GAF

GAF CORPORATION

ANNUAL REPORT 1979

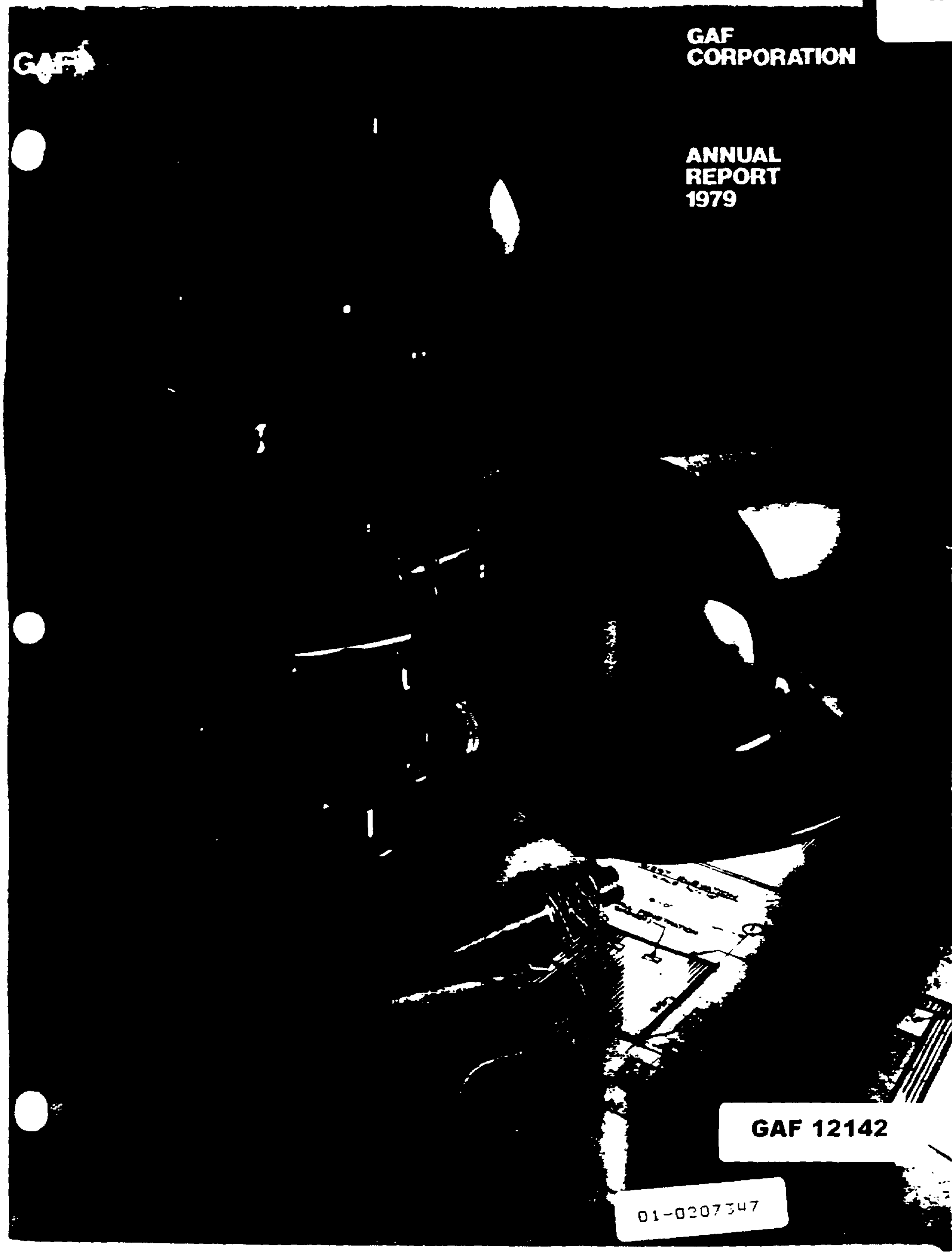


Table of Contents

About the cover:
GAF is building for the 80s and beyond. Capital investments in new plants, new production lines, new laboratory space and new products are designed to help the company prepare for the opportunities of tomorrow.

GAF 12143

01-0207748

Financial Highlights

Financial Highlights	1979	1978
Net Sales	**$1,213,243,000**	$1,063,291,000
Income from Continuing Operations	**$ 28,183,000**	$ 30,399,000
Income from Discontinued Segments	**—**	3,765,000
Net Income	**$ 28,183,000**	$ 34,164,000
Earnings per Common Share		
Primary		
Continuing	**$ 1.83**	$ 2.01
Discontinued	**—**	.28
Net Income	**$ 1.83**	$ 2.29
Fully Diluted		
Continuing	**$ 1.62**	$ 1.76
Discontinued	**—**	.21
Net Income	**$ 1.62**	$ 1.97
Cash Dividends per		
Preferred Share	**$ 1.20**	$ 1.20
Common Share	**$ .68**	$ .64

Shareholders Information

The 1980 Annual Meeting of Shareholders will be held at 10:00 a.m., Tuesday, April 29, at the Fairmont Hotel, Ross and Akard Streets, Dallas, Texas.

Stock Transfer Agent and Registrar

Citibank N.A.
111 Wall Street
New York NY 10015

GAF offers holders of its common and preferred stock the opportunity to buy additional shares through an automatic dividend re-investment service administered by Citibank N.A.

Form 10-K as filed with the Securities and Exchange Commission may be obtained free of charge by writing to

GAF CORPORATION
140 West 51 Street
New York NY 10020

Investor Relations

GAF 12144

Message to our Shareholders

In 1979, GAF sales from continuing businesses were $1,213 million compared with sales of $1,063 million the previous year. Income from continuing operations for 1979 was $28.2 million, or $1.83 per share primary, compared with $30.4 million, or $2.01 per share in 1978.

Sales rise

Sales of each of the company's major sales groups—Chemical, Photo & Repro and Building Materials—were ahead for the year. Chemical direct operating profits rose substantially. Photo & Repro profits were down slightly and Building Materials profits were off substantially. Total direct operating profits for 1979 were $99.9 million, a slight decline from 1978 profits of $101.8 million.

A number of operational and other factors affected net profits. Earnings for all three sales groupings were hurt by rising costs of raw materials and energy. The cost of asphalt, a petroleum product used in roofing, rose more than 25 percent in 1979. The price of silver, used in x-ray and graphic arts products, rose through the year and surged upward at year-end. GAF is taking steps, detailed in other parts of this report, to control costs by reducing its requirements for price-sensitive materials and energy.

In 1979, Chemical sales worldwide rose to $301.4 million from $248.8 million in 1978. Direct operating profits climbed to $64.5 million from $50.6 million. Profit increases achieved for several GAF chemical products more than offset higher raw material costs.

Photo & Repro sales rose from $280.8 million in 1978 to $320.2 million last year, continuing the 1978 trend. New products, services and manufacturing efficiencies have strengthened GAF's ability to serve the x-ray and graphic arts markets. In reprographics, the company overcame localized European problems and finished the year strongly. GAF is expanding its Delft, Holland facility to improve international reprographic operations.

Photo & Repro direct operating profits slipped from $11.7 million in 1978 to $10.1 million in 1979. Price increases for photographic products were instituted in both 1979 and early 1980 to try to keep pace with cost increases. Diazo films, containing no silver, are becoming increasingly attractive as substitutes in many applications. GAF is a leader in diazo technology.

GAF continually monitors price changes in critical materials and in this connection buys silver on an ongoing basis. In mid-1979, when many authorities predicted a drop in silver prices after a recent run-up, GAF sold silver positions short, to protect its silver inventory against a break in the price. The price of silver continued to rise and closeout of those contracts cost $3 million after tax.

Worldwide sales of GAF building materials rose to $591.6 million in 1979, from $533.7 million in 1978. Direct operating profits were $25.3 million versus $39.5 million in 1978.

Building Materials profits were hurt by a number of factors in 1979, the most significant being the escalated costs of raw materials and energy which caused a cost-price squeeze. Others include shipping difficulties early in the year resulting from winter storms, a slowdown in the auto industry which affected sales of GAF's automotive padding and mastic products, a six-week strike at a roofing plant, start-up expenses at the St. Louis insulation plant and the discount sale and write-off of other than top quality sheet vinyl flooring made at the Irish plant while it was in early production. In 1980, auto industry difficulties and increasing raw materials and energy costs persist. GAF continues to work towards alleviating these problems.

Other items affecting company earnings are discussed elsewhere in this report. They include tax changes, capitalization of interest on construction projects and comprehensive foreign exchange effects described in the International and financial sections. The over all effect of these was a negative swing of about $3 million, or 22 cents per share in 1979 compared with 1978.

Growth strategy

Despite current world economic uncertainties and operating difficulties in 1979, GAF's perception of future growth has not dimmed. The company is backing its growth strategy with capital expenditures

GAF 12145

The new glass-mat manufacturing facility in Chester, S.C. is a case in point. Now in start-up, the plant has begun to make fiber glass mat for asphalt roofing. GAF has been purchasing the glass mat it uses, but plans to meet its needs internally when the plant is in full production.

As the largest domestic asphalt roofing manufacturer, GAF has good market penetration in most parts of the country. On the West Coast, however, GAF did not produce roofing. A new roofing plant is being built in Fontana, Cal. to make glass-mat-based roofing for that region, which GAF views as having great growth potential.

To meet demand for glass-mat roofing in the South, GAF is adding a production line at its Dallas roofing plant. Other roofing plants in the South are being converted to glass mat, as well. To support GAF's growth in roofing, the company is expanding its four mineral granules manufacturing operations.

In acetylene-based chemistry, a new butynediol plant is under construction in Seadrift, Texas, to supply this chemical used to manufacture butanediol at the Calvert City and Texas City plants. A new formaldehyde manufacturing operation at Texas City is in start-up. These are important ingredients in acetylene derivatives chemistry, a field in which GAF is the acknowledged leader in the U.S.

Two new alkyl phenol manufacturing operations are being added—one at the plant in Linden, N.J. and one at Calvert City, Ky.—to supply intermediates used in making surfactants.

In Europe, an operation to manufacture THF (tetrahydrofuran) solvent is being added to the joint-venture butanediol plant in Marl, West Germany.

In the photographic and reprographic areas of GAF's business, the emphasis has been on new product development and aggressive marketing. A steady flow of new graphic arts and x-ray products is being established.

Financial management

GAF's ongoing program of cash conservation and improved financial management made significant progress in 1979. The ratio of receivables to sales declined due to improved collections by centralized receivable and credit operations. Inventory management functions are being centralized, as are accounts payable disbursement functions.

The company financed a significant portion of its new debt, related to its capital expansions, through tax exempt industrial revenue bonds bearing an average interest rate of 7½ percent and long-term financing was arranged in Ireland at rates well below market.

Pretrial proceedings in GAF's antitrust suit against Eastman Kodak have been essentially completed and the case is ready for trial. Pending judicial decisions in another antitrust case brought by Berkey Photo against Eastman, the trial of the GAF case has been delayed, although

Dr. Jesse Werner

the GAF case is far more comprehensive and involves different facts and issues from those presented in the Berkey case. The company remains confident of the successful outcome of its case.

The 80's will not be easy; success will take time, patience, dedication and money. GAF has laid the foundations for success and is determined to make the decade ahead the best in the company's history.

By Order of the Board of Directors

Jesse Werner

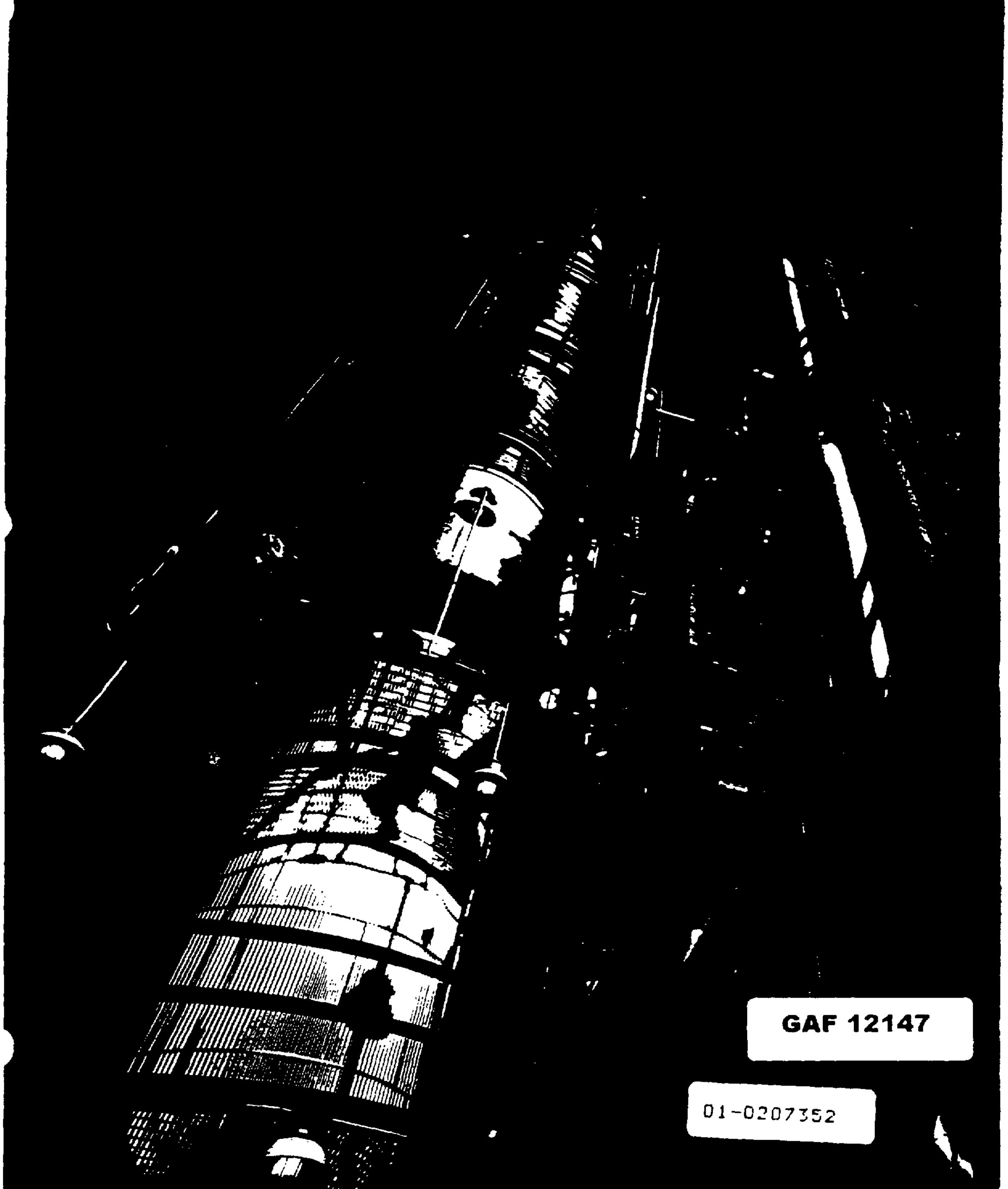
Jesse Werner
Chairman of the Board
and President

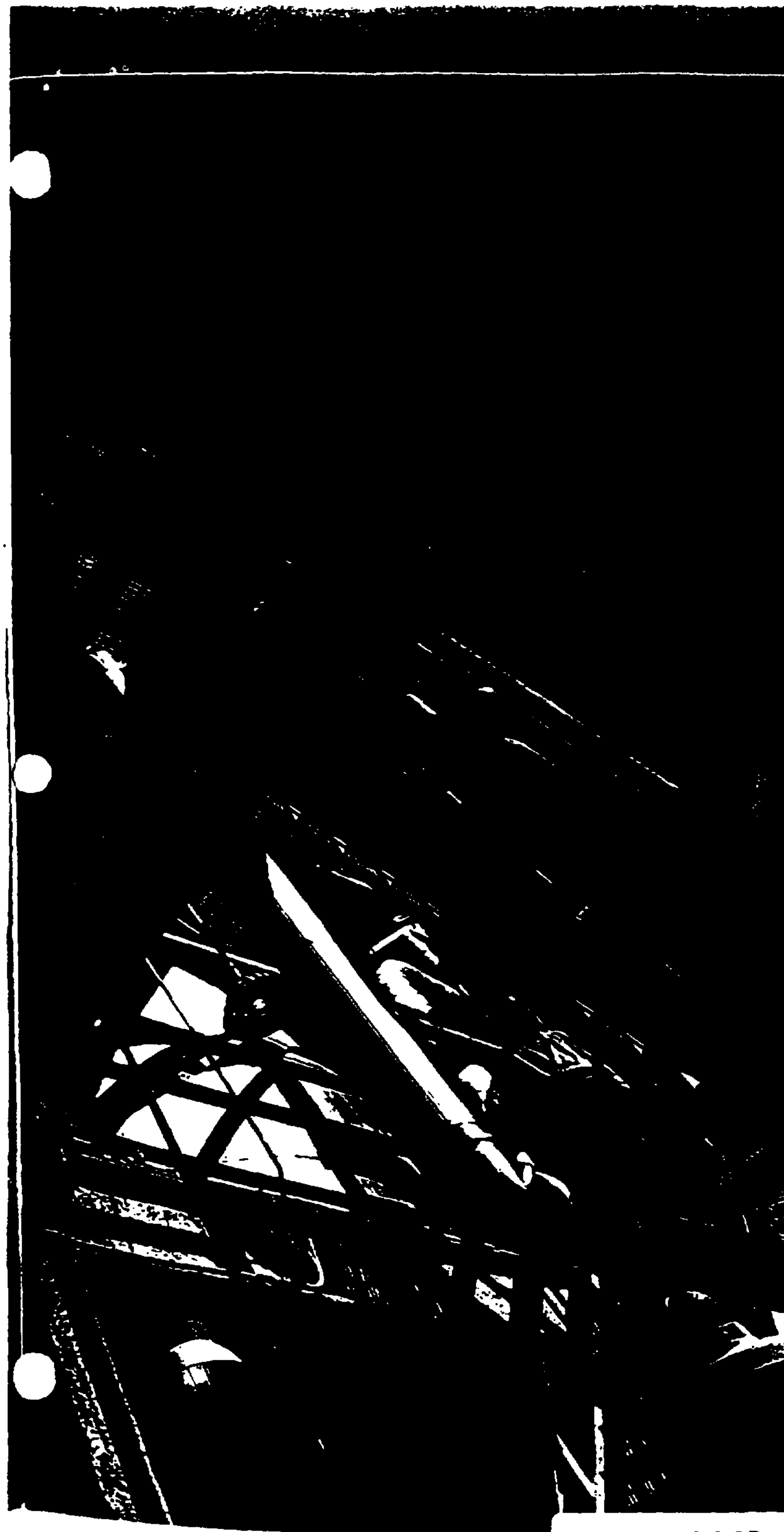
February 21, 1980

01 1227351

Chemical

New formaldehyde manufacturing operation at Texas City plant will eliminate need for outside suppliers of this raw material.





Sales of buta
country's larg
the merchant
Demand increase
ufacturers using
injection molding
modified its buta
in Texas City, Te
make higher
ket reception
GAF also make
quality butane
Ky. and at the join
in Marl, West Germ

In 1979, GAF began
plant in Seadrift, Tex
butynediol, a pre
the manufacture
The Seadrift pla
Calvert City a

GAF 12148

Chemical

In addition to selling butanediol, which is used by others in formulating various polymers, GAF uses this chemical itself in manufacturing a broad line of acetylene-based chemicals.

Also in 1979, GAF built a formaldehyde manufacturing plant at Texas City. Formaldehyde in combination with acetylene is used in making butanediol. The new facility is now in start-up.

An addition to the joint-venture chemicals plant in West Germany was begun in 1979 to make THF (tetrahydrofuran) for Europe. THF solvent, a butanediol derivative, is used in making magnetic tape, PVC cement and vinyl products. GAF already makes THF at its Linden, N.J. facility. Another butanediol derivative, BLO® (butyrolactone) solvent, continued on the rising sales trend of 1978. BLO solvent is used in agricultural chemicals.

Use permits sought

GAF's own agricultural chemical, Cepha® plant growth regulator, sold well domestically and internationally. Development work in agricultural chemicals continued with encouraging progress. Experimental use permits have been applied for to field test a promising new agricultural product. An arrangement for GAF to manufacture an agricultural chemical for another company was renewed in 1979.

Polyclar® stabilizer enjoyed good sales growth during 1979. Used to clarify wine, fruit juice and beer, Polyclar stabilizer settles undesirable constituents and is filtered out – a desirable marketing feature.

Sales of GAF's engineering thermoplastic, Gafite® PBT (polybutylene terephthalate), rose substantially in 1979. While this product is still in the development stage, market response has been good and results are encouraging. New grades of Gafite PBT, including low warp grades, were introduced in 1979 and are under evaluation by potential users as substitutes for metal parts. Gaftuf™ PBT, a new high-impact product, was introduced in early 1980. As part of the marketing support for GAF's thermoplastics, the company is opening a technical service center at its Wayne, N.J. laboratory. The center will assist in developing new applications and work on customers' technical problems.

Through an intensified marketing effort, GAF gained new sales among customers who use latex as paper coating. Profits were off, however, as raw material costs went up as much as 100 percent. Increased costs could not be offset completely by price increases. The company uses a large part of the latices it makes in its own resilient flooring.

GAF specialty chemicals maintained profitability despite increased raw material costs through higher volumes and new plant efficiencies. The company's specialty chemicals include surfactants, sequestrants, antioxidants, textile auxiliaries, iodophors and others. GAF® surfactants are used in cosmetics, detergents and other products. Among applications developed in 1979, Igepon® DM-530 surfactant is being used to prevent winter freezing of coal stockpiles. Moisture falling on coal stored outdoors can freeze, making the coal difficult to move. Spraying with Igepon surfactant, mixed with other chemicals, inhibits this.

Alkyl phenol capacity

Alkyl phenol intermediates are used in making surfactants, a field of chemistry pioneered by GAF. In 1979, an alkyl phenol manufacturing operation was modernized with improved production capability at the Calvert City, Ky. facility. A new alkyl phenol facility is being added at the Linden, N.J. plant, replacing an old unit.

Sales of mineral granules were up slightly for the year. These tiny "pebbles" form a durable, weather-resistant surface on asphalt shingles. Expansions are under way at all four granules facilities to meet higher demand. The company is a major producer of the ceramic-coated granules and supplies granules to GAF's Building Materials group as well as to other manufacturers.

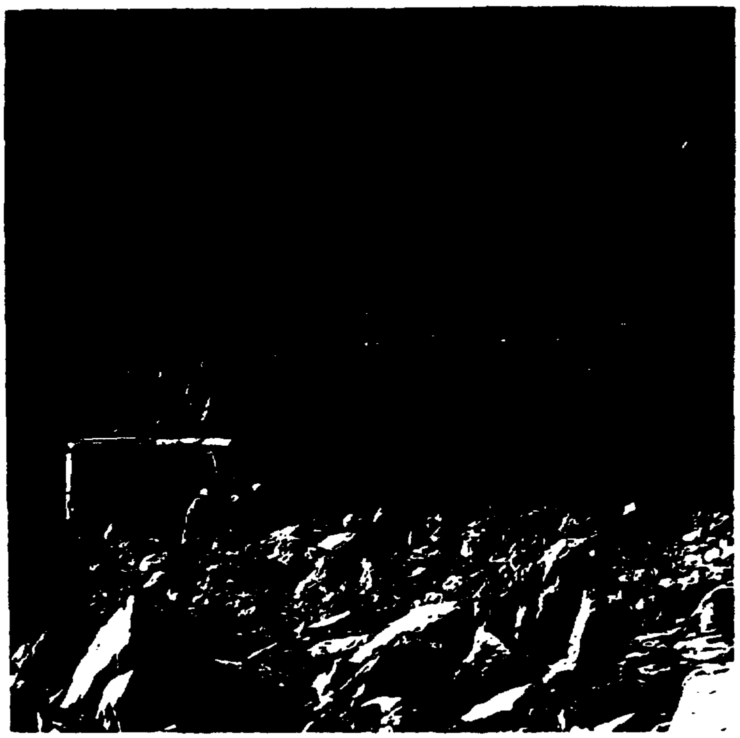
The expansion of granules capacity has been impeded by delays in achieving Environmental Protection Agency approval. The projects are being implemented as these obstacles are overcome.

01-0027354

GAF 12149

Below: GAF is increasing production capacity at Charmian, Pa., three other mineral granules facilities.

Bottom: Plant being built at Seadrift, Texas will make butynediol for use at Texas City, Calvert City plants.



Below: New Australian distribution operation handles GAF chemicals, as well as other GAF products, sold throughout Australasia.

Chemicals
Acetylene Derivatives
Agricultural Specialties
Intermediates
Iron Powders
Latex Polymers & Compounds
Monomers
Polymers
Solvents
Specialty Chemicals
Surfactants
Textile Chemicals

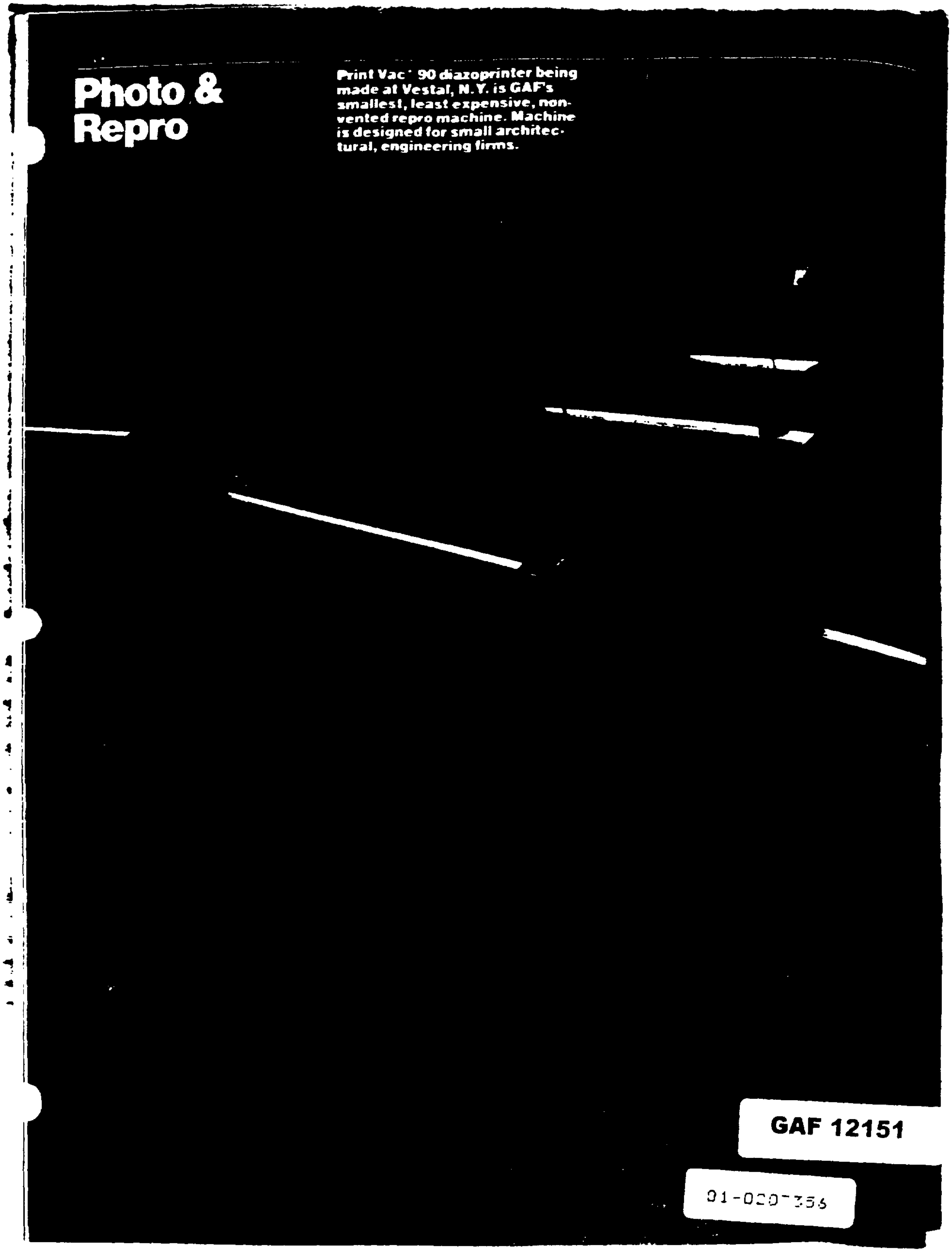
Engineering Plastics
PBT Thermoplastic Molding
Compounds

Mineral Products
Gasketing Materials
Industrial Noise Control Products
Mineral Granules

GAF 12150

Photo & Repro

Print Vac® 90 diazoprinter being made at Vestal, N.Y. is GAF's smallest, least expensive, non-vented repro machine. Machine is designed for small architectural, engineering firms.



01-0207357

GAF 12152

direct operating profits. Diazo microfilm showed particular strength with sales up almost 75 percent. Diazo films use no silver, and as the price of that raw material has escalated, the price gap between silver halide-based microfilm and diazo microfilm has broadened, making the lower-priced diazo product very attractive. Several new customers for GAF's micrographic products entered into supply contracts in the year recently ended.

The company made major strides in 1979 in the larger format diazo area which includes machines and sensitized materials for making whiteprints and other engineering drawings. Sales of fluorescent diazo machines rose 33 percent for the year, with a strong rise in profits. A new line of mercury-vapor-lamp diazo machines called the GAF® Series 2000 Reproduction System was introduced in late 1979 and is selling well. Series 2000 machines are highly automated and are of modular construction, enabling customers to tailor diazo systems to their specific needs. Series 2000 includes a printer, three different types of feeders, two different stackers and an automatic folder.

New diazoprinter

Another new machine, the fluorescent Print Vac® 90 diazoprinter, was introduced in 1979. A small ventless machine designed for users with low copy requirements, it is the least expensive GAF non-vented diazo machine, and has sold well. Surveyors and small architectural firms, for example, can now afford their own diazo machines. The Gaflog™ diazoprinter, introduced in 1978 for use in the oil exploration business, enjoyed appreciable sales increases in 1979, as well.

Sales of GAF's x-ray films, graphic arts films and papers and specialized photographic products were 18 percent ahead of prior year levels. Profits were off substantially, however, as the escalating cost of raw materials, in particular silver, eroded profit margins. Substantial price increases were instituted in January 1980 to help relieve pressure on margins and GAF will continue to react appropriately to any further increases in the cost of silver.

During the year, several additional hospitals and clinics around the country became GAF® x-ray products customers. The company placed new emphasis on a systems approach to selling to the medical x-ray market, stressing the diversity of the Gafmed® line of films, intensifying screens and processing chemicals, complemented by service programs.

GAF has reinforced its x-ray business by offering new services as well as new products. Construction was begun in 1979 on a new Gaftech Education Center at the Wayne, N.J. Administrative and Research Center, where radiographic education programs will be offered to GAF customers. The center is scheduled to open in the summer of 1980.

New medical imaging films were developed in 1979 and are now being introduced. Gafmed® SR S photofluorography film and Gafmed® SR CT video recording film are single emulsion films for photofluorography, computer-assisted tomography and ultrasound applications. These state-of-the-art diagnostic tools are gaining in popularity, as they provide more data to radiologists.

Graphic arts gains

Several marketing advances were made in graphic arts with many major customers beginning to use GAF products during 1979. Fourteen of the country's 15 largest circulation metro daily newspapers now use Gaftype™ phototypesetting paper, as do many others.

Sales of View-Master® stereo products, Pana-Vue® slides and viewers and other GAF pictorial products were slightly lower for the year in the United States but rose appreciably in international markets. Introduced in late-1978, the Double-Vue™ automatic movie viewer, a battery-operated toy with which children can view short double features, achieved broader distribution in 1979.

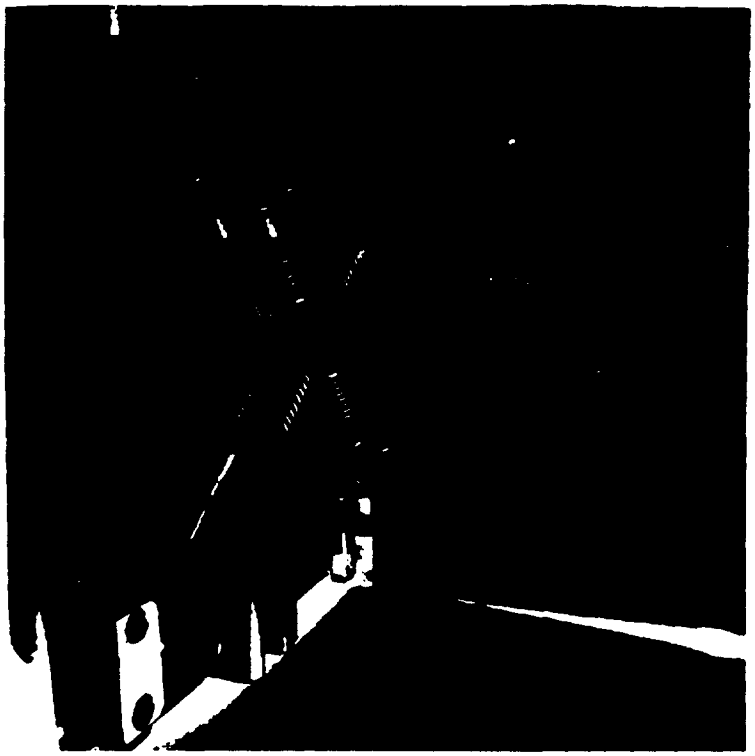
The company is developing two new toys which are scheduled for introduction in 1980. One is a projector toy, another extension of the View-Master line; the other is a musical electronic game. Initial tests, in which children were allowed to play with the new toys under observation, indicate strong potential markets for both.

GAF 12153

01-020753

Below: Double-Vue * automatic movie viewer, made at GAF plant in Progress, Ore., proved a popular toy at Christmas.

Bottom: Radiographic education center under construction at Wayne, N.J. will offer classes for GAF x-ray customers.



Below: Improvements being made at GAF plant in Delft, Holland are designed to bolster reprographic sales in international markets.

Industrial Photo Products
Graphic Arts Films & Chemicals
Industrial X-ray Films & Chemicals
Medical & Dental X-ray Films
Processing Chemicals
Intensifying Screens & Cassettes
Phototypesetting Papers & Chemicals
Special Photo Products

Pictorial Products
Pictorial Slides
Slide Viewers
3-D Picture Reels
3-D Viewers
Toy Viewers, Projectors & Electronic Games

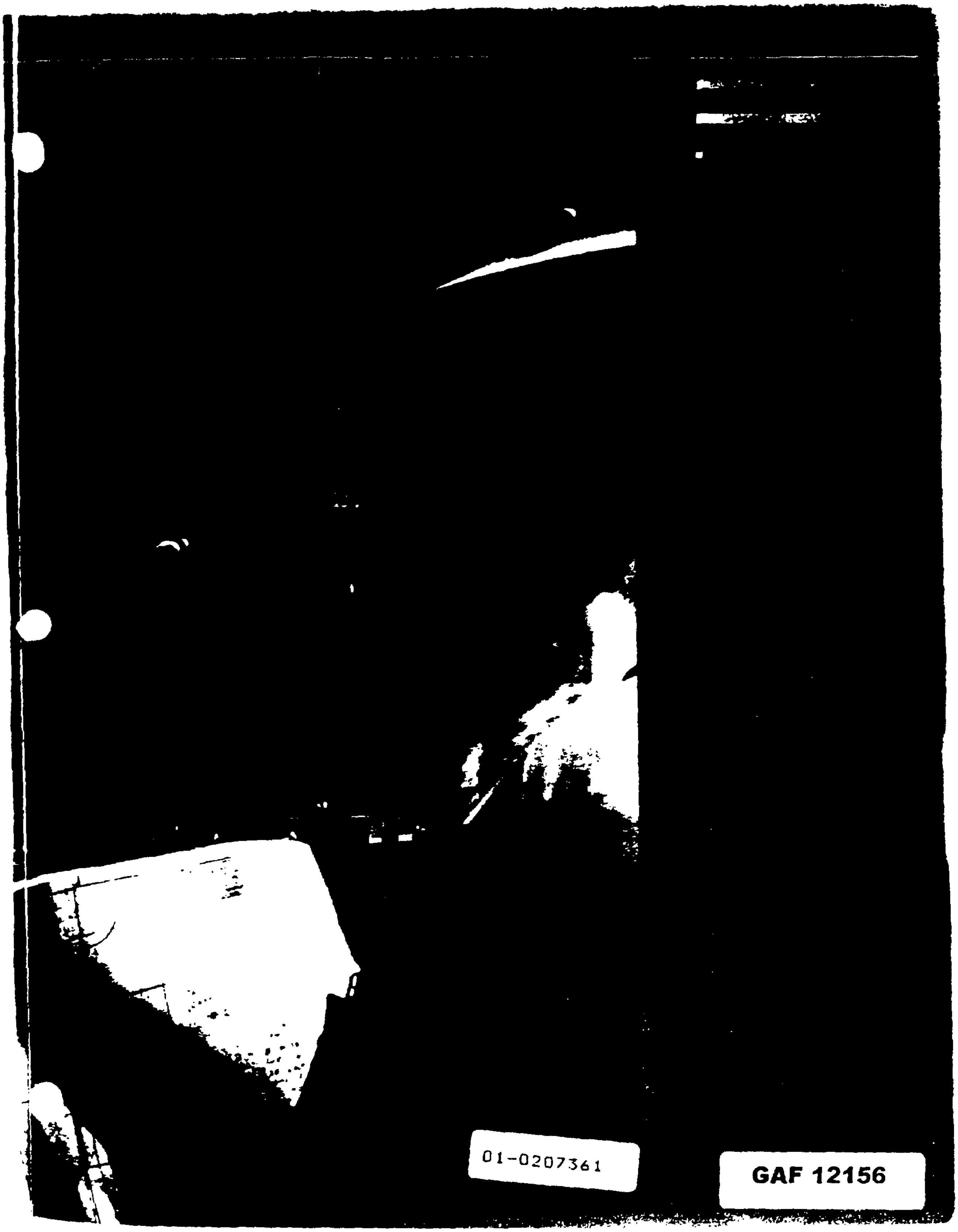
Reprographic Products
Diazo Reproduction Equipment & Materials
Diazo Microfilms and Rollfilm Duplicators
Overhead Transparencies

Specialty Manufacturing

GAF 12154

Building Materials

Roofing plant under construction at Fontana, Cal. will be GAF's first roofing facility west of the Rockies. Plant will manufacture glass-based roofing for West Coast, southwestern markets.



01-0207361

GAF 12156

at the Dallas, Texas plant to be completed in 1980. The company will continue to make felt-based shingles for northern climates, as these shingles have competitive advantages there. To improve energy use, GAF is studying a new way of saturating felt, helped by a grant from the U.S. Department of Energy. The study is in its second stage, having completed initial trials. If implemented nationally, the new methods could save billions of Btu's a year.

Timberline® shingles
In 1979, new installations to make GAF Timberline® shingles were completed at the South Bound Brook, N.J. and Joliet, Ill. plants. Demand for Timberline shingles continues to grow.

GAF furthered its program of developing a complete "system" of built-up roofing for the commercial industrial market, to enable builders to buy all elements of a complete roof from one source. Gafglas™ ply sheets—glass-based roofing membranes—and vent stacks were introduced. Glass-based roll roofing is now made at the Tampa plant and will be made at the new plant in Fontana, Cal.

Another component of built-up roofing is insulation. The new St. Louis urethane operation began making Gaftemp® roof deck insulation in commercial volume in 1979. Profitability in this area was hurt by start-up costs which overlapped into 1979 from 1978. A brief strike also hurt operations. These problems have been resolved.

Roofing sales and profits were hurt by a six-week strike at the company's Minneapolis plant.

Vanguard® vinyl siding sales were up from 1978 levels. Profits were off due in large part to raw material costs. As announced in 1978, the company phased out Stratalite® mineral siding in 1979, with a consequent $15 million sales reduction.

In July 1979, GAF opened its first building materials supply center, in King of Prussia, Pa., a Philadelphia suburb. Designed to serve contractors and building materials dealers, the center offers a full line of GAF® roofing, siding and insulation as well as products made by others, such as rain carrying equipment, tools and caulking. Results have been encouraging for a new venture of this kind and GAF is studying other locations.

Sales of automotive mastics and sound-deadening paddings were off substantially from 1978, due in part to the slowdown of the auto industry. The company reduced manufacturing costs through consolidations and personnel reductions. Development work continues, in order for GAF to be in a position to supply the industry when car-makers recover from current economic doldrums.

Sales of sheet vinyl and vinyl tile were ahead of 1978 levels. Domestic sales held their own or gained, while increased output of the new sheet vinyl plant in Ireland boosted international sheet vinyl sales considerably.

Flooring distribution
The Canadian flooring distribution system, begun in 1978, had strong sales in 1979. Six distribution centers are now open in major Canadian markets and the company is considering added centers. GAF's eight domestic flooring distribution centers also did well in 1979. Two new centers in Fresno and Sacramento, Cal. are planned for early 1980.

Consumer testing of new flooring patterns prior to release has helped GAF create products with broad market appeal. Gafstar® 7500 Series sheet vinyl was introduced in late-1979 to meet demand for top quality, low maintenance flooring. This new flooring, which retails for as much as most carpet, had a good initial market reception.

Operating profits from sheet vinyl flooring were lower than in 1978. High raw material costs, energy costs and freight rates restrained profitability. Substantial expenses were also incurred at the Irish plant through sale at reduced prices and write-off of some products made while the plant was in early production. Gains in sales and profits were achieved in floor tile and flooring felt.

GAF® "No-Wax" Decorator floor tile and Brite-Bond™ floor tile sold well in 1979, meeting the needs of the do-it-yourself segment of the market for attractive, medium-priced flooring that can be installed easily.

GAF 12157

Below: New Chester, S.C. plant is in start-up production, making glass mat for shingles, roll roofing.

Bottom: Building materials supply center in King of Prussia, Pa., is first of its type for GAF.

Below: GAF's line of automotive mastics and paddings are made at Joliet, Ill. facility.

Floor Products
Adhesive-backed Floor Tile
Adhesives & Fillers
Flooring Felt
Installation Tools
Resilient Floor Tile
Seam Fusing System
Sheet Vinyl Flooring
Underlayment
Vinyl Cove Base

Insulation Products
Building Insulation
Fastener System
Built-up Roofing Insulation

Roofing Products
Asphalt Shingles
Built-up Roofing Materials
Coating & Plastic Cements
Roll Roofing
Vent Systems

Siding Products
Vinyl Siding
Vinyl Soffit & Fascia Systems

Automotive Products
Automotive Sound-deadening & Insulation Products

GAF 12158

International

Total international sales of GAF products to customers around the world were $274.3 million in 1979, compared with $216.7 million in 1978, an increase of almost 27 percent. International profits rose 14 percent for the year. These figures, representing exported goods made in the United States and goods manufactured in other countries, are included in the results of the three worldwide sales groupings.

Sales improvements
Approximately 20 percent of the increase in sales resulted from the effects of translating foreign sales into U.S. dollars, with 80 percent resulting from price and volume increases.

In addition to foreign exchange losses shown as Other Charges on the Statements of Income on page 26, and discussed in note 3, there were other related effects which lowered 1979 earnings compared with 1978. These relate primarily to the recognition of cost of sales at historic rates, as required by FASB-8, compared with current rates. While the effects of using historic rates were positive in both years, they were much lower in 1979, as the dollar weakened less than it had in 1978. Comparative year versus year earnings were reduced by approximately $3.5 million in 1979 because of this.

Sales of GAF building materials in Europe and Canada almost doubled in 1979. The dramatic increase resulted from the flow of sheet vinyl flooring from the new plant in Mullingar, Ireland, which went into full-scale production in 1979, and from the new Canadian flooring distribution system, described in the building materials section of this report. While the Irish plant is not yet profitable, due primarily to manufacturing problems at the early stages of production, the difficulties have been substantially corrected and the plant is now consistently producing first-quality sheet vinyl flooring at a rate comparable to the company's established manufacturing operations in the United States. In 1979, a substantial quantity of other than top-quality product, which was made while the problems were occurring, was either written off or sold at discount prices, negatively affecting the plant's profitability for the year.

International sales of the company's pictorial products, including View-Master® stereo products, were up approximately 10 percent for the year, with new sales in Argentina and Chile and increased sales in Mexico. View-Master stereo products sales were also increased in Canada by concentrating sales efforts on large national accounts.

X-ray, graphic arts up
Graphic arts and x-ray products international sales increased more than 25 percent in 1979, with notable gains in Europe.

Sales of reprographic products outside of the United States increased during the year, with substantial gains in Scandinavia and the United Kingdom. GAF's Dutch subsidiary saw declines in its sales of reprographic equipment and supplies to Eastern Europe and the Middle East. Sales improved somewhat in the last months of 1979 and finished the year ahead of 1978 levels, but problems persist in several parts of the world. At the Dutch subsidiary, improvements are being implemented which are expected to affect future operations positively.

Although not yet profitable consistently, operations at the Sint-Niklaas, Belgium facility are improving. The facility's role as a distribution center for continental Europe was expanded in 1979 with the center now handling many GAF products, including sheet vinyl flooring manufactured at the Mullingar, Ireland plant.

01-0207364

GAF 12159

Below: New headquarters for GAF Australasia opened in 1979 in Sydney suburb. Several sales, administrative, manufacturing and distribution functions have been consolidated here.

Below: Rolls of sheet vinyl ready for shipment from new plant at Mullingar, Ireland. Plant is now making first-quality product consistently.

Cost reduction
On the manufacturing side, a program of cost reduction through increased mechanization was instituted at Sint-Niklaas in 1979. The program is yielding results in the form of increased labor productivity and improved quality control. In addition to photographic and pictorial products produced and converted at this facility, GAF makes a line of filters and markets filter vessels.

The new butanediol chemical plant in West Germany, a joint venture with Chemische Werke Hüls, is in commercial production and is operating at increasingly efficient levels. This plant is being expanded with the addition of a facility to manufacture THF (tetrahydrofuran), which is made from butanediol. Construction of the addition is complete and the new operation entered start-up in early 1980.

During the year, GAF reorganized its international operations on a product group basis, similar to the domestic organization. Regional general managers were appointed, to oversee more closely the marketing of GAF products in Europe, Africa and the Middle East, the Western Hemisphere and North Pacific, and Australasia. A new headquarters for the European region was set up adjacent to the Colnbrook plant in the United Kingdom.

New Australasia offices
As part of a program to capture a greater share of the Australasian market, GAF occupied a new regional headquarters building in a suburb of Sydney. This enabled the company to consolidate several of its Australian operations. The new facility manufactures diazo sensitized products, functions as a headquarters, a sales office and serves as a warehouse and distribution center for all GAF products sold in the region.

01-C207765

GAF 12160

Corporate

Research and Development
GAF expanded its research and development department in 1979, with increased staffing and funding. In keeping with corporate goals of optimizing the uses of price-sensitive raw materials, much of the 1979 effort was directed at developing substitute materials and creating products that do more with less.

These efforts and other ongoing development work have resulted in several new programs and products.

- The company has developed a patented metal-working lubricant, Antara® HR-719, which is a potential replacement for petroleum-based lubricants in metal-working applications. The new product, which was introduced in 1979, is biodegradable and is effective in very small concentrations. It meets a long-standing industry need for a non-foaming synthetic aqueous lubricant.

- A silver optimization program is under way through which GAF is reviewing all its silver halide-based photographic products. A number of new products which make more efficient use of silver are being introduced.

- New ultrastable polyester diazo copying intermediates were introduced in 1979. These have outstanding resistance to ultraviolet light and thermal degradation, characteristics which largely eliminate yellowing when the materials are exposed to ambient light.

- GAF made significant technological advances in emulsion and coating techniques which have led to a complete, new Gafmatic™ rapid access line of graphic arts films and chemistries.

- A number of new gasketing sheet products, including non-asbestos types, were developed for automotive applications. Also for the auto market, the company introduced two new sound-deadening products—a heat bondable mastic membrane and high-flexibility floor pan fibrous padding.

- Two new non-woven binder latices are being introduced which feature excellent handling stability and fast cure rates. Resiliency, hydrophilicity, solvent resistance and good tensile strength have been imparted to the non-woven fabric.

- A new expansion joint was developed for built-up roofs—another element in developing a complete built-up roofing system.

Work continues in the development of new chemicals and other products. Among other projects the company is continuing to pursue promising new agricultural chemical applications and new thermoplastic formulations. GAF continues to investigate new fields arising from the company's technological expertise.

The research and development department also spearheads the operating start-ups of the company's new plants. Working on-site during start-up procedures these scientists and technicians are helping to facilitate smooth transition from drawing board to productive reality.

Commercial Development
During 1979, the commercial development department concluded the sales of some GAF businesses which were involved in the asset redeployment program begun in 1977.

A major ongoing function of the department is to bring new products from the company's research and development laboratories into the marketplace. Among products which entered market development in 1979 were a new proprietary dielectric film, plain paper copier transparencies for overhead projection and several new acetylene chemicals and polymers for applications including specialty solvents, surfactants, adhesives and thickeners.

The commercial development department also intensified its efforts in support of the company's custom chemical manufacturing operations in 1979.

Engineering Services
GAF's engineering services department implements the company's capital expansion program through managing the design and construction of new facilities. In 1979, these projects included:

- Completion of construction of a formaldehyde plant at the Texas City, Texas facility.

GAF 12161

- Completion of construction of the new glass-mat plant at Chester, S.C.

- Beginning construction of a new butynediol plant at Seadrift, Texas

- Building a major new roofing plant in Fontana, Cal.

- Starting major expansions of the mineral granules plants at Charmian, Pa., Bound Brook, N.J. and Annapolis, Md.

- Completion of major electrical distribution modernizations at the Gloucester City, N.J. and Joliet, Ill. plants.

- Beginning a major expansion at the Dallas, Texas roofing plant

The engineering services department is also responsible for environmental engineering and maintains programs to assure that all GAF plants are brought into compliance with ever-changing environmental regulations. The company spent more than $2½ million on air and water pollution control projects in 1979. Since GAF began its accelerated pollution control program in 1965, it has spent more than $60 million on these projects.

Materials Management

During 1979, GAF reorganized purchasing, distribution, inventory management and transportation into a single organization with the mission of overseeing the company's materials management. As raw materials, freight and other logistical elements of manufacture become increasingly costly and increasingly subject to rapid change, these activities have more and more impact on the company's profits.

The new organization's centralized management is designed to control the costs of materials and logistics from the planning of purchases through customer delivery.

A new customer order entry system utilizing the latest computer technology and scientific materials management techniques is being installed to provide continual information for forecasting, planning production levels, inventory, purchases and other functions.

Marketing Services

A new advertising campaign for GAF resilient flooring was begun in 1979. The new approach is highly informative and is aimed at educating consumers in what to look for in flooring in addition to beauty and variety.

Another new campaign, for GAF Timberline shingles, shows consumers that with Timberline shingles they can get the beauty of wood shakes without the drawbacks of wood. Several major cities have acted to bar new construction with wood shakes because of fire hazard.

Both these new national ad campaigns are print-oriented, and are appearing in home and decorating magazines and news magazines.

Advertising for View-Master stereo products was divided between print and television.

GAF's publications and packaging won several design awards during the year. Packaging for the company's Gafmed products for the medical and dental professions was selected to be part of a U.S. State Department traveling exhibit of design excellence and was also honored by *Industrial Design* magazine. *Graphics U.S.A.*, N.Y. cited packaging for View-Master stereo products and the company's chemicals brochures for their high quality. The chemicals brochures were also honored by *Art Direction* magazine. *Keynote*, a magazine for the arts published in conjunction with GAF's classical music radio station, WNCN, was selected for its design merit by Printing Industries of New York.

WNCN

WNCN, GAF's classical music FM station in New York's metropolitan area, continued to grow among listeners and advertisers. In 1979, the station's advertising revenues rose by more than 15 percent.

The station continues to be recognized by leading authorities and publications as broadcasting the highest quality audio signal among American stations. The listening area covers most of Long Island, northern New Jersey, New York City and southern Connecticut.

01-0237367

Corporate

Personnel

At year-end, GAF employed 15,268 people worldwide, 911 fewer than in 1978. The company has 11,945 employees in the United States.

In 1979, approximately 6,300 of GAF's employees were represented by 53 union locals, affiliated with 24 international unions. During the year, a union was certified at Chattanooga, Tenn., and decertification was voted by office employees at Erie Lake, Pa. There were six strikes during the year, resulting in a loss of 154 days. A total of 27 labor contracts, including pension agreements, were negotiated.

A new, computerized human resources system implemented in 1979 facilitates the rapid gathering, storage, updating, retrieval and reporting of payroll and personnel information. One purpose of this program is to maintain an up-to-date skills inventory data bank in support of the company's policy of promoting from within whenever possible. The system will also facilitate compliance with various regulatory agencies.

An engineering student co-op program was set up, through which engineering students can work for GAF while in school. The students gain valuable work experience while the company gains access to potential new employees.

Government Relations

The Washington, D.C.-based Government Relations office succeeded, during 1979, in increasing the number and type of U.S. government-aided research and development projects. A contract with the Department of Energy shows indications of significant energy savings through new roofing manufacturing technology. Other research and development involvements with the government included test and evaluation of new GAF dielectric films.

The office performs government contract administration for all GAF product lines and directs government marketing activities. Increased sales of GAF floor tile, industrial x-ray film and aerial reconnaissance film were made to various agencies.

The office also monitors new and proposed regulations which might affect the company.

Management

In May, Richard F. Bucher joined GAF and was elected senior vice president for international operations.

In July, John A. Brennan was elected senior vice president in charge of building materials. He replaced Joseph G. Hall, who became senior vice president for marketing relations.

Several management changes and promotions were made in August. They were: Carl Eckardt, director of market development, to vice president—commercial development; Philip S. Gillcrist, treasurer, to vice president—floor products marketing; Bernard L. Kapell, director of corporate taxation, to vice president—taxes; Robert E. Miller, director of financial planning, to vice president—finance; Adele S. Weisman, assistant treasurer, to treasurer.

Also in June, H. Philip Farnham joined the company and was elected to vice president for materials management.

In December, Robert F. McCarthy, director of chemical manufacturing, was elected a vice president.

Board of Directors

Two members joined the Board of Directors in 1979. In April Mr. T. Roland Berner was elected to the Board, filling a vacancy created when Dr. Howard S. Turner chose not to stand for re-election. In October, Dr. Nolan B. Sommer joined the Board, succeeding Mr. Philip B. Dalton, former president, chief operating officer and board member who resigned in July.

Dr. Sommer was formerly a member of senior management with American Cyanamid Company and a research chemist.

Of the ten members of the Board, seven are outside directors and three are officers of GAF.

01-0227762

GAF 12163

Board of Directors

Jesse Werner*
Chairman

T. Roland Berner*
Chairman of the Board
Curtiss-Wright Corporation

Peter Bosshard**
Executive Vice President
Credit Suisse

Carter L. Burgess**
Chairman
Foreign Policy Association

Sam Harris* **
Partner
Fried, Frank, Harris,
Shriver & Jacobson

Juliette M. Moran
Executive Vice President
GAF Corporation

William S. Ogden*
Executive Vice President
Chase Manhattan Bank, N.A.

James J. O'Leary* **
Economic Consultant
Formerly
Vice Chairman of the Board
United States Trust Company
of New York

James T. Sherwin
Executive Vice President
GAF Corporation

Nolan B. Sommer
Formerly Senior Vice President
American Cyanamid Company

*Member, Executive Committee
**Member, Audit Committee

The Board of Directors Audit Committee, consisting of outside directors, meets separately with the independent certified public accountants and company management at least twice a year to discuss the scope and results of the annual examination, internal accounting controls and significant accounting matters.

Officers

Jesse Werner
Chairman of the Board
and President

Juliette M. Moran
Executive Vice President

Jay R. Olson
Executive Vice President

James T. Sherwin
Executive Vice President

Richard F. Smith
Executive Vice President

John A. Brennan
Senior Vice President

Richard F. Bucher
Senior Vice President

James M. Cloney
Senior Vice President

R. Power Fraser, Jr.
Senior Vice President

Jack F. Gow
Senior Vice President

Joseph G. Hall
Senior Vice President

Jack Scheckowitz
Senior Vice President

Louis G. Zachary
Senior Vice President

Randolph C. Bramwell
Vice President

John J. Butler
Vice President

Mason B. Cooke
Vice President

Thomas A. Dent
Vice President

Carl R. Eckardt
Vice President

Leo J. Faneuf
Vice President

H. Philip Farnham
Vice President

Jerome K. Full
Vice President

Philip S. Gillcrist
Vice President

Simon W. Kantor
Vice President

Bernard L. Kapell
Vice President

Robert F. McCarthy
Vice President

Frederick W. McNabb, Jr.
Vice President
General Counsel and Secretary

Robert E. Miller
Vice President

Wayne H. Page
Vice President

Alfred P. Rimlinger
Vice President

Raymond W. Smith
Vice President

A. Eugene Stillman
Vice President and
Controller

Adele S. Weisma
Treasurer

GAF 12164

Review of Consolidated Financial Information

Schedule of Business Segments and Summary of Operations*

	Dollars in Millions						
Year Ended December 31	**1979**	1978	1977	1976	1975	1974	
Sales							
Chemical	**$ 339.4**	$ 281.0	$226.4	$213.0	$198.1	$187.1	[illegible]
Less Intersegment Sales**	**38.0**	32.2	25.5	22.1	20.9	20.0	
Net Chemical	**301.4**	248.8	200.9	190.9	177.2	167.1	[illegible]
Photo & Repro	**320.2**	280.8	244.4	218.2	202.1	196.5	[illegible]
Building Materials	**591.6**	533.7	474.2	421.7	372.3	360.6	[illegible]
Consolidated Sales	**1,213.2**	1,063.3	919.5	830.8	751.6	724.2	[illegible]
Cost of Products Sold	**888.7**	765.9	665.3	592.2	517.9	498.7	[illegible]
Direct Operating Expenses	**224.6**	195.6	164.3	152.0	136.7	131.4	[illegible]
Direct Operating Profit							
Chemical	**64.5**	50.6	45.5	41.0	42.3	45.6	[illegible]
Photo & Repro	**10.1**	11.7	3.4	1.4	6.7	5.9	[illegible]
Building Materials	**25.3**	39.5	41.0	44.2	48.0	42.6	[illegible]
Total	**99.9**	101.8	89.9	86.6	97.0	94.1	[illegible]
Corporate Expenses							
Interest	**19.9**	18.7	20.4	17.1	17.6	17.8	[illegible]
Other	**42.3**	27.4	21.3	21.3	17.2	21.8	
Income From Continuing Operations Before Income Taxes	**37.7**	55.7	48.2	48.2	62.2	54.5	[illegible]
Income Taxes	**9.5**	25.3	22.0	20.0	23.9	23.8	[illegible]
Income From Continuing Operations	**28.2**	30.4	26.2	28.2	38.3	30.7	[illegible]
Income (Loss) From Discontinued Segments Net of Income Taxes	**—**	3.8	(73.2)	(8.5)	(7.4)	(2.2)	[illegible]
Net Income (Loss)	**$ 28.2**	$ 34.2	$ (47.0)	$ 19.7	$ 30.9	$ 28.5	$ 3[illegible]
Identifiable Assets							
Chemical	**$ 182.6**	$ 163.4	$143.2	$192.5	$181.1	$175.2	$179[illegible]
Photo & Repro	**239.0**	241.6	243.6	326.9	297.7	319.7	262[illegible]
Building Materials	**348.5**	296.3	242.6	205.6	187.8	181.4	15[illegible]
Corporate	**65.5**	61.6	61.3	52.4	66.2	45.9	4[illegible]
Assets of Discontinued Segments	**—**	22.4	71.7	—	—	—	
Total Assets	**$ 835.6**	$ 785.3	$762.4	$777.4	$732.8	$722.2	$64[illegible]
Additions to Property, Plant and Equipment							
Chemical	**$ 15.3**	$ 8.5	$ 12.9	$ 12.7	$ 11.1	$ 9.0	$ [illegible]
Photo & Repro	**6.3**	9.0	11.0	16.8	15.0	10.7	9[illegible]
Building Materials	**34.6**	32.4	27.8	17.7	11.8	16.1	12[illegible]
Corporate	**2.6**	1.2	.6	1.4	.1	3.5	2[illegible]
Total	**$ 58.8**	$ 51.1	$ 52.3	$ 48.6	$ 38.0	$ 39.3	$ 25[illegible]
Depreciation							
Chemical	**$ 8.7**	$ 8.4	$ 8.0	$ 7.8	$ 5.7	$ 5.4	$ [illegible]
Photo & Repro	**7.7**	7.6	7.9	6.4	6.6	6.7	[illegible]
Building Materials	**11.4**	9.6	8.4	8.5	8.5	8.1	7[illegible]
Corporate	**1.4**	1.4	1.3	1.3	1.1	1.1	
Total	**$ 29.2**	$ 27.0	$ 25.6	$ 24.0	$ 21.9	$ 21.3	$ 20[illegible]

* Statement of income information is presented so as to segregate continuing from discontinued operations for all periods. Previously recorded balance sheet amounts have not been restated for discontinued segments. Operations were discontinued primarily in 1977 and to a lesser extent in 1978. See Note 1 of Notes to Consolidated Financial Statements.

** Intersegment sales are recorded at the same prices charged to unaffiliated customers. Intersegment sales by the Photo & Repro and Building Materials groups were negligible.

GAF 12165 1-0227370

Management's Discussion and Analysis of Summary of Operations

The Summary of Operations is presented so as to segregate continuing from discontinued operations for all periods. The results of the discontinued businesses are shown separately (see Note 1 on page 30)

1979 Compared with 1978 – Continuing Businesses

Consolidated sales increased $149.9 million (14%), with gains in each of the worldwide product sales groups. Chemical sales growth of $52.6 million (21%) resulted from both price and volume increases. Volume increases were especially strong in acetylene and specialty chemicals. Photo & Repro sales increased $39.4 million (14%), primarily as a result of pricing and also because of reprographic and industrial photographic volume gains; the effect of translating foreign sales into United States dollars also accounted for a portion of the overall sales increase. For Building Materials, higher selling prices for all products and increased volume in international sheet vinyl flooring products were partially offset by a decline in domestic volume of both roofing and sheet vinyl flooring with a resultant sales gain of $57.9 million (11%). The increased unit volume in international flooring is due to the expansion of the sheet vinyl markets in Europe and Canada. Decreased domestic volume reflects production interruptions at several plants resulting chiefly from raw material shortages, equipment breakdowns, weather conditions and a strike.

Direct operating profit decreased $1.9 million (2%) primarily as a result of a substantial decline in Building Materials nearly offset by a strong gain in Chemical. Chemical results improved $13.9 million (27%) principally due to improved volume and resultant profits for acetylene and specialty chemicals. Building Materials profits were off $14.2 million (36%); this decline was attributable primarily to roofing and flooring cost increases for raw materials, energy and other manufacturing and operating expenses in excess of increased selling prices. Also contributing to this decline were roofing volume decreases – caused in part by production interruptions, continued start-up costs for the urethane insulation product line and increased losses from the automotive operation – due to lower sales and production volumes. Direct operating profit for Photo & Repro decreased by $1.6 million (14%) as a result of higher operating expenses and raw material cost increases. While the profits for the reprographic product line improved as a result of increased volume and prices, margins in industrial photo were adversely affected by the rapid escalation of costs.

Interest expense increased because of higher rates and a higher level of debt. The increase was offset by capitalization of $2.7 million in interest incurred in connection with financing current additions to property, plant and equipment (see Note 2 on page 30). The net increase is $1.2 million (7%). Capitalization of interest was adopted in 1979 in accordance with a recently issued Statement by the Financial Accounting Standards Board.

Other corporate expenses increased $14.9 million (54%). The principal reasons for this net increase were a pre-tax loss of $6.0 million on silver futures transactions, a $10.6 million unfavorable swing in pre-tax foreign exchange results and overall inflationary pressures. These factors were partially offset by improved results from the 50% ownership of a chemical manufacturing company and a captive insurance subsidiary – both carried on the equity method, gains on the sale of several properties, lower executive incentive compensation and other nonrecurring gains in 1979 (see Notes 3 and 4 on page 30)

The annual effective income tax rate of 25.2% was lower than the 1978 rate primarily due to a United Kingdom tax revision and the increased impact of United States investment tax credits (see Note 12 on page 34)

1978 Compared With 1977 – Continuing Businesses

Consolidated sales increased $143.8 million (16%) on gains in each of the worldwide product sales groups. Chemical sales increased $47.9 million (24%) primarily on increased volume in acetylene, specialty and agricultural chemicals. The increase in Photo & Repro of $36.4 million (15%) was a result of volume increases in the industrial photo and reprographic product lines and, to a lesser extent, because of price increases and translation of foreign sales into United States dollars. For Building Materials, improved sales of the roofing product line, due mostly to price but also to volume increases, provided a $59.5 million (13%) gain.

Direct operating profit improved $11.9 million (13%) with gains in Chemical and Photo & Repro slightly offset by Building Materials. Chemical profits were $5.1 million (11%) ahead of 1977 which included a gain of $3.7 million on a contract termination. Higher profits were reported in most Chemical product lines but especially in the agricultural, specialty and acetylene areas. The improvement reflected increased unit volume which was partially offset by cost increases which, because of competitive pressures, were not fully passed through to selling prices. The direct operating profit of Photo & Repro increased $8.3 million (244%) on increased volume and improved operating efficiencies. Building Materials results were down $1.5 million (4%) due to start-up expenses of new operations: a sheet vinyl plant in Ireland, an automotive padding and advanced mastic facility and a polyurethane insulation plant. Phase-out expenses incurred in terminating mineral fiber activities also curtailed Building Materials profits.

Interest expense decreased $1.7 million (8%) primarily as a result of reduced short-term debt.

Other corporate expenses increased $6.1 million (29%). The increase reflected the nonrecurrence of $2.2 million of 1977 income from settlement of a lawsuit concerning a chlorine caustic plant formerly owned by the company, the absence of any executive incentive compensation in 1977 and pre-tax gains during 1977 on the sale of several properties and an investment, offset by increased pre-tax foreign exchange gains.

Increased income taxes were proportionate to the change in pre-tax earnings.

Prior Years

In 1975, a $4.0 million non-taxable gain was realized on the sale of technology to the Chemical joint-venture in Germany and was recorded as a reduction of other corporate expenses.

In 1974, a pre-tax profit of $5.5 million was realized on the repurchase of 5% convertible subordinated notes. Also, the sale of three properties resulted in pre-tax gains amounting to $1.4 million. A $5.0 million provision for relocation costs was recorded in connection with the transfer of certain administrative activities to Wayne, New Jersey. All of these were recorded as other corporate expenses.

In 1973, pre-tax profit of $6.4 million was realized on the repurchase of 5% convertible subordinated notes and was recorded as a reduction of other corporate expenses.

GAF 12166 01-027771

Data per Common Share

Year Ended December 31	**1979**	1978	1977	1976	1975	1974	1973
				Dollars			
Primary Earnings							
Continuing	**$ 1.83**	$ 2.01	$ 1.70	$ 1.85	$ 2.62	$ 1.99	$ 2.1[illegible]
Discontinued	**—**	.28	(5.52)	(.64)	(.56)	(.15)	[illegible]
Net Income (Loss)	**$ 1.83**	$ 2.29	$(3.82)	$ 1.21	$ 2.06	$ 1.84	$ 2.06
Fully Diluted Earnings							
Continuing	**$ 1.62**	$ 1.76	$ 1.52	$ 1.63	$ 2.21	$ 1.74	$ 1.8[illegible]
Discontinued	**—**	.21	(4.20)	(.49)	(.42)	(.12)	[illegible]
Net Income (Loss)	**$ 1.62**	$ 1.97	$(2.68)	$ 1.14	$ 1.79	$ 1.62	[illegible]
Weighted Average Number of Common Shares (in thousands)	**13,386**	13,306	13,252	13,303	13,237	13,518	13,63[illegible]
Dividends on Common Shares	**$ .68**	$ .64	$ .60	$ .58	$ .52	$ .46	$ .42
Shareholders' Equity	**$21.25**	$20.33	$18.64	$ 23.01	$ 22.35	$ 20.87	$ 18.83

Financial Condition

December 31	**1979**	1978	1977	1976	1975	1974	1973
				Dollars in Millions			
Current Assets	**$492.1**	$472.2	$464.[illegible]	$451.3	$426.6	$435.2	$364.0
Current Liabilities	**201.5**	179.8	186.3	145.5	158.8	130.9	112.6
Working Capital	**290.6**	292.4	277.8	305.8	267.8	304.3	251.4
Property, Plant and Equipment—Net	**308.4**	280.6	262.9	275.1	255.9	244.4	232.8
Total Assets	**835.6**	785.3	762.4	777.4	732.8	722.2	640.0
Long-term Debt (Including Current Portion)	**206.4**	196.8	198.4	202.4	180.5	200.[illegible]	148.6
Shareholders' Equity	**369.0**	351.7	329.7	387.9	379.0	357.6	342.9

Historic Cost/Constant Dollar—Accounting for Inflation

Presented below is selected information reflecting historic amounts stated in 1979 constant dollars. The objective of this information is to remove the effects of inflation from the historic amounts recorded. For this presentation, inflation is measured by changes in general price levels using the Consumer Price Index for All Urban Consumers. All amounts represent the average purchasing power of 1979 dollars. Except for 1979 Net Sales and Dividends per common share, the amounts will not agree with those shown elsewhere in this report or with those previously reported. Also see Note 15 of Notes to Consolidated Financial Statements.

Year Ended December 31	**1979**	1978	1977	1976	1975	1974	1973
				Dollars in Millions			
Net Sales	**$1,213.2**	$1,183.0	$1,101.4	$1,059.3	$1,013.6	$1,066.[illegible]	$989.[illegible]
				Dollars			
Dividends per common share	**$ .68**	$ .71	$ .72	$ .74	$ .70	$ .6[illegible]	$ .69
Year-end market price per common share	**$ 9.57**	$ 12.73	$ 12.71	$ 16.69	$ 13.90	[illegible]	[illegible]
Average Consumer Price Index	**217.4**	195.4	181.5	170.5	161.2	[illegible]	133.[illegible]

01-0207372

GAF 12167

proved popular since its introduction in late 1977. In addition to its compact size, this machine removes most of the ammonia odor from prints.

Broad diazo line

The company makes a full line of 17 mercury vapor and fluorescent diazo machines, from the low-printing-volume Print Vac® 190 to the top-of-the-line 1200DA which makes high quantities of prints quickly and economically. A new machine to meet the needs of the oil exploration business, the Gaflog™ diazoprinter, was introduced in the second half of 1978 and has sold well. This unit reproduces oil drilling seismic logs, and is small enough to be housed in an on-site trailer.

Worldwide diazo equipment and sensitized papers sales increased 15% over 1977 levels, with profits rising as well. Diazo microfilm—a product line designed to reproduce microfilms economically—has experienced significant gains, with several sales to new customers during 1978, as well as continuing demand from established accounts. A new product, Gafline™ 12 diazo microfilm, was brought out in 1978 and has sold well. This film is designed to duplicate computer output. New chemistries have been developed which show excellent resistance to yellowing.

Improved efficiency

Substantial savings were realized in Photo & Repro manufacturing during the year through a broad program to improve production efficiency.

Sales of View-Master® stereo viewers and reels and Pana-Vue® slides were up slightly from 1977 levels in the United States, but rose substantially in Europe. A program of price increases and improved manufacturing efficiencies has been initiated in order to offset rising costs. During 1978, the View-Master line doubled its annual offering of new reel packets, including such features as Superman... The Movie, The Wiz and King Tut. Also, added emphasis is being placed on marketing in drug chains and catalog showrooms.

In early 1979, GAF is introducing a new product, the Double-Vue™ automatic movie viewer, a battery-operated toy that enables children to see brief double features in a hand-held viewer. A series of interchangeable movie cassettes will be available, creating an aftermarket. Considerable development effort is going into this product, and initial trade reception has been favorable.

The company's facility in Sint-Niklaas, Belgium, which had unutilized space when it opened in 1977, is now operating with increasing efficiency. This is discussed more fully in the International section of this report.

Business forms sale

Although profitable, GAF's business forms line did not integrate well with the company's continuing businesses. Furthermore, changes in the nature of the marketplace would have required GAF to invest substantially in this area to continue to compete effectively. Therefore GAF chose to sell this operation.

Arrangements are in progress to sell this business, located in Shelby, Ohio. Accordingly, above sales and earnings figures exclude business forms revenues from 1978 results, and, for comparison, from prior years as well.

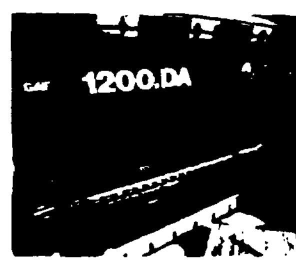
GAF 12116

01-0007721

Industrial Photo Products
Graphic Arts Films, Chemicals
Phototypesetting Papers
Industrial X-ray Films & Chemicals
Medical & Dental X-ray Films
Processing Chemicals
Intensifying Screens & Cassettes
Special Photo Products

Pictorial Products
Pictorial Slides
Slide Viewers
Stereo Picture Reels
Stereo Viewers
Toy Movie Viewer & Cartridges

Reprographic Products
Contract Manufacturing
Diazo Engineering Printers & Materials
Diazo Microfilm Equipment & Materials
Overhead Transparencies



Above: Tests are conducted on diazoprinter at each step in assembly process. The quality of these machines reinforces the company's leadership position in repro graphics.

Opposite: Transparencies for View-Master® stereo reels are examined on light table for color, clarity, consistency. GAF's commitment to quality affects all product lines, from seemingly simple toys to complex organic chemicals.

Financing Activities

The cash required by the operations in 1979 was financed through a combination of excess cash generated during the prior year and a net increase in long-term debt. In 1979 two major long-term debt issues were placed at relatively low interest rates. Several Irish banks loaned the Irish operations about $17 million to finance working capital and additional capital expenditures. This Section 84 loan has certain tax advantages to the lenders which are, to a large extent, passed on to GAF in the form of below-market interest rates. The currency denomination can be changed periodically and the interest rate floats with the market rates of the designated currency. The maturity extends up to seven years.

A total of $9 million of tax exempt bonds was placed with various bank and insurance company lenders. The average interest rate was 7.5% with maturities ranging from 10 to 25 years.

GAF Corporation and Consolidated Subsidiaries
Summary of Significant Accounting Policies

(The following accounting policies apply to the continuing operations of the company.)

Principles of Consolidation

The accounts of all significant subsidiaries of the company are included in the consolidated financial statements. A wholly owned captive insurance subsidiary and the 50% ownership of a chemical manufacturing company are carried on the equity method.

Short-term Investments

Short-term investments are valued at cost, which approximates market.

Inventories

Inventories are valued at the lower of cost (principally average) or market.

Property, Plant and Equipment, and Related Depreciation

Expenditures for maintenance and repairs are charged directly to expense, major replacements and betterments are capitalized and depreciated over the remaining estimated economic lives of the related assets. The cost and related accumulated depreciation of property sold, retired or fully depreciated are removed from the accounts and any resultant gain or loss is included in current income.

Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. These lives are subject to periodic review and revision to assure that the cost of the related assets is written off over their economic lives.

Beginning in 1979, certain interest charges are capitalized as part of the cost of property, plant and equipment additions. See Note 2 of Notes to Consolidated Financial Statements.

Deferred Income Taxes

Deferred income taxes arise from reporting certain income and expense items in the financial statements in periods different from those in which such amounts are reported for income tax purposes.

Investment Tax Credit

The company accounts for investment tax credits arising since January 1, 1971, as a reduction of the provision for United States income tax (the flow-through method). Investment tax credits which arose prior to that date have been deferred and are being amortized over the estimated service lives of the related assets.

Retirement Plans

The company and its subsidiaries have retirement plans covering substantially all employees. The company's policy is to fund amounts equal to pension costs accrued and, for plans with prior service costs, to amortize such costs over periods not to exceed forty years.

Earnings Per Share

Primary earnings per common share are computed by dividing income, less preferred stock dividend requirements, by the weighted average number of shares of common stock outstanding during the year. The computation assumes the exercise of outstanding stock options to the extent they are dilutive.

Fully diluted earnings per common share are computed on the assumption (where the effect thereof would be dilutive) that convertible securities outstanding had been converted into shares of common stock. Appropriate adjustments for dividends on preferred stock and interest on convertible notes (net of income tax effect) are made to earnings applicable to common stock for assumed conversions. The computation also assumes the exercise of all dilutive stock options.

GAF 12168

01-02372...

Consolidated Statements of Income (Note 1)

Year Ended December 31	1979	1978
Net Sales	**$1,213,243,000**	$1 063 291 000
Costs and Expenses		
Cost of products sold	**888,670,000**	765 917 000
Distribution and selling	**166,406,000**	146 717 000
Advertising	**19,287,000**	16 698 000
Research and development	**17,001,000**	14 632 000
General and administrative	**58,018,000**	49 795 000
Interest (Notes 2 & 9)	**19,901,000**	18 677 000
Total Costs and Expenses	**1,169,283,000**	1 012 436 000
Income before Other Income (Charges) and Income Taxes	**43,960,000**	50 855 000
Other Income (Charges)		
Loss on silver future transactions	**(5,966,000)**	—
Foreign exchange gains (losses) (Note 3)	**(6,527,000)**	4 639 000
Other—net (Note 4)	**6,187,000**	246 000
Total Other Income (Charges)	**(6,306,000)**	4 885 000
Income from Continuing Operations before Income Taxes	**37,654,000**	55.740 000
Income Taxes (Note 12)	**9,471,000**	25 341 000
Income from Continuing Operations	**28,183,000**	30 399 000
Income from Discontinued Segments, net of income taxes (including $750,000 from operations)	**—**	3 765 000
Net Income	**28,183,000**	34 164 000
Less Preferred stock dividend requirements	**3,635,000**	3 636 000
Net Income Applicable to Common Stock	**$ 24,548,000**	$ 30 528 000
Weighted Average Number of Common Shares	**13,386,000**	13 306 000
Earnings per Common Share		
Primary		
Continuing	**$ 1.83**	[illegible]
Discontinued	**—**	[illegible]
Net Income	**$ 1.83**	[illegible]
Fully Diluted		
Continuing	**$ 1.62**	[illegible]
Discontinued	**—**	[illegible]
Net income	**$ 1.62**	[illegible]

Consolidated Statements of Retained Earnings

Year Ended December 31	1979	1978
Balance January 1	**$285,613,000**	$263 542 000
Net Income	**28,183,000**	34 164 000
Less cash dividends		
Preferred stock ($1.20 per share)	**3,635,000**	3 636 000
Common stock (1979—$.68 per share 1978—$.64 per share)	**9,069,000**	6 457 000
Balance December 31	**$301,092,000**	$285 613 000

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements

GAF 12169

Consolidated Statements of Changes in Financial Position

Year Ended December 31	1979	1978
Working Capital Provided		
Continuing Operations		
Income from Continuing Operations	**$ 28,183,000**	$ 30 399 000
Charges (Credits) not affecting working capital		
Depreciation	**29,190,000**	26 970 000
Deferred income taxes	**(1,343,000)**	3 147 000
Foreign exchange losses—noncurrent portion	**2,226,000**	3 273 000
Other	**1,852,000**	6 625 000
Working Capital provided	**60,108,000**	70 414 000
Discontinued Segments	**—**	2 159 000
Total working capital provided from operations	**60,108,000**	72 573 000
Increases in long-term debt	**27,274,000**	4 060 000
Fixed assets of discontinued segments held for sale	**—**	3 991 000
Increase (decrease) in noncurrent liability for phase-out costs	**(1,752,000)**	7 631 000
Total	**85,630,000**	88 255 000
Working Capital Applied		
Additions to property, plant and equipment	**58,804,000**	51 148 000
Cash dividends	**12,704,000**	12 093 000
Reductions in long-term debt	**14,336,000**	8 278 000
Other	**1,631,000**	2 137 000
Total	**87,475,000**	73 656 000
Increase (Decrease) in Working Capital	**(1,845,000)**	14 599 000
Working Capital January 1	**292,405,000**	277 806 000
Working Capital December 31	**$290,560,000**	$292 405 000

Analysis of Changes in Working Capital	1979	1978
Increase (decrease) in current assets		
Cash	**$ 3,519,000**	$ (4 745 000)
Short-term investments	**(21,450,000)**	22 035 000
Accounts receivable	**11,772,000**	35 770 000
Inventories	**53,765,000**	16 069 000
Prepaid expenses	**(1,084,000)**	2 385 000
Income tax benefits	**(4,182,000)**	(14 133 000)
Assets of discontinued segments	**(22,448,000)**	(49 296 000)
Total	**19,892,000**	6 085 000
Increase (decrease) in current liabilities		
Notes payable	**5,958,000**	9 244 000
Current portion of long-term debt	**3,662,000**	(1 543 000)
Accounts payable	**(30,717,000)**	(7 492 000)
Accrued liabilities	**451,000**	8 229 000
Income taxes payable	**(1,091,000)**	(11 924 000)
Total	**(21,737,000)**	6 514 000
Increase (Decrease) in Working Capital	**$ (1,845,000)**	$ 14 599 000

Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements

01-0207375

GAF 12170

Consolidated Balance Sheets

December 31	1979	1978
Assets		
Current Assets		
Cash	$ 17,903,000	$ 14 384 000
Short-term investments	1,175,000	22 625 000
Accounts receivable—trade less allowance for doubtful accounts—1979 $5 779 000 1978 $5 318 000	188,586,000	168 142 000
Accounts receivable—other	10,007,000	18 679 000
Inventories		
Finished goods	126,071,000	105 290 000
Work in process	37,552,000	29 802 000
Raw materials and supplies	100,587,000	75 353 000
Total inventories	264,210,000	210 445 000
Prepaid expenses	9,986,000	11 070 000
Income tax benefits (Note 1)	256,000	4 438 000
Assets of discontinued segments, at estimated realizable value (Note 1)	—	22 448 000
Total Current Assets	492,123,000	472 231 000
Property, Plant and Equipment, at cost (Note 13)		
Land and land improvements	19,463,000	17 591 000
Buildings and building equipment	130,451,000	119 238 000
Machinery and equipment	299,758,000	268 720 000
Construction in progress	25,062,000	27 731 000
Total Property, Plant and Equipment	474,734,000	433 280 000
Less accumulated depreciation	166,327,000	152 710 000
Property, Plant and Equipment—Net	308,407,000	280 570 000
Cost in Excess of Net Assets Acquired	24,321,000	24 351 000
Other Assets	10,784,000	8 112 000
Total Assets	$835,635,000	$785 264 000

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements

01-2237376

GAF 12171

December 31	1979	1978
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable (Note 9)	**$ 17,650,000**	$ 23 608 000
Current portion of long-term debt (Note 9)	**4,462,000**	8 124 000
Accounts payable	**109,850,000**	79 133 000
Accrued liabilities (Note 1)	**64,599,000**	65 050 000
Income taxes payable	**5,002,000**	3 911 000
Total Current Liabilities	**201,563,000**	179 626 000
Long-term Debt Less Current Portion (Note 9)	**201,930,000**	188 721 000
Deferred Credits		
Income taxes (Note 12)	**19,520,000**	22 023 000
Investment tax credit	**1,436,000**	2 008 000
Total Deferred Credits	**20,956,000**	24 031 000
Other Liabilities (Note 1)	**42,156,000**	40 946 000
Commitments and Contingent Liabilities (Note 13)		
Shareholders' Equity (Notes 7, 8 & 9)		
Preferred stock $1 par value, authorized 6 000 000 shares $1.20 convertible series issued—1979 3 105 677 shares 1978 3 105 767 shares at assigned value of $1.25 per share (liquidation value 1979 $83 305 000)	**3,882,000**	3 882 000
Common stock $1 par value, authorized 25 000 000 shares issued—1979 13 770 359 shares 1978 13 770 247 shares	**13,770,000**	13 770 000
Additional paid-in capital	**53,900,000**	53 936 000
Retained earnings	**301,092,000**	285 613 000
Total	**372,644,000**	357 201 000
Less stock held in treasury at cost		
Common—1979 323 787 shares 1978 567 207 shares	**2,682,000**	4 531 000
Preferred—76 400 shares in 1979 and 1978	**932,000**	932 000
Total Shareholders' Equity	**369,030,000**	351 738 000
Total Liabilities and Shareholders' Equity	**$835,635,000**	$785 264 000

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements

01-0207777

GAF 12172

Notes to Consolidated Financial Statements

1 Discontinued Segments

Effective at December 31 1978, the company decided to discontinue its business forms operation at Shelby, Ohio and this operation was sold during 1979. Net sales of the business forms segment were approximately $26 million in 1978 and operating income was $0.8 million ($1.6 million before taxes).

During 1977 the company discontinued operations in consumer photo, photo processing, dyestuffs and pigments, felts and filters and several small businesses. Activity in the reserve and liability accounts is summarized in the table below.

	Reserve For Loss On Disposition of Assets	Liability For Phase-Out Costs	Total
		Dollars in Millions	
Balance January 1 1978	$ 35.9	$ 52.0	$ 87.9
Activity during 1978 regarding 1977 discontinuances	(21.8)	(13.5)	(35.3)
Adjustment of excess reserve balance	(6.1)	—	(6.1)
Provision for discontinuance of business forms operation	.9	3.2	4.1
Balance December 31 1978	$ 8.9	$ 41.7	$ 50.6
Activity during 1979	(8.9)	(4.2)	(13.1)
Balance December 31 1979	$ —	$ 37.5	$ 37.5

The income from discontinued segments in 1978 includes (i) a net, after-tax effect ($1.0 million) of the adjustment of excess reserve balance less the provision for discontinuance of the business forms operation, (ii) additional tax benefits realized ($2.0 million) and (iii) operating income of the business forms operation for 1978 ($0.8 million).

At December 31, 1979 the current portion of the liability for phase-out costs is $3.1 million and is included in Accrued Liabilities; the noncurrent portion of $34.4 million pertains primarily to retirement benefits and is included in Other Liabilities.

2 Capitalization of Interest

Total interest cost incurred during 1979 was $22.6 million. Of the total, $2.7 million was capitalized in connection with financing additions to property, plant and equipment, resulting in reported interest expense of $19.9 million. Capitalization of a portion of interest costs was adopted in 1979 in accordance with a Statement recently issued by the Financial Accounting Standards Board.

3 Foreign Exchange

Foreign exchange gains (losses) are comprised as follows

	Dollars in Thousands	
For the year	**1979**	1978
Pre-tax		
Translation	**$(2,874)**	$(5,595)
Forward exchange contracts	**(3,284)**	10,013
Other	**(369)**	221
Total	**$(6,527)**	$ 4,639
After tax		
Translation	**$(2,874)**	$(5,595)
Forward exchange contracts	**(1,675)**	4,906
Other	**(326)**	(113)
Total	**$(4,875)**	$ (802)

Taxes related to foreign exchange are included in income taxes. Generally balance sheet translations are not tax effected, whereas the results of forward exchange contracts are subject to tax.

4 Equity Method Investments

The net results of a wholly owned captive insurance subsidiary and the company's share of the net results of its 50% ownership in a chemical manufacturing company are recorded in Other Income (Charges) on the Consolidated Statements of Income. For 1979 equity method income of $234,000 is included whereas a loss of $1,848,000 is included for 1978.

5 Supplementary Financial Information

The following expenses of continuing operations are included in the Consolidated Statements of Income

	Dollars in Thousands	
For the Year	**1979**	1978
Maintenance and repairs	**$57,487**	$52,584
Taxes other than taxes on income		
Social Security and unemployment	**24,311**	21,429
Other	**7,381**	7,434
Rent on operating leases	**16,912**	15,874

01-0207376

GAF 12173

6 Geographic Information

Information with respect to operations by geographic area is as follows:

For the year	United States	Western Europe	Other	Eliminations and Other	Total Consolidated
	Dollars in Millions				
1979					
Sales	$1,029.4	$208.3	$41.1	$(65.6)	$1,213.2
Less intergeographic sales*	53.6	11.9	.1	(65.6)	—
Sales to Unaffiliated Customers	975.8	196.4	41.0	—	1,213.2
Direct Operating Profit	83.0	13.7	3.2	—	99.9
Corporate Office Expenses					(62.2)
Income from Continuing Operations Before Income Taxes					37.7
Assets and Liabilities					
Inventories	191.7	62.7	9.8	—	264.2
Other Current Assets	167.5	50.5	9.9	—	227.9
Noncurrent Assets	281.6	55.4	6.5	—	343.5
Total Assets	640.8	168.6	26.2	—	835.6
Current Liabilities	146.5	50.6	4.5	—	201.6
Other Liabilities	232.3	31.4	1.3	—	265.0
Total Liabilities	378.8	82.0	5.8	—	466.6
Net Assets	262.0	86.6	20.4	—	369.0
1978					
Sales	$ 922.3	$162.7	$32.4	$(54.1)	$1,063.3
Less intergeographic sales*	44.8	9.1	.2	(54.1)	—
Sales to Unaffiliated Customers	877.5	153.6	32.2	—	1,063.3
Direct Operating Profit	88.6	11.6	1.6	—	101.8
Corporate Office Expenses					(46.1)
Income from Continuing Operations Before Income Taxes					55.7
Assets and Liabilities					
Inventories	158.0	43.1	9.3	—	210.4
Other Current Assets	185.5	45.2	8.7	22.4**	261.8
Noncurrent Assets	252.3	54.1	6.7	—	313.1
Total Assets	595.8	142.4	24.7	22.4	785.3
Current Liabilities	126.5	46.3	7.0	—	179.8
Other Liabilities	237.2	14.7	1.9	—	253.8
Total Liabilities	363.7	61.0	8.9	—	433.6
Net Assets	232.1	81.4	15.8	22.4	351.7

GAF 12174

*Intergeographic transfers are recorded at prices above cost as negotiated between the operating units.
**Assets of discontinued segments at estimated realizable value (See Note 1 on page 30).

Notes to Consolidated Financial Statements

(continued)

7 Capital Stock

The $1.20 convertible preferred stock, dividends on which are cumulative, is convertible at any time into common stock at the rate of 1¼ shares of common stock for each share of preferred. The company may redeem the preferred stock at $27.50 per share.

Transactions in common stock held in treasury were as follows:

	Dollars in Thousands 1979	1978
Balance January 1	**$4,531**	$4,438
Re-purchase of 3,500 shares in 1979 and 17,000 in 1978 pursuant to the stock purchase plan	**19**	93
Issuance from treasury of 246,920 shares in 1979 in connection with sales under the stock option plan and the restricted stock purchase plan	**(1,868)**	—
Balance December 31	**$2,682**	$4,531

As a result of the above issuance of treasury shares during 1979 additional paid-in capital has been decreased by $174,000.

The shares of common stock reserved for issuance at December 31, 1979 and 1978 were as follows:

Reserved for	1979	1978
Conversion of $1.20 convertible preferred stock	**3,882,096**	3,882,209
Conversion of convertible subordinated notes	**381,747**	388,711
Exercise under stock option and purchase plans	**1,321,270**	1,453,790
Total	**5,585,113**	5,724,710

8 Stock Option and Stock Purchase Plans

The company's stock option plans provide for the granting of options to key employees to purchase common stock of the company at not less than 100% of the fair market value at the date of grant. Under the terms of the 1975 non-qualified plan, options for 800,000 shares of common stock may be granted during a ten-year period ending February 11, 1985. Options granted to date are exercisable one year after grant and expire after 10 years. The plan provides for stock appreciation rights wherein an option holder may request "surrender" of the option in exchange for payment (in cash or stock) by the company of the difference between the option and market prices on the date of surrender. The requested surrender of an option may be granted or denied at the discretion of the company's Stock Option Committee.

Authority to grant options under the 1965 qualified plan expired on March 31, 1975. Options granted under this plan expired five years from the date of grant. Transactions affecting options under these plans are as follows:

	Number of Shares 1979	1978	Average Option Price 1979	1978
Outstanding January 1	**403,900**	507,940	**$9.64**	[illegible]
Granted	**317,000**	—	**11.30**	—
Exercised & Surrendered	**(89,130)**	24,290	**9.60**	[illegible]
Terminated	**(13,100)**	79,750	**10.29**	[illegible]
Outstanding December 31	**618,670**	403,900	**10.48**	9.64

Options for 238,000 and 548,000 shares were available for grant at December 31, 1979 and 1978, respectively.

Under the provisions of the company's 1969 restricted and unrestricted stock purchase plan, 650,000 shares of common stock were authorized for sale to key employees. The plan currently provides that restricted and unrestricted shares may be sold at prices which are not less than 50% and 80%, respectively of the closing market price preceding the date on which an employee is designated as one to whom shares may be offered. Under certain conditions the company has the right to repurchase restricted shares of common stock at the original selling price.

The excess of quoted market value at the date of grant over the aggregate sales price for restricted shares sold is amortized by charges to income over the restricted period. As a result of these charges, additional paid-in capital has been increased by $138,000 and $90,000 in 1979 and 1978, respectively. The balance to be amortized through 1989 amounted to $1,012,000 and $221,000 at December 31, 1979 and 1978, respectively.

9 Debt and Dividend Restrictions

Information regarding short-term debt for the years 1979 and 1978 is:

	Dollars in Thousands 1979	1978
As of December 31		
Balance outstanding	**$17,650**	[illegible]
Average interest rate	**12.7%**	[illegible]
For the year		
Average short-term debt outstanding	**$51,446**	$42,364
Maximum short-term debt outstanding at any month-end	**$76,883**	[illegible]
Average interest rate	**11.5%**	[illegible]

At December 31, 1979, GAF had lines of credit aggregating approximately $190,000,000. These lines of credit are maintained with various banks on terms generally renewable, expiring on various dates.

01-0237730

GAF 12175

Borrowings generally bear interest at or near the prime commercial lending rate or its foreign equivalent. A variable fee, usually based on a percentage of the current prime rate, is paid on the domestic lines of credit. Compensating balances at December 31, 1979 are negligible.

Long-term debt at December 31, 1979 and 1978 was as follows:

	Dollars in Thousands	
	1979	1978
9½% senior notes due March 31, 1991, with equal annual principal repayments beginning March 31, 1982	**$ 65,000**	$65 000
8½% senior notes due January 15, 1997, with equal annual principal repayments beginning January 15, 1983	**40,000**	40 000
5⅞% sinking fund debentures due December 1, 1991 with annual sinking fund payments of $2 500 000 due on each December 1. At December 31, 1979 $9 098 000 was held in Treasury and may be used to accommodate future sinking fund requirements	**20,902**	31 802
Financings with a group of Irish banks, payable in Irish or British pounds, German marks or U.S. dollars. Financings are repayable from 1982 to 1986 with variable interest rates at 55% of the applicable interbank rates, plus a premium	**17,243**	—
Tax-exempt industrial revenue bonds which bear interest at rates of 3⅝% to 7⅝% and mature at various dates to 2004	**20,896**	15 999
5% convertible subordinated notes due April 1, 1994 with annual repayments beginning April 1, 1990	**8,200**	8 200
5½% convertible subordinated notes due April 1, 1983, with annual repayments of $200 000 on each April 1 through 1982 and the balance of $1 800 000 payable April 1, 1983	**2,400**	2 600
Other notes which bear interest at 5⅜% to 12¾% and mature at various dates to 1996	**13,506**	13 441
Obligations under capital leases (See Note 13)	**18,245**	19 803
Total	**206,392**	196 845
Less portion due within one year	**4,462**	8 124
Long-term debt, less current portion	**$201,930**	$188 721

Cash requirements to meet maturing debt obligations over the next five years are:

1980	$ 4 462 000	1983	$19 139 000
1981	$ 6 505 000	1984	$19 037 000
1982	$13 481 000		

The 5% convertible subordinated notes are convertible into shares of common stock, at any time, at a conversion price of $27.50 per share (subject to antidilution adjustments in specified circumstances).

The 5½% convertible subordinated notes are presently convertible into shares of common stock at a conversion price of $28.72 per share (subject to antidilution adjustments in specified circumstances) only in connection with certain prepayments. All other conversion rights lapsed in 1976.

Dividends are restricted under provisions of certain loan agreements. Under the most restrictive of these provisions $46 181 000 of retained earnings are available at December 31, 1979 for future dividends.

10 Retirement Plans

The cost of employee retirement benefits for continuing operations was $15 177 000 in 1979 and $14 087 000 in 1978. At December 31, 1979 the actuarially computed value of vested benefits exceeded the total of pension funds and accrued liabilities for pension cost by $47 822 000. The estimated unfunded prior service cost at December 31, 1979 was $63 522 000.

11 Schedule of Business Segments

Information with regard to the company's business segments is presented on page 22. Information regarding 1979 and 1978 is encompassed by the Auditors' Opinion.

0:-0207381

GAF 12176

Notes to Consolidated Financial Statements
(continued)

12 Income Taxes

Provision has not been made for the United States income taxes on unremitted earnings of foreign subsidiaries of $42 655 000 since any withholding taxes and United States income taxes payable on dividends based on undistributed earnings would be substantially offset by foreign tax credits or because the remittance of such earnings will be indefinitely postponed. United States income taxes have not been provided on the unremitted earnings of the Domestic International Sales Corporation subsidiary aggregating $12 932 000 through December 31 1979 since the company intends to postpone indefinitely the remittance of such earnings.

The provision for income taxes on continuing operations consists of the following

For the year	1979	1978
	Dollars in Thousands	
United States-current	**$ 7.739**	$22 687
United States-deferred	**3,187**	768
United States investment tax credit	**(3.792)**	(2 832)
Amortization of deferred United States investment tax credit arising prior to 1971	**(572)**	(572)
Foreign—current	**2,331**	543
Foreign—deferred (including United Kingdom tax revision in 1979—see below)	**(1.194)**	2 319
State	**1,772**	2 428
Total Income Taxes	**$9.471**	$25 341

The effective tax rates on continuing operations were 25 2% and 45 5% in 1979 and 1978 respectively. The reasons for the differences from the statutory rates are as follows

For the year	1979	1978
	% of Pre-tax Income	
Statutory rate	**46.0%**	48 0%
Increases (decreases) in tax rates resulting from		
United States investment tax credit	**(11.7)**	(6 1)
State and local income taxes net of United States income tax benefit	**2.7**	2 3
Foreign operations		
United Kingdom tax revision (see below)	**(8.5)**	—
Other	**.1**	3 7
Other—net	**(3.4)**	2 4
Effective tax rate	**25.2%**	45 5%

The principal sources of United States deferred taxes applicable to continuing operations were

For the year	1979	1978
	Dollars in Thousands	
Excess of tax depreciation over amount reported in Consolidated Statements of Income	**$2.438**	$2 400
Interest expense capitalized (see Note 2)	**1,317**	—
Other—net	**(568)**	(1 632)
Total	**$3.187**	$ 768

During 1979 the provision for income taxes was reduced by $3 2 million as a result of a 1979 change in United Kingdom income tax laws related to inventories. Following the change in laws the Financial Accounting Standards Board issued a Statement which provides that in circumstances where it is definite that previously recorded deferred taxes will never be paid these deferred taxes should be recovered as a reduction of the current tax provision. The amount so recovered was $1 9 million. The Statement of the Financial Accounting Standards Board also provides that in circumstances where it is probable that no future taxes will be paid they should not be provided. The resultant tax amount not provided was $1 3 million.

13 Commitments and Contingent Liabilities

Capitalized leases of $17 253 000 and $18 287 000 are included in Property Plant and Equipment—Net at December 31 1979 and 1978 respectively. The present value of future net minimum lease payments is reflected as long-term debt (see Note 9).

The majority of the capital leases pertain to buildings the most significant of which is the administrative headquarters located in Wayne N J. The amortization associated with assets recorded under capital leases is included in depreciation expense.

The company also has operating leases for transportation data processing equipment and for other buildings.

A schedule of future minimum lease payments under capital lease and future minimum rental payments required under long-term noncancellable operating leases as of December 31 1979 is as follows

Minimum Payments by Period	Capital Leases	Operating Leases
	Dollars in Thousands	
1980	[illegible]	[illegible]
1981	[illegible]	[illegible]
1982	[illegible]	[illegible]
1983	[illegible]	[illegible]
1984	[illegible]	[illegible]
Later years	[illegible]	[illegible]
Total minimum payments	[illegible]	[illegible]
Less interest included above	[illegible]	
Present value of net minimum lease payments	[illegible]	

The company had commitments of approximately $27 112 000 at December 31 1979 for the acquisition of property, plant and equipment.

At December 31 1979 there were certain lawsuits and claims pending against the company. In the opinion of management the ultimate disposition of these matters will have no material adverse effect on the company's consolidated financial position.

GAF 12177

01-0277782

14 Quarterly Financial Data (Unaudited)*

Dollars in Millions

	1979 By Quarter				1978 By Quarter			
	First	**Second**	**Third**	**Fourth**	First	Second	Third	Fourth
Net Sales	**$267.2**	**$296.2**	**$324.9**	**$324.9**	$229 8	$279 4	$278 4	$275 7
Cost of Products Sold	**193.5**	**215.6**	**239.0**	**240.6**	165 3	202 3	201 5	196 8
Gross Profit	**73.7**	**80.6**	**85.9**	**84.3**	64 5	77 1	76 9	78 9
Income before Other Income (Charges) and Income Taxes	**9.2**	**11.3**	**14.3**	**9.2**	6 5	14 9	14 7	14 7
Loss on silver futures transactions	**—**	**(3.9)**	**(2.1)**	**—**	—	—	—	—
Foreign exchange gains (losses)	**(2.9)**	**(0.2)**	**(2.7)**	**(0.7)**	0 1	0 3	2 5	1 7
Other—net	**1.1**	**.9**	**.9**	**3.3****	0 4	(0 5)	0 4	—
Income from Continuing Operations Before Income Taxes	**7.4**	**8.1**	**10.4**	**11.8**	7 0	14 7	17 6	16 4
Income Taxes	**2.1**	**3.1**	**0.1*****	**4.2*****	3 0	6 0	8 8	7 5
Income from Continuing Operations	**5.3**	**5.0**	**10.3**	**7.6**	4.0	8 7	8 8	8 9
Income from Discontinued Segments, Net of Income Taxes	**—**	**—**	**—**	**—**	1	2	1 0	2 5
Net Income	**5.3**	**5.0**	**10.3**	**7.6**	4 1	8 9	9 8	11 4
Less Preferred Stock Dividend Requirements	**.9**	**.9**	**.9**	**.9**	9	9	9	9
Net Income Applicable to Common Stock	**$ 4.4**	**$ 4.1**	**$ 9.4**	**$ 6.7**	$ 3 2	$ 8 0	$ 8 9	$ 10 5
Earnings per Common Share								
				Dollars				
Primary								
Continuing	**$ .33**	**$ .30**	**$ .70**	**$ .50**	$ 23	$ 59	$ 59	$ 60
Discontinued	**—**	**—**	**—**	**—**	01	01	08	18
Net Income	**$ .33**	**$ .30**	**$ .70**	**$ .50**	$ 24	$ 60	$ 67	$ 78
Fully Diluted								
Continuing	**$ .31**	**$ .28**	**$ .59**	**$ .44**	$ 23	$ 50	$ 51	$ 52
Discontinued	**—**	**—**	**—**	**—**	01	01	06	13
Net Income	**$ .31**	**$ .28**	**$ .59**	**$ .44**	$ 24	$ 51	$ 57	$ 65
Dividends per Share								
Common	**.17**	**.17**	**.17**	**.17**	15	15	17	17
Preferred	**.30**	**.30**	**.30**	**.30**	30	30	30	30
Price Range of Securities								
Common (Low-High)	**11⅜-13¼**	**10⅛-12⅛**	**10-11⅞**	**9¼-11¾**	8-12½	11-14¼	12⅞-15⅝	9⅜-14½
Preferred (Low-High)	**15⅝-17⅞**	**14⅞-16¾**	**14⅞-16⅞**	**13⅛-16¼**	15-17¼	16¼-19	17½-19⅞	14⅛-19⅛

*Previously reported quarterly financial data for 1979 has been restated for capitalized interest. See Note 2

**Includes $2 3 million for reduction in product liability reserves which was provided evenly in the earlier quarters of 1979

***1979 Income Taxes have been reduced by a United Kingdom tax revision $1 9 million and $1 3 million in the third and fourth quarters respectively See Note 12

01-0207353

GAF 12178

Notes to Consolidated Financial Statements
(continued)

15 Impact of Inflation (Unaudited)

The Financial Accounting Standards Board (FASB) has recently issued a Statement (No 33—Financial Reporting and Changing Prices) wherein guidelines were established and experimentation by companies was requested in an attempt to determine what information is useful in gaining an understanding of the impact of inflation on financial statements and how should such supplementary information be portrayed. The accompanying table presents the supplementary financial data for 1979 adjusted for general inflation (constant dollar historic cost data). The information has been compiled using the Consumer Price Index-Urban, to adjust or restate certain historic costs to a constant value equivalent to average 1979 dollars.

In conformity with the guidelines of the FASB only depreciation expense and cost of products sold have been adjusted. Depreciation has been increased to reflect the expense which would have been recorded if the assets had been acquired with average 1979 dollars rather than with dollars actually expended in prior years. The same procedures as those used in the primary financial statements have been applied in these constant dollar calculations with regard to useful lives, salvage values and depreciation. Cost of products sold has been increased to reflect a restatement of historic inventory costs at the beginning and end of the year in average 1979 dollars. Although reported expenses have been increased, no related income tax benefit has been shown. This treatment highlights a hidden tax being borne by the company as a result of inflation.

Supplementary Financial Data Adjusted for General Inflation
(Dollars in Thousands)

For the Year	1979
Income from continuing operations as reported in the primary Statement of Income	**$ 28,183**
Adjustments to restate costs for the effect of general inflation	
Depreciation	**(15,546)**
Cost of products sold	**(28,178)**
Loss from continuing operations adjusted for the effects of general inflation	
In average 1979 dollars	**(15,541)**
Per common share	**(1.16)**
Purchasing power gain on net monetary liabilities held during the year	**22,209**
Net assets at end of year (compared with book net assets of $369 030)	**$461,868**

During inflationary times, calculations of the kind described above will always result in decreased constant dollar profitability as compared with income based on historic cost nominal dollars.

The guidelines established by the FASB specify that although there were gains from holding monetary liabilities and from the increase in net assets, these gains may not be aggregated with the loss from continuing operations adjusted for the effects of general inflation shown in the above table.

The gain from holding net monetary liabilities arises because during 1979 the company held more liabilities which were fixed in amount of dollars to be repaid than it held assets similarly fixed in amount of dollars to be received. Similarly the increase in the net assets at year end reflects the fact that the company's inventories and properties, when stated in 1979 dollars, have substantially greater value than is recorded using generally accepted accounting principles as is required in the primary financial statements.

Beginning with the Annual Report for 1980, information on both an historic cost constant dollar basis and a current cost basis will be presented and will include comparable information for 1979.

Additional information with regard to the estimated replacement cost of inventories and property, plant and equipment, as well as the related estimated effect of such cost on cost of products sold and depreciation expense, is included in the company's Annual Report Form 10-K (a copy of which is available on request) as filed with the Securities and Exchange Commission.

Selected constant dollar information for each of the prior five years is included in this report on page 24.

Deloitte Haskins—Sells

Certified Public Accountants

Two Broadway
New York, N Y 10004

To Shareholders and Board of Directors of
GAF Corporation

We have examined the consolidated balance sheets of GAF Corporation and its consolidated subsidiaries as of December 31, 1979 and 1978 and the related consolidated statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were 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, such financial statements present fairly the financial position of the companies at December 31, 1979 and 1978 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, with which we concur, in the method of accounting for capitalization of interest costs described in Note 2 to the financial statements.

Deloitte Haskins & Sells

February 4, 1980

GAF 12179

01-0207784

GAF Products and Services

CHEMICAL PRODUCTS
GAF® Chemicals
High-pressure Acetylene Derivatives
Monomers, polymers, copolymers, solvents, organic intermediates and specialty chemicals such as Gantrez® hairspray resins, Plasdone® pharmaceutical tablet binder, Polyclar® stabilizer for beer and wine; also other products derived from acetylene for plastic, petroleum, textile, adhesive and a variety of other industries.
Industrial Organic Chemicals
Complex cyclic and aliphatic compounds for use as active ingredients and as intermediates in the dye, pharmaceutical, agricultural and chemical processing industries.
Iron Powders
Microscopic-size spheres of iron used in VHF and UHF circuitry, transmitters, receivers, radar and in powder metallurgy.
Latex Polymers and Compounds
A variety of SBR and other latices, including Gafcote® compounds, for use as binders and coatings on floor coverings, upholstery, textile fabrics, paper and paperboard, nonwovens and adhesives.
Specialty Chemicals
[illegible] and formulating agents including Gafiex® textile auxiliaries, [illegible] biocides, Gafstat® antistats, [illegible] and finishing agents, [illegible] additives, Cheelox® [illegible], Antara® metal [illegible], corrosion inhibitors, [illegible] and solvents for use in [illegible] industries and in recycling [illegible] and pollution control. [illegible] plant growth regulator for use [illegible] agricultural crops.
Surfactants
[illegible] anionic, cationic and [illegible] surface-active agents for [illegible] detergents, emulsifiers, [illegible] and wetting agents.

GAF® Engineering Plastics
Gafite® PBT and Gaftuf™ PBT thermoplastic molding compounds for automobile mechanical and electrical parts, electrical/electronic components, appliance housings and business machines.
GAF® Mineral Products
Mineral granules for roofing and other uses, inert fillers. Dry and saturated felts and mastics for noise absorption and sound barrier applications. Appliance and automotive gasketing materials.

PHOTO & REPRO PRODUCTS
GAF® Photo Products
Graphic Arts
Gafmate® films and chemicals for offset printing, photolithography, photoengraving, rotogravure and silk-screen printing. Gafmatic™ rapid access films and chemicals. Gaftype™ phototypesetting papers and chemicals.
Pictorial Products
View-Master® 3-D viewers and picture reels. Pana-Vue® slide viewers and pictorial color slides for educational entertainment and commercial uses. Entertainer® and Show Beam™ toy slide projectors. Double-Vue™ toy movie viewer and cartridges. Melody Madness™ electronic game.
Special Photo Products
Aerial film and photographic materials for seismic recording, instrumentation, surveillance and oscillography.
X-ray
Galmed® medical x-ray films, chemicals, intensifying screens and cassettes; film for dental radiography, industrial x-ray films and chemicals, radiologic teaching aids.
GAF® Reprographic Products
Audio-visual
Overhead projection transparency series for preschool through college instruction and materials and supplies. Diazo films for preparing overhead projection transparencies and overlays in a variety of colors.
Micrographic
Diazo duplicating microfilms and diazo microfilm duplicators.

Reproduction
Diazo printers, accessories and sensitized materials for engineering and business systems, drafting materials and supplies.

BUILDING MATERIALS
GAF® Building Products
Insulation Products
Gaftemp® urethane, perlite, urethane-perlite and [illegible] insulation boards for built-up roofing applications. Gafite® roof insulation fasteners, building insulation.
Roofing Products
Timberline® shingles and other asphalt shingles for roofing, built-up roofing felts and asphalts, vent systems, protective coatings and cements. Mineral-Shield® [illegible] applied built-up roofing materials.
Siding Products
Vanguard® solid vinyl siding for residing and new construction, vinyl soffit and fascia systems.
GAF® Floor Products
Gafstar® sheet vinyl flooring and resilient floor tiles for residential and commercial uses. Sure-Stik® adhesive-backed tiles for do-it-yourself market. Flooring felt, Quiet-Cor® underlayment, accessories, installation tools, adhesives, and floor care products.
GAF® Automotive Products
Automotive sound deadening and insulation products.

SERVICES
Chemicals
Custom manufacture of pharmaceutical, agricultural and other specialty chemicals in developmental and commercial quantities.
Custom Manufacturing
Precision parts and equipment contract manufacturing service.
Diazo Equipment Service
Preventive maintenance and repair programs for diazo reproduction equipment.
Transparencies
Custom overhead transparency service.

GAF 12180

01-0027785

GAF

GAF Locations

Corporate Offices

Domestic Operations

Alabama

Arizona

California

Colorado

District of Columbia

Florida

Georgia

Illinois

Indiana

Kentucky

Maryland

Massachusetts

Michigan

Minnesota

Missouri

New Jersey

New York

North Carolina

Ohio

Oregon

Pennsylvania

South Carolina

Tennessee

Texas

Utah

Virginia

Wisconsin

Domestic Subsidiaries

Major International Manufacturing and Marketing Locations

Australia

Austria

Belgium

Brazil

Canada

Denmark

Finland

France

Great Britain

Greece

Ireland

Israel

Italy

Mexico

The Netherlands

New Zealand

Norway

Singapore

South Africa

Spain

Sweden

Switzerland

West Germany

Affiliates:

GAF Huls Chemie G.m.b.H.

Sawyer's Asia Pty. Ltd.

01-0207386

GAF 12181