Liquidity Continues Strong

Koppers 1978 operating performance, along with additional financing arrangements completed during the year, has maintained the Company in a strong liquidity position. (Liquidity is defined as the ability of a company to generate or obtain, at acceptable costs, the funds it needs for the conduct of its operations.) The Company's expenditures of funds during 1978 totaled more than $240 million. Capital investments rose to $144.5 million. Dividends paid to shareowners were increased by nearly 19%, to $28.8 million. The Company invested $62.1 million in the stock of Cutler-Hammer, Inc., and more than $12 million in debt and capital lease obligations was retired.

A major portion of these cash needs was provided by internally generated funds. Cash flow provided $141.7 million, and $13.8 million resulted from sale of assets no longer needed in Koppers operations. The balance was available through debt arrangements, explained in the following section, which produced a net increase of nearly $82 million in the Company's term debt.

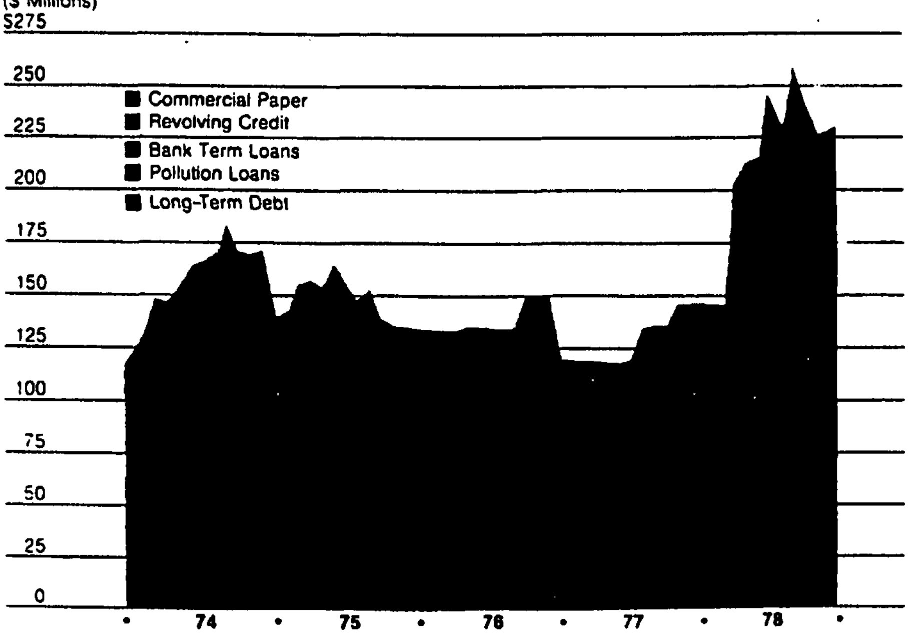
Although $61.9 million was added to Koppers working capital, the total increase was the result of the redemption of the Company's investment in Cutler-Hammer stock, which, at year end, was accounted for as an account receivable on the balance sheet. Proceeds from the sale were received on January 4, 1979.

Apart from this increase, additional working capital was not required in Koppers operations in 1978, even though sales rose by $226.2 million, or 16.7%. Trade accounts receivable were $33.7 million higher at the close of 1978, much of which was added by operations purchased during the year. In spite of this, trade receivables—measured in "number of day's sales outstanding"—declined to 46 days, versus 47 at the close of 1977. Close control of inventories during 1978 resulted in a $6-million reduction at year end.

Koppers Total Capitalization

December 31,	1978 $ Millions	1978 % of Total	1977 $ Millions	1977 % of Total
Total Debt				
8.95% Note	$ 60.0	7.9%	$ —	—%
6% Notes	41.0	5.4	44.0	7.0
Term Loans Payable to Banks	30.0	3.9	30.0	4.8
Industrial Development Bonds	25.0	3.3	11.0	1.7
Revolving Credit Loans	20.0	2.6	—	—
Pollution Control Loans	26.0	3.4	26.0	4.1
8% Notes	8.9	1.2	11.1	1.8
5.8% Notes	4.6	.6	5.3	.8
Obligations Under Capital Leases	14.4	1.9	16.5	2.6
Debt Due Within One Year	7.7	1.0	7.7	1.2
Other	5.8	.7	10.1	1.6
Total	$243.4	31.9%	$161.7	25.6%
Equity				
Common	$504.7	66.1%	$454.9	72.0%
Preferred	15.0	2.0	15.0	2.4
Total	$519.7	68.1%	$469.9	74.4%
Total Capitalization	**$763.1**	**100.0%**	**$631.6**	**100.0%**

Term Debt Used to Support Growth*
($ Millions)



* Does not include obligations under capital leases.

Company Debt Raised

As shown in the accompanying chart and table, Koppers increased its term debt during 1978 to finance investments, to expand its manufacturing base and to provide working capital in support of growing sales volumes. In addition, commercial paper bearing an 8.2% average annual interest rate was issued at various times during the year to cover peak working capital requirements. The maximum amount outstanding during the year was $29 million. None was outstanding at year end.

The debt added in 1978 was obtained under three separate agreements:

- A 20-year, $60-million, 8.95% promissory note issued on May 15, 1978.
- $14 million in 8¼% taxable industrial development bonds issued on June 1, 1978 for use in the expansion of the Company's Woodward, Alabama coke plant. Additional taxable bonds for $15 million will be issued in March, 1979 and will complete the financial package for the Woodward expansion.
- $20 million drawn down on a new $100-million revolving bank credit agreement entered into on December 28, 1978 that replaced the former $50-million revolving credit loan. The agreement calls for interest at the prime rate on loans until December 28, 1983. Any loans outstanding on that date may be converted to term loans payable during the succeeding three years.

Under the most restrictive conditions contained in the Company's various debt agreements, Koppers could incur additional indebtedness of approximately $97 million. Additional information on Company debt appears in Note 6 on page 49.