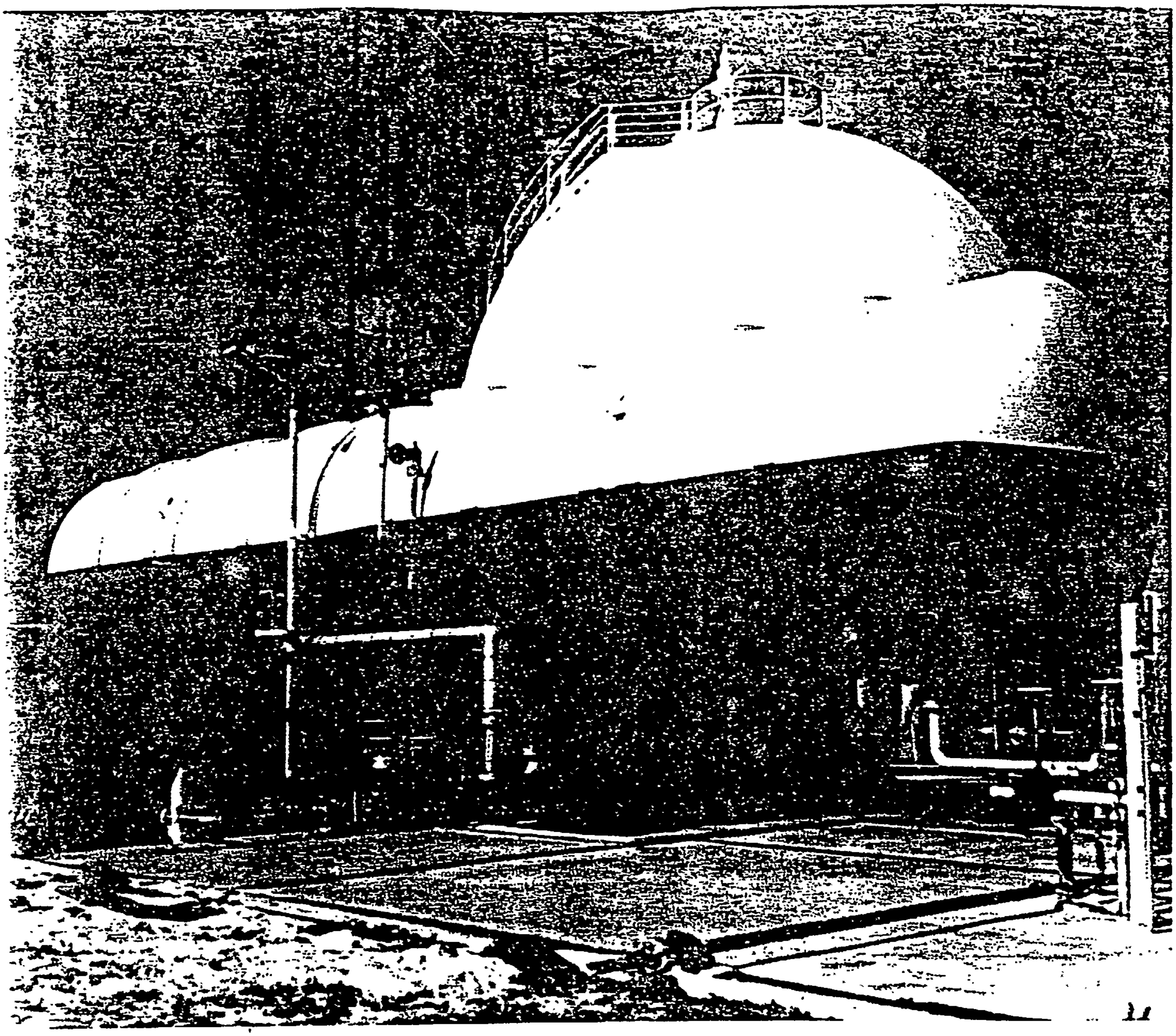
More recently Koppers BUILDING PANELS were introduced into the market for structures and rooms where complete control of the environment—temperature, humidity, contamination—is important. The use of these "clean rooms" in aerospace work and in practically every segment of industry is expanding rapidly.

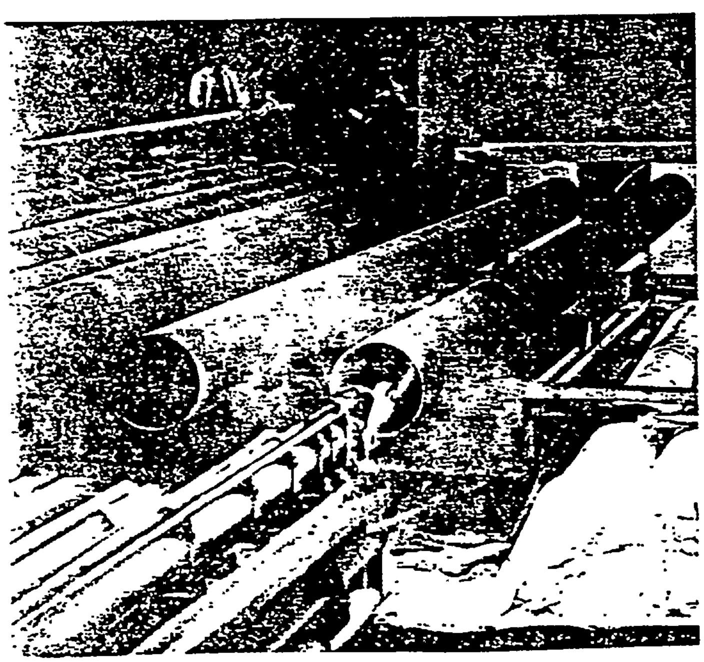
This huge cold storage warehouse (shown below in varying stages of construction) was built in slightly over three months using Koppers BUILDING PANELS in the wall construction and UNIT beams and columns in the framing system. The 3.3 million cubic foot facility, operated by the March Cold Storage Corporation of Indianapolis, will maintain temperatures from −35°F to −40°F.

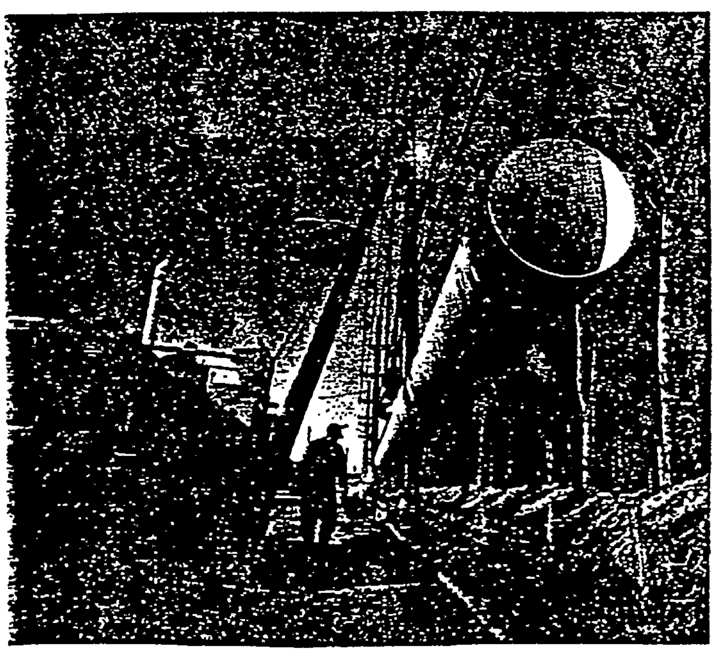












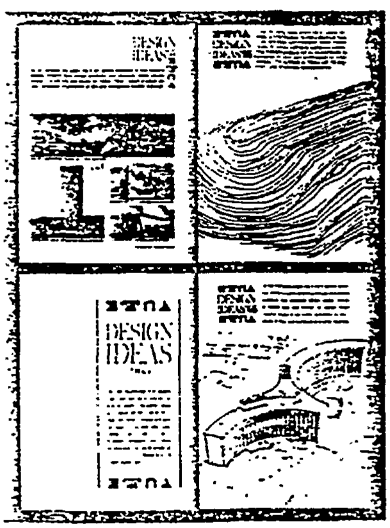
Our forward planning is based heavily on fulfilling expressed or implied requirements of customers, and on unique product and process advantages or proprietary know-how we can bring to bear on meeting present and future needs...."

For a great number of years Koppers has been known for its technical capabilities, and for products that are dependable, efficient and of high quality. With the accelerating changes in technology over the past generation, and with the increase in competition for customer attention, it has become apparent that more than just superior products and services are needed to compete effectively in today's marketplace. It is also vitally important to have a keen awareness of the market and its needs, and the ways these needs are to be served. Accordingly, we have worked to establish a well organized, aggressive approach to develop and serve the markets in which we operate.

We have accelerated our approach toward complete market planning, using research techniques not only to study the present and future importance of products within each market, but also to recognize and evaluate the social and economic changes that are taking place among consumers and the national economy.

Organizational changes have been put into effect to take promising developmental projects more rapidly through to a fully commercial stage.

A marketing program directed primarily to architects and engineers has been under way since 1960. The program consists of group presentations to architects and engineers meetings are held each year in 10 key cities throughout the nation backed up by heavy advertising support in



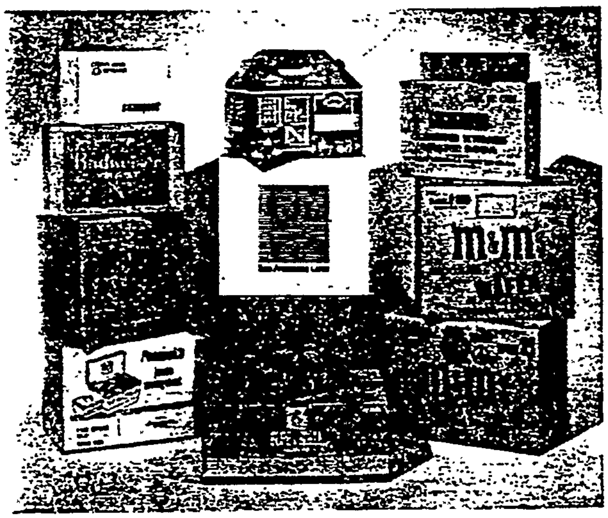
(Above) "Design Ideas" forums provide first-hand information to architects and engineers on the capabilities of Koppers broad range of building products

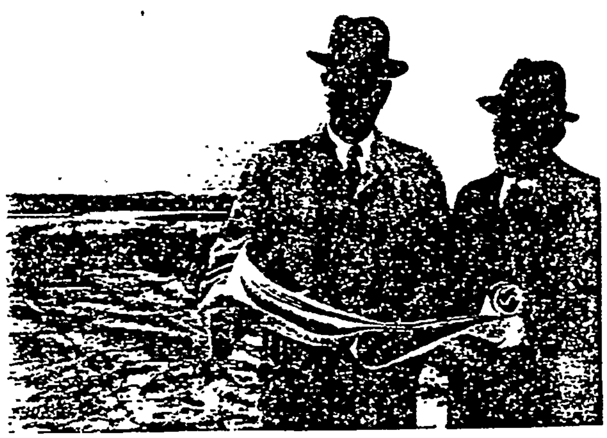
(Left) These presentations are backed up by a series of advertising inserts in leading architectural and engineering publications, and direct mailings to the same audience

[illegible] advantage of the opportunity [illegible] markets.

[illegible]

One of the capabilities of the Koppers organization, which has its origin back in the 1920's, is our ability to make highly engineered and precision machined metal products.





Above) Koppers container machinery produces corrugated cartons for many familiar products.

Below: Plans for the world's largest coupling plant are reviewed on-site by H. B. Cummings, left, General Manager, and Nicholas [illegible], Assistant General Manager, Metal Products Division.

[illegible] over the past [illegible] years.

[illegible] we entered the business of designing and [illegible] equipment to [illegible] grind, size, separate and treat minerals such as iron ore, copper, phosphate and limestone. The mining machinery unit achieved a very successful year in 1965, with sales 39 per cent above 1964.

Two firms that were merged into Koppers back in the 1950's—F. X. Hooper Company and George W. Swift, Jr., Inc.—made us a major factor in the fast-growing field of container machinery. This Hooper-Swift unit produces machines to make corrugated board and boxes, to print the boxes, and to fold, slot, and glue them. Our sales of container machinery have developed strongly in recent years.

Our design know-how and ability for precision machining of metal have given us a position of leadership in the design and manufacture of power transmission couplings. These couplings are used in steel plants, paper mills, power plants, ships, in aerospace test and ground support facilities, and in any area of industry where it is necessary to transmit power from one rotating shaft to another.

Our coupling business has experienced substantial growth in the past few years and we are now increasing our production capacity. A new coupling plant is being built a few miles outside of Baltimore and will be the largest coupling manufacturing facility in the world. It will be completed late in 1966.

Another major metal product line—piston and sealing rings—is a good example of a successful adjustment to changing market conditions. While continuing to serve our traditional industrial and aircraft markets for piston rings, we have capitalized on the growing need for small diameter piston rings for diesel engines, and have established a major position in that market. And our sealing rings, used in power systems with difficult sealing problems, have found a growing use in jet aircraft engines since 1963.

In summary, our metal products sales volume—which includes additional products such as precipitators, fans and sound control equipment—rose to a record level of nearly $52 million in 1965. This compares to $31.[illegible] million in 1960 and $22.9 million in 1955.

[illegible] markets. [illegible] where there exists a [illegible] existing products [illegible] markets, raw materials [illegible]

Koppers is presently serving 34 of the 85 industry and consumer classifications established by the U.S. Department of Commerce. Probably few other American firms are moving goods into this many markets.

We question the wisdom of broadening our span of activity into totally new and unrelated areas. We do feel that our present degree of diversification is advantageous, since it provides a degree of insulation against the effects of a sudden technological change or deterioration in any one market, and gives us a springboard for continuing expansion into related fields.

Our strong position in a number of very basic areas—chemicals, plastics, wood, tar, metal products, and engineering and construction—provides an excellent base for further penetration of new and growing markets.

[illegible]

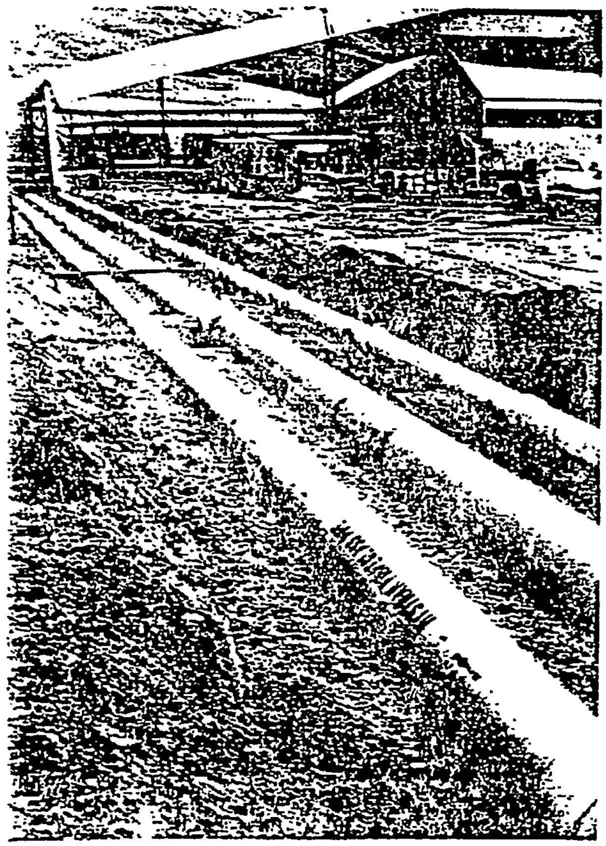
In studying the most advantageous areas for further expansion, we first define the fastest growing end markets. We then determine where in the chain of supply to these markets we operate [illegible].

Here is one example.

[illegible] looked ahead several years ago, it seemed to us that the field [illegible] represented an [illegible] [illegible] uses and [illegible] our chemical technology.

[illegible]

[illegible] pipe early in 1965 has transformed Lamtex from essentially a military supplier to an operation serving promising commercial markets. We now see further rapid growth for HYSTRAN pipe, which combines a high strength-to-weight ratio, ease of handling, and a strong resistance to corrosion.

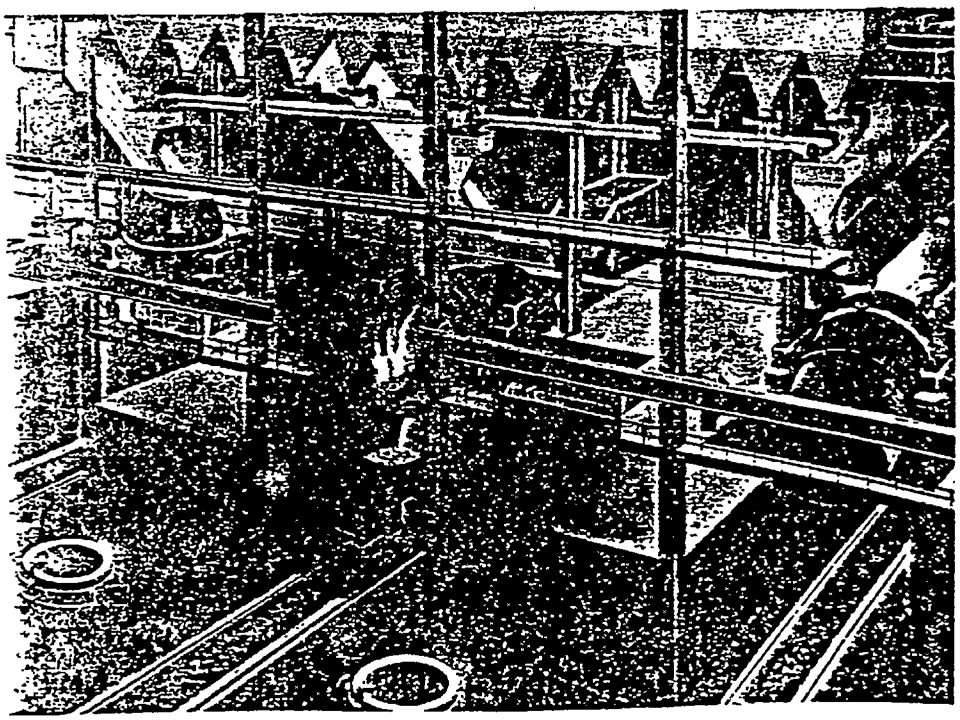


HYSTRAN pipe withstands extreme corrosive conditions as it [illegible] waste water with high acid content from a [illegible] to a nearby treating pond.

Every continuous casting machine designed and built by Koppers to date is in full-time commercial operation. These units are successfully casting over 100 different grades of steel.

Koppers built the first three-strand machines in North America for Lake Ontario Steel Company Ltd. (LASCO) at Whitby, Ontario (above). The two LASCO machines cast more than 4,000 heats (over 200,000 tons) of steel during 1965.

Artist's conception of the 3-vessel basic oxygen steelmaking shop to be built for Jones & Laughlin Steel Corporation at Aliquippa, Pa.



Banner Year For New Construction Orders

Major engineering and construction contracts received during the year included:

Basic Oxygen Furnace (BOF) Plants

A 3-vessel oxygen steelmaking shop will be designed and built for Jones & Laughlin Steel Corporation at Aliquippa, Pennsylvania. Additional contracts for new BOF facilities were awarded to Koppers by Granite City Steel and by a European steel producer.

Continuous Casting

Four contracts for new continuous casting machines were received from: Keystone Steel & Wire Company (Peoria, Ill.); Laclede Steel Company (St. Louis); Calumet Steel Division of Borg-Warner Corporation (Chicago); and from a steel firm in Europe.

Blast Furnaces

A contract for a new European blast furnace was received. Additional contracts for relining blast furnaces were received from Pittsburgh Steel Company, Granite City Steel Company, and Youngstown Sheet & Tube.

Coke Plants

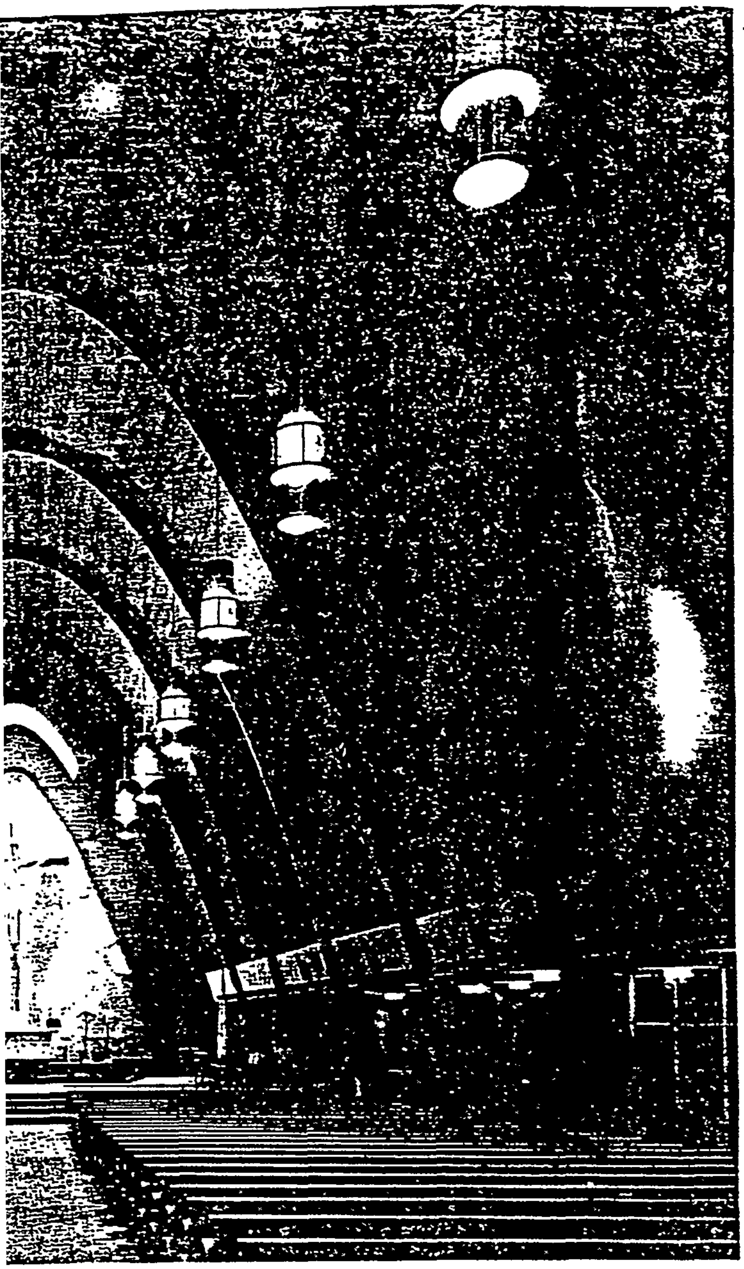
A contract for a new coke plant was received from Dominion Foundries and Steel, Limited (Hamilton, Ontario). Two coke oven rebuilding contracts were awarded to Koppers by Alan Wood Steel Company (Conshohocken, Pennsylvania).

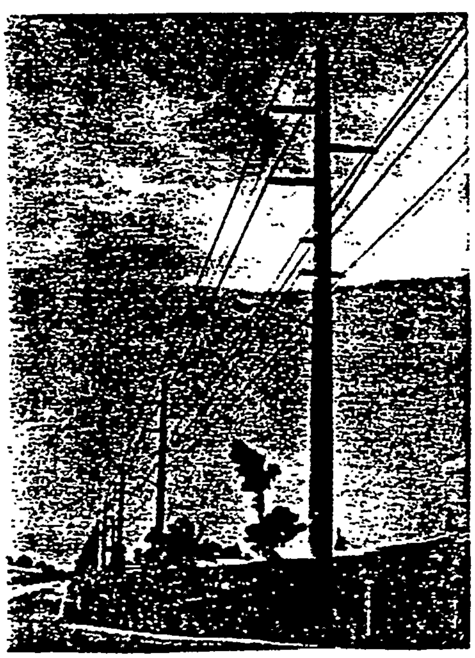
General Construction

Contracts were received for a U.S. Navy communications station in Australia; missile test stands in Mississippi; and a sewage treatment plant in New Jersey.

Chemical Plants

A new polyethylene plant is being designed and built at Port Arthur, Texas, for Sinclair-Koppers Company.





"We are satisfied that each of our major areas of activity has significant potential for future growth. Growth is vital if we are to challenge and stimulate the able executives upon whom we depend for future success...."

Many people think of corporate growth in terms of satisfying gains in sales and earnings. We feel that an equally important reason for growth emphasis is the advantage a growing organization has in attracting and keeping top-flight people.

Growth means additional responsibility. Unless we can challenge our better people by giving them such responsibility, the more aggressive of them will tend to move away to meet situations where their full potential is tested. In that case we would be left with the people who are not going to move anywhere—who are not, in fact, looking for added responsibility or its concomitant opportunities.

Over the past two years we have reviewed all our operations and have satisfied ourselves that each of our existing products, services and each of the markets they serve has a good inherent potential for growth.

We have been successful in positioning the bulk of our sales in growing markets. The opposite chart shows that about 70 per cent of our 1965 manufacturing sales moved into markets that are expected to grow at an average annual rate higher than that of the national economy.

We expect Koppers manufacturing sales to continue to expand, at an average annual rate better than the national economy's growth.

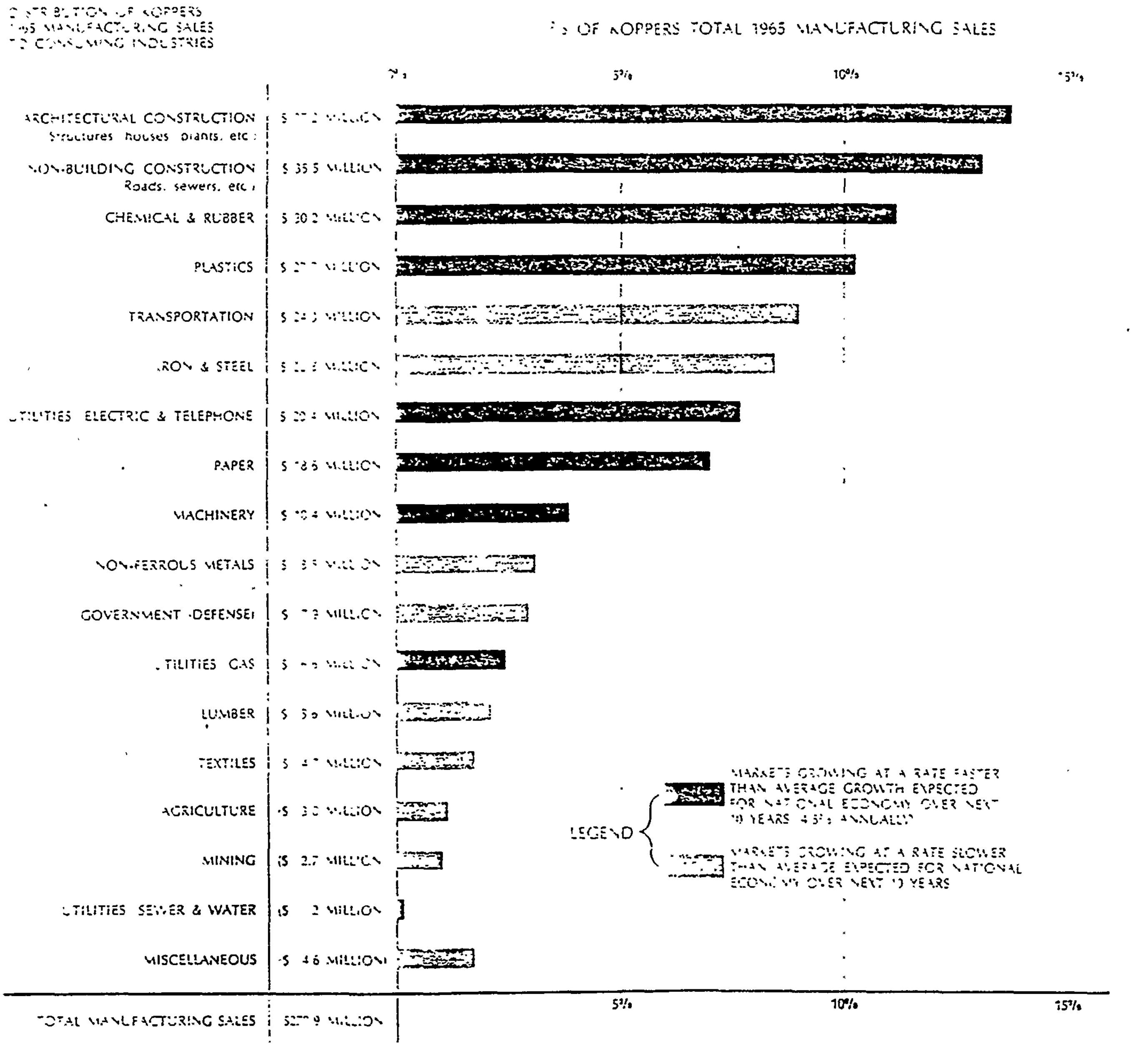
The increase in our manufacturing sales has helped to reduce the proportion of our operations that tends to be somewhat cyclical. The proportion of such operations is not major in terms of our overall Company, and is expected to continue to become smaller in future years.

The Up-Grading of Forest Products

The development of markets for Koppers forest products illustrates how the Company has grown within the framework of a traditional area of operation. We still perform essentially the same function: upgrading the already fine characteristics of natural wood to make it more durable, more versatile, and therefore a more useful product. By introducing a number of new ways of doing this, however, we have added \$28.7 million to our forest products sales since 1960 and have nearly doubled our 1955 volume.

Creosote has been, and remains, our most effective and time-proven preservative for wood. There are, however, a number of requirements for treated timber, particularly in the construction field, that cannot be most successfully met by creosote-treated wood.

BULK OF KOPPERS MANUFACTURING SALES MOVING INTO GROWING MARKETS



We spent $2[illegible] [illegible] and modern [illegible] [illegible] were $[illegible] [illegible]

The investment of capital funds in 1965 was spread [illegible] thermoplastics [illegible] plastics, metal fabricating, laminated and treated wood and road materials.

[illegible]

Koppers Company is now in a strong competitive position in each of its major product lines. We are less vulnerable to cyclical changes than we were 10 or even 5 years ago, and are well prepared to meet the requirements of the markets we serve and the demands of the growing national economy.

We are pleased with the overall growth potential of each of our important product lines.

The outlook for the future is good. We believe we will be able to report another gain in both sales and earnings in 1966.

The Company's progress will be sustained by more than $45 million in new capital investments planned for 1966. This is a 50 per cent higher investment level than in any preceding year in our history. We are making heavy new investments in thermoplastics through the Sinclair-Koppers partnership. We are expanding our capacity to produce couplings and piston rings; increasing our wood treating capacity, particularly for the relatively new, clean CELLON process, expanding several of our chemical lines and our reinforced plastics capacity; and are studying several new overseas investments.

A Philosophy of Leadership and Growth

Koppers has been and is being operated within a framework of certain basic policy decisions. These decisions concern such matters as emphasis on leadership, growth, diversification, marketing orientation, and international business.

Policy decisions are, of course, always subject to change, just as products, technology and markets will change. But within this framework of change, the Company is guided and moved forward by an underlying set of principles and policies that may be characterized as an operating "philosophy."

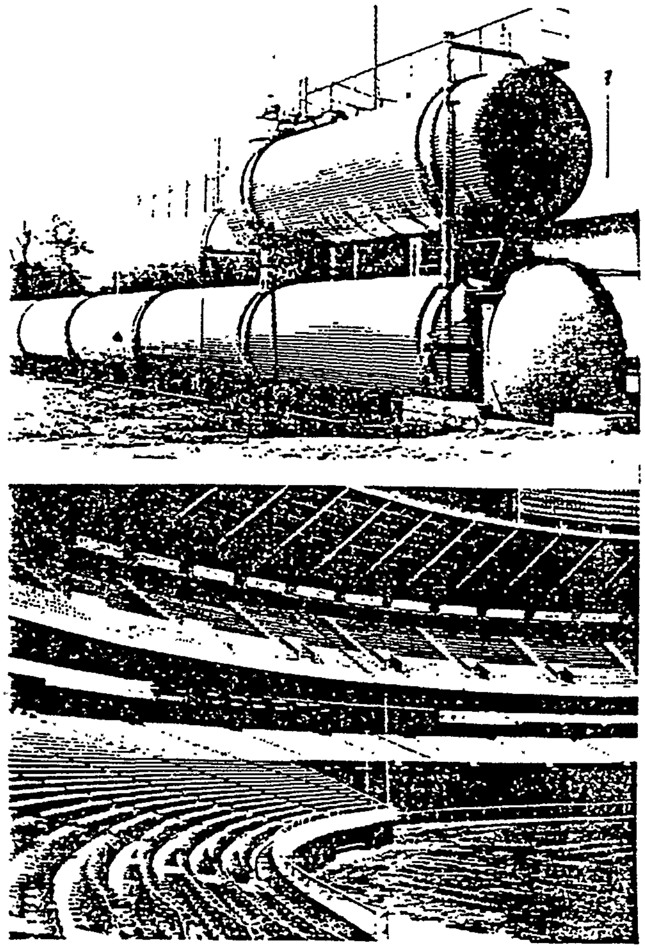
Much of the balance of this Annual Report is concerned with Koppers operating philosophy.

It is on the basis of the thinking outlined in these pages that we expect Koppers to realize its full potential as it moves into the last third of this century. We hope this information will help you to a more complete understanding of our Company and its goals.

For the Board of Directors,

Fred C. Foy, Chairman

F. L. Byrom, President



Continuing expansions of CELLON wood-treating facilities (new Montgomery, Ala. unit shown at top) meet expanding markets for CELLON wood. (Below) Over 5[illegible] CELLON-treated seats were used in the new stadium in Atlanta.