

Financial Review



A. William Capone

Chief Financial Officer's Letter

To Our Shareholders:

Koppers operating base and financial structure expanded significantly in 1978. Record capital expenditures increased investment in net fixed assets to \$463.5 million, 20% higher than at year-end 1977. A record cash flow of \$141.7 million, up by nearly 24%, provided much of the additional funding needed. New debt arrangements provided further financing to support expanded operations and expected sales increases. Total debt was raised by nearly 46%, to \$243.4 million.

Common shareholders' equity grew by 11%, to \$504.7 million, equivalent to \$20.12 per common share, and this increased Koppers total capitalization to \$763.1 million, a rise of 21%. At the close of 1978, total debt was at 32% of total capitalization, well under the Company's self-imposed 35% limit.

As Koppers entered 1979, expected levels of cash flow and existing credit lines gave it the financial flexibility to meet all requirements for planned capital expenditures and working capital increases.

Investment Controls

A number of factors have enabled Koppers to put the equivalent of virtually all of its internally generated cash flow into capital investments over the past decade. One such factor has been management's ability to maintain close control of investment in working capital (current assets minus current liabilities). Working capital increased by nearly \$62 million in 1978, solely as the result of Koppers' investment in Cutler-Hammer stock. Trade receivables, in relation to rising sales, were held to a lower level, and manufacturing inventories were reduced. If each of these working capital items had been maintained at the 1977 levels, which were already good, an additional \$55 million in working capital would have been required.

New Debt Arrangements

To finance further expansion of the Company's asset base, as well as to support the expected growth of sales, long-term debt (including obligations under capital leases) was raised by \$82 million in 1978. Much of the increase was accounted for by the \$60-million, 8.95%, 20-year promissory note and the \$14-million, 8¼% industrial development bonds issued in the second quarter. The balance came from \$20 million borrowed under the Company's revolving credit loan at the close of the year.

Additional financing flexibility was arranged at year-end 1978 with a new bank credit agreement that provides revolving credit loans for up to \$100 million, replacing the former \$50-million line. Interest on borrowed funds will be at the prime rate until December 28, 1983, when the loans may be converted to term loans payable during the succeeding three years. There will be a commitment fee of ½ of 1% per year on the unborrowed amount.

Contents of the Financial Review

Chief Financial Officer's Letter	32
Management's analysis of earnings	
Financial Review	35
Increased shareholders' equity . . . record capital expenditures . . . quarterly results . . . financial condition . . . debt structure . . . common stock information	
10-Year Financial Highlights	40
Index to Financial Statements	42