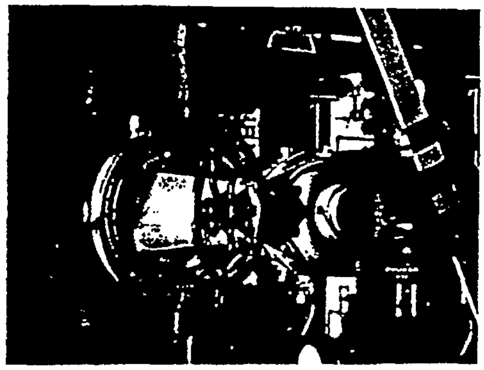
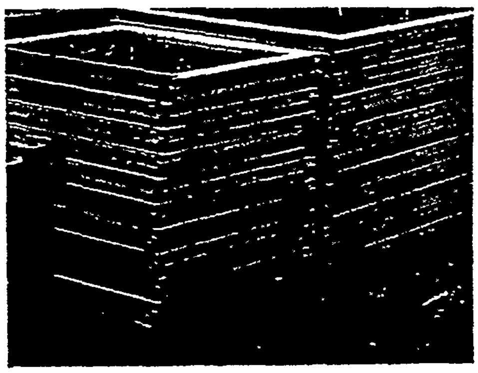
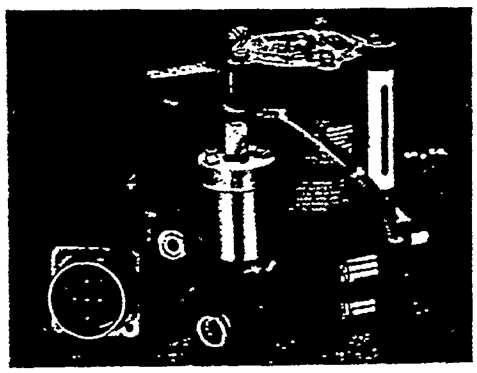
Crane Co.
1977 Annual Report



Fluid and Pollution Control
Steel
Building Products
Aerospace and Aircraft Products

Crane Co. 1977 Annual Report

Contents

Crane Serves

Industrial, building and construction markets with—

Fluid and Pollution Control Products
Steel Products
Building Products
Aerospace and Aircraft Products

Annual Meeting

The Crane Co. 1978 annual meeting will be held Friday, April 21, 1978, in the Lecture Room, Morgan Guaranty Trust Company of New York, 2nd Floor, 299 Park Avenue, New York City, at 10 A.M.

Form 10-K

Copies of Form 10-K for the year 1977 which are to be filed with the Securities and Exchange Commission are available without charge to each shareholder of the company upon written request made to the Secretary, 300 Park Avenue, New York, N.Y. 10022.

Operations

United States

Crane U.S.A.
New York, New York
R. L. Biller, *Senior Vice President & General Manager*

Hydro-Aire Division
Burbank, California
B. J. Barnes, *Vice President & General Manager*

Cavalier Corporation
Chattanooga, Tennessee
(Acquired December 30, 1977)
J. E. N. Tune, *President*

CF&I Steel Corporation
Pueblo, Colorado
R. J. Slater, *President*

Huttig Sash & Door Company
St. Louis, Missouri
R. F. Eson, *Chairman*
S. P. Wells, *President*

Canada

Crane Canada Limited
Montreal, Canada
C. A. Kelly, *President*

International

Crane Australia Pty. Limited
St. Marys, Sydney, Australia
P. J. Farrell, *Managing Director*

Crane Ltd.
London, England
Leslie V. Chater, *Chairman*
J. M. Fraser, *Managing Director*

Crane S.A.
Paris, France
Leon Skamiak, *President*

Crane-Deming de Mexico S.A.
Monterrey, Mexico
Luis Obeso, *General Manager*

Crane Nederland N.V.
Deventer, The Netherlands
G. E. deHorn, *Managing Director*

Crane-FISA, S.A.
Bilbao, Spain
A. J. Pituan, *General Manager*

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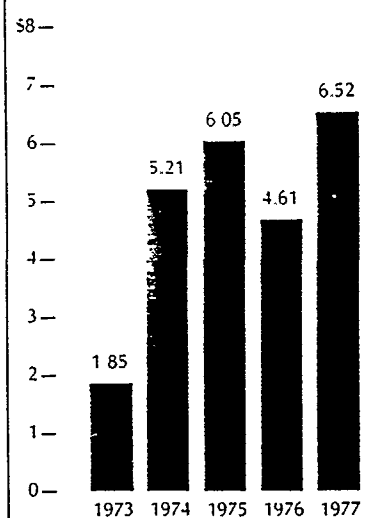
Financial Highlights

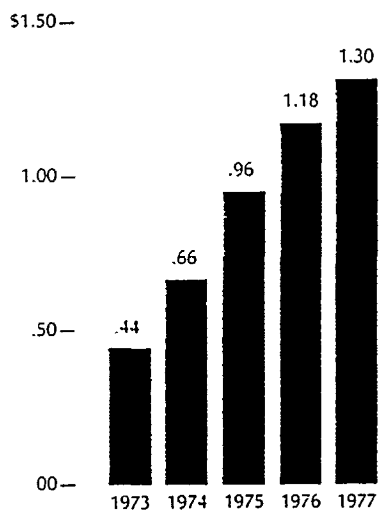
	1977	1976
Sales	$1,133,822,000	$1,087,606,000
Net Income	$ 66,171,000	$ 47,959,000
Per Common Share:		
Primary earnings*	$ 6.52	$ 4.61†
Cash dividends	1.30	1.18†
Net Working Capital	$ 240,795,000	$ 217,731,000
Total Assets	$ 836,895,000	$ 760,561,000
Current Ratio	2.4	2.3
Common Shareholders' Equity	$ 326,152,000	$ 282,456,000
Per share	32.56	27.61†
Common Shares Outstanding at Year-end	10,017,199	10,030,897

*Net income per common share would amount to $6.17 ($4.31 in 1976) assuming conversion of subordinated debentures.
†Adjusted for 2% stock dividend in February, 1977.

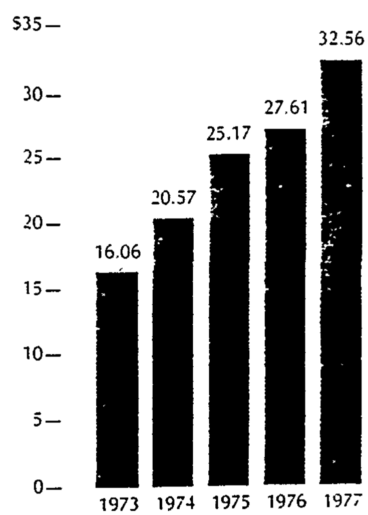
Net Income
per Share†



Cash Dividend
per Share†



Shareholders' Equity
per Share†



To the Shareholders:

Sales for 1977 were $1,133,822,000, the second highest in the company's history, compared with $1,087,606,000 for 1976. Net income, including non-recurring items, amounted to $66,171,000 compared with $47,959,000 for the prior year.

Net income per share in 1977 was $6.52 and net income from operations, excluding $2.78 from non-recurring transactions, was $3.74 per common share. Crane's 1977 earnings were reported using the accelerated depreciation method while 1976 earnings were reported using the straight-line method. The effect of this change was to reduce 1977 net income by $2,769,000 or 27 cents per share. Depreciation for 1977 was $44,192,000 compared with $36,380,000 in 1976.

Net income per share in 1976 amounted to $4.61 and net income from operations, excluding 78 cents from non-recurring transactions, was $3.83 per common share. If accelerated depreciation had been used, total net income would have been reduced by $2,370,000 or 23 cents per share from the amount reported.

The 1977 adoption of accelerated depreciation is a continuation of Crane's policy of reporting financial results as realistically as possible. The accelerated method of reporting depreciation gives a closer assessment of the earnings level necessary to allow replacement of plant, property and equipment in today's inflationary economic environment. In addition, recent criticism of corporate profitability levels heightens the need for such an assessment.

Crane has consistently utilized conservative accounting methods whenever possible. The company was one of the pioneers in using the LIFO method of inventory valuation, adopting it in 1940. As a result, Crane had a LIFO reserve in excess of $67 million at December 31, 1977.

Crane's concern over the impact of inflation on reported corporate earnings is further reflected in the company's accelerated pension funding policy. In 1974 Crane began amortizing past service pension costs on a ten year basis, the minimum time allowed under federal tax law, rather than the twenty to forty year periods used by many steel companies. Current service and interest costs are funded annually. Based upon latest estimates, the company's unfunded pension liability at 1977 year-end, before future income tax credits, was $107 million compared with $120 million the prior year.

Early in 1977 Crane reported two non-recurring transactions. First, an after-tax gain of $41,570,000 resulted from the Atlantic Richfield/Anaconda merger; second, an after-tax provision of $13,181,000 was provided principally for unfunded pension liabilities relating to operations phased out or relocated. These transactions increased 1977 net income by $28,389,000 or $2.78 per share. In 1976 there were two non-recurring transactions, which increased net income by $8,148,000 or 78 cents per common share.

Crane Domestic operations and CF&I Steel Corporation were adversely affected by the inability to recover steadily rising production costs through price increases and by the impact of foreign competition on certain traditional markets. Huttig Sash & Door Company, however, performed at record levels. With residential construction as its primary

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market, Huttig benefited from the increased pace of new housing starts and remodeling activity during 1977. Crane Canada and International Operations did not meet the prior year's performance levels, largely due to high inflation rates, low capital investment and generally depressed economic activity.

Plant modernization programs reported a year ago were essentially on schedule during 1977. Crane invested more than $93 million in modernization and environmental improvement projects last year, principally on expansion of the rail mill and development of a second metallurgical coal mine for the company's steelmaking facility. Start-up costs at the new coal mine and the expansion of the rail mill were charged to income in accordance with the company's past practice.

Midway through the year Crane negotiated a new seven year $35 million term loan, which is repayable from August 1980 through May 1984 in equal quarterly installments.

The total cash dividend of $1.30 per share paid to shareholders in 1977 compared with $1.18, as adjusted, paid in 1976. This was the seventh consecutive annual cash dividend increase. A 2 percent stock dividend was paid in February 1978, the tenth year that such a stock dividend has been paid.

In December 1977 Crane acquired the assets of Cavalier Corporation of Chattanooga, Tennessee. Cavalier, which is being operated as a subsidiary of Crane, manufactures a complete line of refrigerated, coin operated vending machines for soft drinks. These machines are marketed to franchised bottlers throughout the U.S. and Canada for use in supermarkets, service stations and other high traffic locations.

Early this year in order to strengthen the management structure of the company, Crane's Board of Directors elected R. L. Biller and R. S. Evans senior vice presidents.

On behalf of the Board of Directors, we wish again to express our thanks to Crane's employees, customers, suppliers and shareholders for their continuing support.

Respectfully submitted,

D. C. Fabiani, President

T. M. Evans, Chairman

February 21, 1978

D. C. Fabiani, President

T. M. Evans, Chairman

Consolidated Statement of Income

FOR YEARS ENDED DECEMBER 31

CRANE CO. AND SUBSIDIARIES

	1977	1976
Net Sales	$1,133,822,269	$1,087,605,797
Operating Costs and Expenses:		
Cost of sales	916,846,784	866,531,695
Selling, general and administrative	105,665,342	104,098,743
Depreciation	44,191,500†	36,380,436
	1,066,703,626	1,007,010,874
Operating Profit	67,118,643	80,594,923
Other Income (Deductions):		
Interest—net	(18,698,083)	(18,764,292)
Dividend income on investments	3,932,461	2,609,300
Miscellaneous—net*	26,441,871	12,338,181
	11,676,249	(3,816,811)
Income Before Income Taxes	78,794,892	76,778,112
Provision for Income Taxes	12,623,727	28,819,335
Net Income	$ 66,171,165	$ 47,958,777
Net income per common share:		
Average shares outstanding*	$6.52	$4.61
Assuming conversion of debentures	6.17	4.31

†Changed from straight-line to accelerated depreciation, which increased depreciation by $5,538,000 in 1977.

*The year 1977 included the following non-recurring transactions:

(a) A cash dividend of $24,721,000, a realized gain of $4,541,000 on 260,115 Atlantic Richfield common shares sold and an unrealized gain of $22,968,000 on 1,800,000 Atlantic Richfield common shares for a total gain of $52,230,000 as a result of the Atlantic Richfield/Anaconda merger.

(b) A provision of $26,291,000 principally for unfunded pension liabilities for operations being phased out or relocated.

(c) The net income from these transactions was $28,389,000, or $2.78 per share.

The year 1976 included the following non-recurring transactions:

(a) A gain of $19,960,000 from the sale of one steam coal property.

(b) A provision of $1,122,000 for surplus and inactive building and equipment and a provision of $5,100,000 for termination expenditures and operating losses of an international plant.

(c) The net income from these transactions was $8,148,000, or 78 cents per share.

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Consolidated Statement of Capital Surplus

FOR YEARS ENDED DECEMBER 31

CRANE CO. AND SUBSIDIARIES

	1977	1976
Balance at Beginning of Year	$ 27,201,643	$ 18,711,733
Excess of subordinated debentures converted over par value of 128,857 common shares issued (495,898 in 1976)	918,332	3,783,335
Excess of market value over par value of common shares issued as a 2% stock dividend	4,374,650	4,706,575
Balance at End of Year	$ 32,494,625	$ 27,201,643

Consolidated Statement of Earned Surplus

FOR YEARS ENDED DECEMBER 31

	1977	1976
Balance at Beginning of Year	$192,561,537	$181,442,574
Net Income	66,171,165	47,958,777
	258,732,702	229,401,351
Dividends:		
Preferred shares—$3.75 per share	90,054	90,575
Common shares:		
Cash—$1.30 per share ($1.18 in 1976)	13,166,871	12,224,986
Stock—2%, market value of 200,580 shares (203,220 in 1976)	5,628,275	5,976,700
Excess of Cost Over Par Value of Reacquired Shares—Net:		
282 preferred (146 in 1976) and 381,100 common (755,900 in 1976) reacquired, less 37,965 issued under stock options (48,655 in 1976)	8,797,769	18,547,553
	27,682,969	36,839,814
Balance at End of Year	$231,049,733	$192,561,537

See Financial Review.

Consolidated Balance Sheet

AT DECEMBER 31

ASSETS	1977	1976
Current Assets:		
Cash	$ 35,513,764	$ 36,193,742
Short-term investments, at lower of cost or market	88,521,494	78,440,074
Accounts receivable, less allowances of $2,924,635 ($2,665,872 in 1976)	141,958,357	129,243,861
Inventories, less LIFO reserves of $67,334,697 ($61,022,801 in 1976), at lower of cost or market:		
Finished goods	73,756,830	77,359,437
Work in process	42,030,379	38,331,439
Raw materials and supplies	28,913,367	18,661,468
	144,700,576	134,352,344
Prepaid expenses	2,203,230	2,545,492
Total current assets	412,897,421	380,775,513
Investments and Other Assets:		
Investments (see page 10)	74,736,349	71,576,716
Unamortized debt discount on 8% debentures	9,002,664	11,375,050
Outlying lands	1,232,300	1,232,364
Miscellaneous	1,548,623	2,310,892
	86,519,936	86,495,022
Property, Plant and Equipment at Cost:		
Land	20,768,952	20,384,729
Buildings and improvements	135,364,592	130,368,796
Machinery and equipment	522,395,983	479,213,975
	678,529,527	629,967,500
Less accumulated depreciation	345,669,510	336,677,394
	332,860,017	293,290,106
Capitalized 1977 Leases—Net	4,617,496	—
	$836,894,870	$760,560,641

LIABILITIES AND SHAREHOLDERS' EQUITY	1977	1976
Current Liabilities:		
Current maturities of long-term debt	$ 18,535,380	$ 17,692,397
Loans payable to banks	12,812,935	18,040,916
Accounts payable	69,910,625	69,093,557
Accrued payrolls, taxes and other liabilities	66,619,878	55,038,089
U.S. and foreign taxes on income	4,223,108	3,179,443
Total current liabilities	172,101,926	163,044,402
Long-Term Debt (see page 9)	270,744,441	260,866,023
Capitalized 1977 Lease Obligations	4,551,196	—
Deferred Income Taxes	31,437,834	32,720,214
Reserves and Other Liabilities	16,907,367	6,968,782
Minority Interest in Subsidiaries	10,704,155	10,400,634
Shareholders' Equity:		
Preference stock of a subsidiary, 5½%	1,920,000	1,700,000
Cumulative preferred shares, 3¾%, par value $100 (redeemable): Authorized—43,389 shares (47,159 in 1976); outstanding—23,761 shares (24,043 in 1976) after deducting 19,628 shares in treasury (23,116 in 1976)	2,376,100	2,404,300
Serial preferred shares, par value $5: Authorized—600,000 shares	—	—
Common shareholders' equity:		
Common shares, par value $6.25: Authorized—20,000,000 shares; outstanding—10,017,199 shares (10,030,897 in 1976) after deducting 4,566,694 shares in treasury (4,185,594 in 1976)	62,607,493	62,693,106
Capital surplus	32,494,625	27,201,643
Earned surplus—$103,173,875 ($73,241,372 in 1976) is not restricted under a long-term debt indenture	231,049,733	192,561,537
Total common shareholders' equity	326,151,851	282,456,286
Total shareholders' equity	330,447,951	286,560,586
	$836,894,870	$760,560,641

See Financial Review.

Consolidated Statement of Changes in Financial Position

CRANE CO. AND SUBSIDIARIES

FOR YEARS ENDED DECEMBER 31

	1977	1976
Source of Funds:		
Operations:		
Net income	$ 66,171,165	$ 47,958,777
Depreciation	44,191,500	36,380,436
Amortization of debt discount	2,372,386	3,352,778
Other, net	3,074,588	6,296,522
Unrealized non-recurring credits—net	(8,515,000)	—
	107,294,639	93,988,513
Increase in long-term debt	35,000,000	55,600,396
Capitalized 1977 lease obligations	4,551,196	—
Conversion of debt to common stock	1,725,000	6,903,600
Disposals of property, plant and equipment	9,428,880	8,557,899
Decrease in long-term investments	18,466,716	—
Increase (decrease) in reserves and other	2,147,471	(892,020)
	178,613,902	164,158,388
Application of Funds:		
Additions to property, plant and equipment	93,190,291	82,530,214
Capitalized 1977 leases	4,617,496	—
Increase in long-term investments	8,611,349	14,471,457
Reduction in long-term debt	25,121,582	36,863,002
Reacquisition of shares, less options exercised	10,751,875	23,323,337
Cash dividends	13,256,925	12,315,561
	155,549,518	169,503,571
Net Source (Application) of Funds	$ 23,064,384	$ (5,345,183)
Increase (Decrease) in Components of Working Capital:		
Current assets:		
Cash and short-term investments	$ 9,401,442	$ 5,605,929
Accounts receivable	12,714,496	2,534,370
Inventories	10,348,232	(22,285,889)
Prepaid expenses	(342,262)	598,814
	32,121,908	(13,546,776)
Current liabilities:		
Current maturities of long-term debt	842,983	4,557,506
Loans payable to banks	(5,227,981)	6,476,111
Accounts payable	817,068	3,567,200
Accrued payrolls, taxes and other liabilities	11,581,789	(3,763,412)
U.S. and foreign taxes on income	1,043,665	(19,038,998)
	9,057,524	(8,201,593)
Increase (Decrease) in Working Capital	$ 23,064,384	$ (5,345,183)

See Financial Review.

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Details of Long-Term Debt

AT DECEMBER 31

CRANE CO. AND SUBSIDIARIES

	1977	1976
Crane Co.:		
6½% Sinking fund debentures due 1992, $2,000,000 due annually after deducting $4,572,000 in treasury in 1977	$ 25,428,000	$ 27,663,000
8% Bank term loan due 1980, $1,875,000 due quarterly, fluctuating with minimum commercial lending rate	13,125,000	20,625,000
8% Bank term loan due 1984, $2,187,500 due quarterly, commencing August 31, 1980, fluctuating with minimum commercial lending rate	35,000,000	—
	73,553,000	48,288,000
Subordinated debentures:		
8% Sinking fund debentures due 1985, $8,241,000 due annually, after deducting $2,747,000 in treasury in 1977	57,682,600	65,922,600
7% Sinking fund debentures due 1993, 5% due annually, after deducting $4,282,000 in treasury in 1977	12,183,400	13,563,400
7% Debentures due 1994, after deducting $3,818,000 in treasury in 1977	48,259,000	48,259,000
5% Convertible debentures due 1993, convertible at $12.50 per share (114,216 common shares reserved in 1977)	1,427,700	2,283,200
5% Convertible debentures due 1994, convertible at $14.37 per share (436,583 common shares reserved in 1977)	6,273,700	7,143,200
	125,826,400	137,171,400
	199,379,400	185,459,400
CF&I Steel Corporation:		
8% First mortgage and collateral trust bonds, sinking fund series due 1983, $1,000,000 due quarterly	21,000,000	25,000,000
8% Bank term loan due 1985, $2,500,000 due quarterly commencing August 1, 1981, fluctuating with minimum commercial lending rate	40,000,000	40,000,000
8% Mortgage note due 1983, $71,429 due annually	357,142	428,571
	61,357,142	65,428,571
Huttig Sash & Door Company:		
7½% Loan payable due 1980, $43,953 due quarterly	307,672	483,485
Crane Canada Limited:		
5¾% Sinking fund debentures (collateralized by a general claim on property and assets), due 1985, $403,000 due annually	4,831,200	5,662,800
International Operations:		
Crane Ltd. (England):		
6¾% Bank term loan, fluctuating with bank rate, due 1981, $960,000 due annually in 1980 and 1981	1,920,000	1,360,000
7⅜% Bank term loan, fluctuating with bank rate, due 1982	480,000	—
5¾% Unsecured loan stock due 1982	1,062,204	1,006,861
Other	1,406,823	1,464,906
	4,869,027	3,831,767
	$270,744,441	$260,866,023

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Financial Review and accounting policies

Consolidation

The consolidated financial statements include all subsidiaries, and accounts carried in foreign currencies have been translated at the appropriate rates.

Subsidiaries operating outside the United States and Canada represented 8 percent of shareholders' equity in 1977, down from 10 percent in 1976.

Long-Term Investments

Long-Term Investments are valued, in the aggregate, at the lower of cost or market.

In early 1977 the company exchanged 4,120,230 common shares of The Anaconda Company (cost $71,577,000) for 2,060,115 Atlantic Richfield common shares in a tax-free exchange. As required by Accounting Principles Board Opinion No. 29, the company assigned a market value of $47.50 to each Atlantic Richfield share retained (see page 4, "Consolidated Statement of Income"). Overall, 560,115 Atlantic Richfield common shares were sold during 1977.

Details of Long-Term Investments are as follows:

	1977	1976
	(in thousands)	
Atlantic Richfield Company 1,500,000 common shares	$71,250	$71,577
Asarco, Inc., 564,000 common shares	8,611	—
Deferred income taxes on unrealized gain—net	(5,125)	—
	$74,736	$71,577

Depreciation

The basis of charging depreciation for buildings, plant and equipment acquisitions was stepped up to the accelerated method from the straight-line method during 1977 in order to provide a better matching of costs and revenues in an inflationary environment. The effect of this change in depreciation methods is set forth on page 4, "Consolidated Statement of Income."

The new method of computing depreciation eliminates a substantial reporting difference between financial and income tax basis.

Pensions

Current service and interest costs are funded annually and prior service costs are funded on a 10-year basis. Pension plans in the United States are in compliance with the Employee Retirement Income Security Act of 1974.

Pension costs charged against operating income were $30,743,000 in 1977, compared with $34,549,000 in 1976. An additional charge of $21,070,000 was incurred in 1977 as a provision for unfunded pension liabilities for operations being phased out or relocated.

Based upon latest estimates as of December 31, 1977 vested benefits exceeded pension plan assets and balance sheet accruals by $107,000,000 ($120,000,000 at December 31, 1976) before future income tax credits.

Miscellaneous—Net

	Components	
	1977	1976
	(in thousands)	
Non-recurring transactions—net	$25,939	$13,738
Gain on investments—net	4,924	668
Gain (loss) on disposal of capital assets—net	(1,605)	1,880
Minority interest	(1,116)	(1,680)
Loss on foreign exchange adjustments	(1,166)	(1,514)
Loss on repurchase of debentures	(470)	(675)
Other	(64)	(79)
	$26,442	$12,338

Long- and Short-Term Financing

Long-term debt was increased during 1977 by a $35,000,000 unsecured six and one half year bank term loan and was reduced during 1977 by $25,122,000, compared with $36,863,000 during 1976. The 1977 decrease included $1,725,000 of debentures converted, compared with $6,904,000 in 1976.

At December 31, 1977, the principal amounts of long-term debt repayments required for the next five years were $18,535,000 in 1978, $20,706,000 in 1979, $25,426,000 in 1980, $29,713,000 in 1981, and $34,655,000 in 1982.

At year end there were $100,000,000 of unused short-term credit lines available with domestic and foreign banks, and such lines are subject to annual review.

Covenants contained in instruments under which the company has outstanding indebtedness: (i) require the company to maintain consolidated working capital of at least $185,000,000; (ii) require the company to maintain consolidated tangible net worth of at least $225,000,000; (iii) restrict payment of cash dividends; and (iv) restrict issuance of additional senior funded debt to $9,000,000 as of December 31, 1977.

Reserves and Other Liabilities

	Components 1977	1976
	(in thousands)	
Pension and wage benefits	$11,271	$ 2,530
Retainage on purchase contracts	2,802	1,798
Miscellaneous	2,834	2,641
	$16,907	$ 6,969

Income Taxes

United States income taxes have not been provided on undistributed earnings of foreign subsidiaries, since foreign tax credits available on any portion of these earnings not required for indefinite reinvestment are such that no significant tax would be payable upon distribution.

A reconciliation of consolidated income before income taxes to the provision for income taxes (federal, state and foreign) is as follows:

	1977	1976
	(in thousands)	
Income before income taxes	$78,795	$76,778
Non-recurring transactions—net	(25,939)	(13,738)
	52,856	63,040
Less permanent tax adjustments:		
Depletion	3,759	3,942
Original issue bond discount	720	840
Nontaxable net capital gains	840	127
Nontaxable domestic dividends	3,699	2,216
Foreign exchange adjustments	(1,166)	(1,514)
Other	626	(117)
	8,478	5,494
Taxable income for accounting purposes	44,378	57,546
Tax @ 50% (composite rate)	22,189	28,773
Less investment tax credit realized	7,115	5,026
	$15,074	$23,747

The foregoing provision includes foreign taxes of $2,803,000 and $5,423,000, and state taxes of $2,002,000 and $2,062,000, in 1977 and 1976, respectively.

The provision for income taxes is composed of the following:

	1977	1976
	(in thousands)	
Tax effect of timing differences:		
Depreciation	$ —	$ 2,370
Other	2,503	2,719
Deferred income taxes	2,503	5,089
Current income taxes	12,571	18,658
	$15,074	$23,747

Income taxes on non-recurring transactions were a credit of $2,450,000 for 1977 and a charge of $5,072,000 for 1976.

Leases

The company leases a portion of its warehouse buildings, several manufacturing facilities (primarily through industrial revenue bonds) and certain of its vehicles and equipment under capital and operating leases running from one to thirty years. Certain leases may be renewed for periods of from three to twenty-five years and provide for an option to purchase or for reduced annual payments of minimal amounts.

In accordance with Financial Accounting Standards Board Statement No. 13—"Accounting for Leases"—the company has included capital leases entered into subsequent to December 31, 1976 in its financial statements as "Capitalized 1977 Leases" and "Capitalized 1977 Lease Obligations."

Beginning in 1978 all capital leases, regardless of when entered into, will be included in the financial statements. If these capital leases had been capitalized in the financial statements in 1977 the additional amounts reflected would have been as follows:

	December 31, 1977	1976
	(in thousands)	
Current	$ 1,606	$ 1,572
Noncurrent	36,451	38,030
Total capitalized	$38,057	$39.602

Net income for the years ended December 31, 1977 and 1976 would not have been significantly affected if these leases had been capitalized.

Leases capitalized in 1977 by major classes were as follows:

	December 31, 1977
	(in thousands)
Buildings and improvements	$2,241
Machinery and equipment	2,416
	4,657
Less amortization	40
	$4,617

Future minimum payments, by year and in the aggregate, under capitalized 1977 leases, non-capitalized capital leases and operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 1977:

	Capitalized 1977 leases	Non-capitalized capital leases	Operating leases	Minimum noncancelable sublease rentals	Net
			(in thousands)		
1978	$ 407	$ 3,950	$ 5,938	$1,155	$ 9,140
1979	468	3,956	4,735	915	8,244
1980	579	3,952	3,698	775	7,454
1981	579	3,889	2,944	692	6,720
1982	579	3,855	2,187	543	6,078
1983 & beyond	6,688	43,130	9,061	743	58,136
Total minimum lease payment	9,300	62,732	$28,563	$4,823	$95,772
Amounts representing interest	(4,650)	(24,675)			
Present value of net minimum lease payment	$4,650	$38,057			

Rental expense was as follows for all leases not capitalized:

	1977	1976
	(in thousands)	
Rentals on non-capitalized capital leases:		
Minimum	$ 3,991	$ 4,048
Contingent	—	1
Sublease income	(603)	(554)
	3,388	3,495
Rentals on operating leases:		
Minimum	13,318	11,529
Contingent	972	1,000
Sublease income	(788)	(800)
	13,502	11,729
	$16,890	$15,224

Stock Options

A summary of option transactions follows:

	Number of shares	Price per share
Outstanding January 1, 1977	125,107	$ 7.95-36.03
2% Stock dividend	2,354	— —
Options granted	24,000	27.00-31.75
Options expired	(1,952)	14.51-23.08
Options exercised	(37,965)	7.95-23.08
Outstanding December 31, 1977	111,544	$ 8.10-36.03

At December 31, 1977 options for 64,853 shares were exercisable and 61,631 shares were available for grant. In 1976 options for 40,392 shares were granted and options for 48,655 shares were exercised. Shares and per share statistics have been adjusted for the 2 percent stock dividend. The plan is not a compensatory plan which would require charges to income.

Estimated Replacement Cost Information

In compliance with the rules of the Securities & Exchange Commission, the company has estimated the cost of replacing its plant and equipment as of December 31, 1977, together with estimated depreciation based on replacement cost for the year then ended. The company's Annual Report on Form 10-K (a copy of which is available upon request) contains unaudited estimates with respect to replacement cost.

The replacement cost estimates in the company's Form 10-K are not necessarily indicative of either the amounts for which the assets could be sold or the company's intent to replace such assets, nor are they representative of costs that might be incurred in a future period, nor do they reflect any cost savings from improved equipment.

The company principally uses the LIFO method for inventory valuation so that substantially all inventory profits caused by inflation have been eliminated from net income.

Analysis by Segment of Business

An analysis by segment of sales, operating profit and assets appears on page 15. Additional segment information regarding capital expenditures and depreciation appears on page 16.

Segment description by products and industries served is given on pages 17 through 24.

Quarterly Results for the Year (Unaudited)
(IN THOUSANDS)

CRANE CO. AND SUBSIDIARIES

Quarter	Sales	Gross Profit	Net Income	Net Income Per Common Share Primary	Net Income Per Common Share Fully Diluted
1977†					
1st	$ 270,053	$ 40,838	$37,132*	$3.63*	$3.42*
2nd	297,349	46,862	10,218	1.00	.95
3rd	294,037	44,592	9,530	.95	.91
4th	272,383	41,229	9,291	.94	.89
	$1,133,822	$173,521	$66,171	$6.52	$6.17
1976					
1st	$ 270,048	$ 47,732	$11,960	$1.14	$1.05
2nd	285,217	47,969	18,520*	1.77*	1.65*
3rd	271,559	43,611	8,113	.78	.74
4th	260,782	46,165	9,366	.92	.87
	$1,087,606	$185,477	$47,959	$4.61**	$4.31**

Market and Dividend Information—Common Shares

Quarter	New York Stock Exchange Price Per Share 1977 High	1977 Low	1976 High	1976 Low	Dividends Per Share 1977	1976**
1st	$33¼	$26⅞	$39⅜	$23⅝	$ .30	$ .29
2nd	36	30¾	37½	30⅝	.30	.30
3rd	34⅜	27⅛	39¾	26⅝	.35	.29
4th	28¾	25	29⅜	23¼	.35	.30
					$1.30	$1.18

†First three quarters restated for change in depreciation method. The full-year effect of this change increased depreciation by $5,538,000 and decreased net income by $2,769,000, or 27 cents per share.
*Includes non-recurring transactions.
**Adjusted for 2% stock dividend in February, 1977.

Report of Independent Auditors

To the Shareholders of Crane Co.

We have examined the consolidated balance sheet of Crane Co. and subsidiaries as of December 31, 1977 and 1976, and the related consolidated statements of income, earned surplus, capital surplus 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. We did not examine the financial statements of CF&I Steel Corporation, a consolidated subsidiary, which statements were examined by other independent certified public accountants whose reports thereon have been furnished to us. Total assets and net sales of CF&I Steel Corporation constituted approximately 45% and 39%, respectively, of the related consolidated totals in 1977 (47% and 38% in 1976). Our opinion expressed herein, insofar as it is related to the amounts included for the foregoing subsidiary, is based solely upon the reports of the other independent certified public accountants.

In our opinion, based upon our examinations and the aforementioned reports of other independent certified public accountants, the financial statements referred to above present fairly the consolidated financial position of Crane Co. and subsidiaries at December 31, 1977 and 1976, and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of computing depreciation as described under "Depreciation" in the Financial Review.

New York, N.Y.
January 23, 1978

Ernst & Ernst

Analysis of Summary of Operations

Sales

Consolidated sales for 1977 were $1,133,822,000, 4.2 percent higher than 1976. Crane Domestic sales were 1.1 percent below the 1976 level, reflecting a flat demand for industrial products. CF&I Steel Corporation sales increased 7.0 percent, attributable to improved price realization on rails, steel pipe and wire products. This was partially offset by lower rail tonnage due to the modernization program. Huttig Sash & Door Company sales were 30.3 percent higher than 1976, reflecting the increased level of residential construction during 1977. Crane Canada sales for 1977 decreased 10.4 percent due to the generally depressed economic state of its marketing area. International Operations sales increased 1.8 percent during 1977, which was attributable to improved price realization. This improvement, however, was substantially offset by lower unit shipments.

Consolidated sales for 1976 decreased 2.8 percent from 1975. Crane Domestic sales were 8.3 percent less than in 1975 due to depressed demand for capital goods and building products. CF&I Steel Corporation sales for 1976 were 3.5 percent lower than in 1975, primarily because of reduced shipments of steel pipe. Huttig Sash & Door Company sales increased 44.5 percent in 1976 over 1975, again reflecting the strong conditions in the residential housing markets. Crane Canada sales declined 4.0 percent in 1976 compared with 1975. International Operations sales declined 17.4 percent in 1976 from the 1975 level due to slowdowns in the economies these operations serve.

Operating Profit

Consolidated operating profit in 1977 decreased 16.7 percent from 1976 levels. Crane Domestic's operating profit in 1977 decreased 30.9 percent from 1976 due to a 1.1 percent decline in sales and the inability to offset higher operating costs with price increases. In addition, certain of the traditional markets, particularly valves, were significantly affected by foreign competition. CF&I Steel Corporation experienced a 16.1 percent decline in operating profit compared with the prior year. This decline was primarily caused by the additional depreciation resulting from an accounting change to the use of the accelerated method for financial reporting purposes. Huttig Sash & Door Company's operating profit increased 39.3 percent over 1976 results, reflecting the significant increase in sales volume. Crane Canada's operating profit declined 34.4 percent from 1976, due to the decline in sales volume and change in product mix. During 1977 the International operating profit declined by 20.6 percent. The decline was the result of an economic slowdown together with rising costs of labor and materials.

Consolidated operating profit in 1976 decreased 35.9 percent from 1975 results, which was primarily attributable to the failure to recover higher operating costs through price increases. CF&I Steel Corporation experienced the sharpest decline in operating profit in 1976, 56.3 percent below the 1975 level. The decline was attributable to higher employment, maintenance and other costs, which were not offset by price increases.

Depreciation

Depreciation expense increased 21.5 percent during 1977 as compared to 1976. This increase was caused by a change from the straight-line method to the accelerated method and the higher level of capital expenditures particularly at CF&I Steel Corporation.

Other Income (Deductions)

Interest expense in 1977 increased 3.9 percent from 1976, largely due to an increase in the prime lending rate. During 1976 interest expense increased by 42.7 percent, as a result of the issuance in late 1975 and early 1976 of $82,404,600 principal amount of 8 percent subordinated debentures given in exchange for 4,120,230 common shares of The Anaconda Company.

Miscellaneous—net in 1977 and 1976 included non-recurring transactions resulting in gains of $25,939,000 and $13,738,000 respectively. See page 4, "Consolidated Statement of Income," for details.

Income Taxes

Income taxes for 1977 were at an effective tax rate of 16.0 percent compared with 37.5 percent for 1976. The decrease was attributable primarily to the significant increase in non-recurring transactions, which included dividends and capital gains not subject to maximum income tax rates, and to higher investment tax credits. The effective tax rate for 1976 was lower than 1975 due to non-recurring capital gains and higher investment tax credits.

Five Year Summary of Operations

CRANE CO. AND SUBSIDIARIES

(IN THOUSANDS)

	1977	1976	1975	1974	1973
Net Sales	$1,133,822	$1,087,606	$1,119,494	$1,144,031	$947,093
Depreciation	44,192	36,380	35,784	34,880	30,163
Operating Profit	67,119	80,595	125,738	120,885	50,973
Interest Expense	23,574	22,699	15,905	18,933	19,406
Income Before Income Taxes	78,795	76,778	114,202	97,354	32,558
Income Taxes	(12,624)	(28,819)	(50,594)	(41,221)	(11,981)
Net Income	$ 66,171	$ 47,959	$ 63,608	$ 56,133	$ 20,577
Net Income per Common Share:					
Average Shares Outstanding	$6.52	$4.61	$6.05	$5.21	$1.85
Assuming Conversion of Debentures	6.17	4.31	5.36	4.14	1.47
Dividends per Common Share:					
Cash	1.30	1.18	.96	.66	.44
Stock	2%	2%	2%	2%	2%

Analysis by Segment of Sales, Operating Profit and Assets

(IN THOUSANDS)

	1977 Amount	%	1976 Amount	%	1975 Amount	%	1974 Amount	%	1973 Amount	%
Net Sales:										
Crane Domestic	$ 322,187	29	$ 325,897	30	$ 355,341	32	$ 377,312	33	$319,423	34
CF&I Steel Corporation	441,869	39	413,054	38	427,900	38	438,721	38	342,814	36
Huttig Sash & Door Company	151,628	13	116,328	11	80,495	7	89,762	8	93,904	10
Crane Canada Limited	135,383	12	151,030	14	157,386	14	155,869	14	115,190	12
International Operations	82,755	7	81,297	7	98,372	9	82,367	7	75,762	8
Total Net Sales	$1,133,822	100	$1,087,606	100	$1,119,494	100	$1,144,031	100	$947,093	100
Operating Profit:										
Crane Domestic	$21,869*	29	$31,648	36	$ 38,081	28	$ 28,532	22	$ 9,433	17
CF&I Steel Corporation	24,855*	34	29,611	33	67,788	50	75,261	59	27,016	48
Huttig Sash & Door Company	15,133	20	10,861	12	5,110	4	7,253	6	9,062	16
Crane Canada Limited	5,540	8	8,448	9	15,995	12	13,437	11	6,452	11
International Operations	6,766	9	8,520	10	7,841	6	3,025	2	4,551	8
	74,163	100	89,088	100	134,815	100	127,508	100	56,514	100
Corporate	(7,044)		(8,493)		(9,077)		(6,623)		(5,541)	
Total Operating Profit	$67,119*		$80,595		$125,738		$120,885		$50,973	
Assets:										
Crane Domestic	$124,902	19	$116,731	18	$124,369	21	$138,122	23	$138,831	25
CF&I Steel Corporation	374,242	57	353,309	56	308,814	52	287,567	49	284,996	50
Huttig Sash & Door Company	44,650	7	36,135	6	29,360	5	25,507	4	27,349	5
Crane Canada Limited	52,929	8	61,033	10	62,859	10	63,697	11	50,942	9
International Operations	60,651	9	60,345	10	69,680	12	74,391	13	61.033	11
	657,374	100	627,553	100	595,082	100	589,284	100	563,151	100
Corporate	179,521		133,008		127,119		18,663		24,115	
Total Assets	$836,895		$760,561		$722,201		$607,947		$587,266	

*Changed from straight-line to accelerated depreciation, which increased depreciation by $862,000 and $4,676,000 respectively, a total of $5,538,000 in 1977.

CRTX 0393

Capital Expenditures and Depreciation by Segment

CRANE CO. AND SUBSIDIARIES

(IN THOUSANDS)

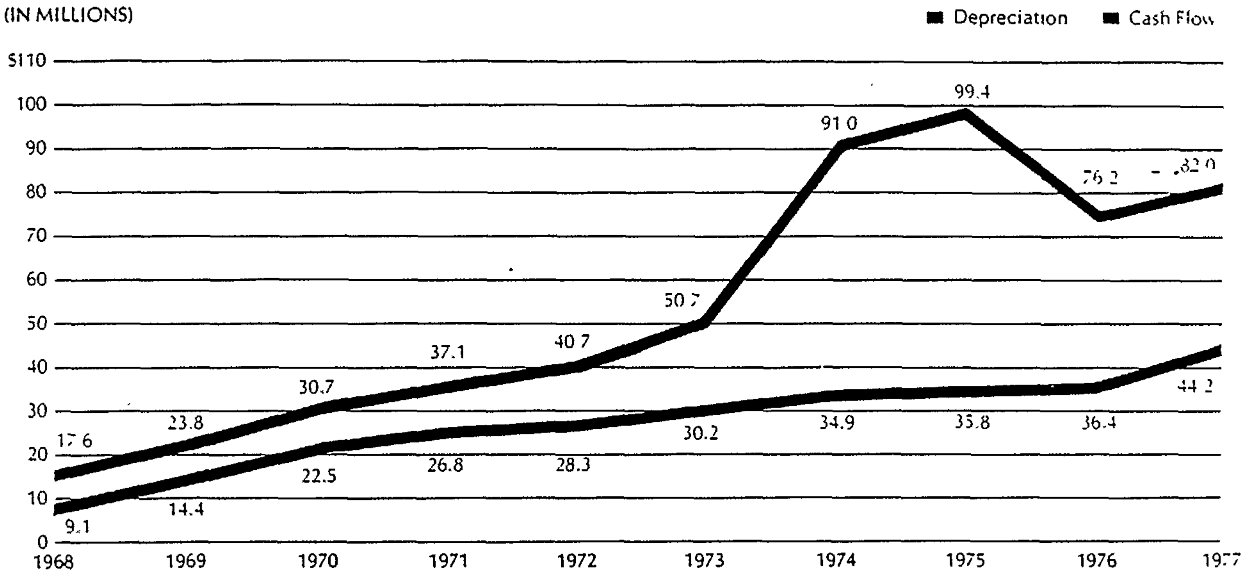
	1977	1976
Capital Expenditures:		
Crane Domestic	$ 9,154	$ 7,066
CF&I Steel Corporation	73,685	71,143
Huttig Sash & Door Company	4,290	869
Crane Canada Limited	2,440	1,137
International Operations	3,621	2,315
Total Capital Expenditures	$93,190	$82,530

	1977	1976
Depreciation:		
Crane Domestic	$ 6,355	$ 5,400
CF&I Steel Corporation	33,317	26,336
Huttig Sash & Door Company	612	526
Crane Canada Limited	1,531	1,586
International Operations	2,377	2,532
Total Depreciation	$44,192	$36,380

Cash Flow

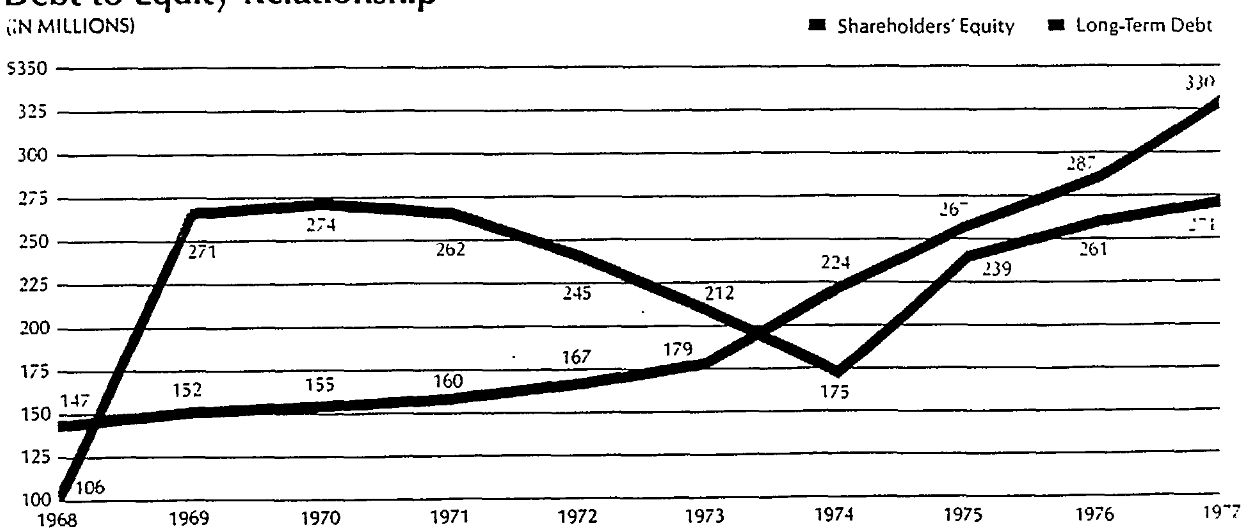
Net income, excluding non-recurring transactions, plus depreciation.

(IN MILLIONS)



Debt to Equity Relationship

(IN MILLIONS)



CRTX 0394

Crane Domestic

Crane's Domestic operations provide capital goods markets with a broad range of industrial products.

Fluid and pollution control products—valves, fittings, pumps and water conditioning and waste treatment systems—serve petroleum, chemical, power, pulp and paper, and municipal markets.

Plumbing and related building products serve residential, commercial and industrial construction markets.

Aircraft systems and accessories serve commercial transport, general aviation, and military aerospace markets.

Fluid and Pollution Control Products

The long awaited upturn in capital spending failed to materialize in 1977 as basic industries continued to defer sizeable investments in new plant and equipment. The slow pace of economic growth has left excessive capacity in Crane's major fluid and pollution control markets—the petroleum, chemical, power, and pulp and paper industries.

Slack demand in Crane's industrial valve markets during 1977 resulted in sales and earnings below 1976 levels. However, sales of pump products exceeded year-earlier results, while water treatment and pollution control equipment performed well. Throughout 1977 and into 1978 Crane has focused upon market segments which continue active, such as energy conservation and pollution abatement. The company also has acted to tighten operations by phasing down high cost facilities, improving productivity and streamlining product lines.

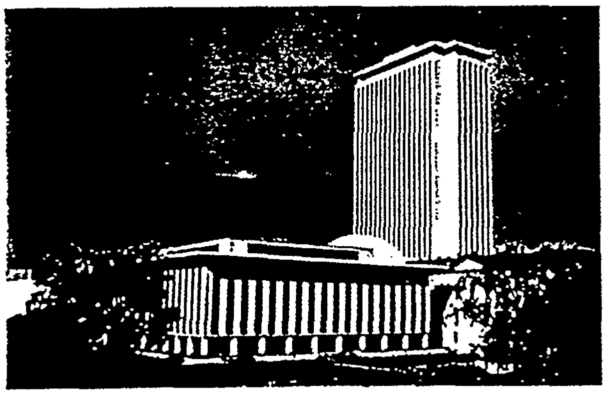
In addition to low overall demand, the Valves and Fittings Division experienced keen competition from imports diverted from weak European markets. Sales of quarter-turn valves, however, increased substantially last year, reflecting better penetration of this growing segment of the industry. Such factors as lighter weight, smaller space requirements, and ease of maintenance and operation are causing these valves to replace the more traditional gate and globe valves in many applications.

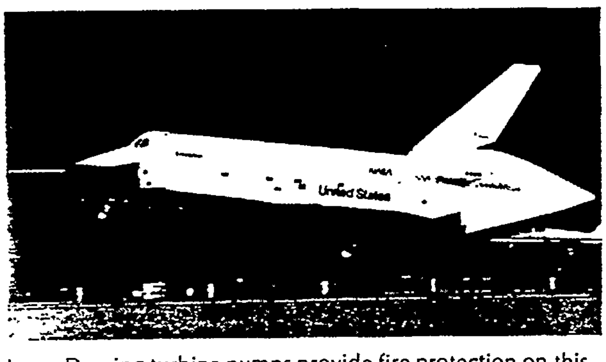
Two new designs were added to Crane's butterfly valve line in 1977, broadening this line to include products engineered to meet both general and specialty service applications. Crane's line of standard ball valves has been redesigned, and engineering is now underway on several new valve designs as well as extensions of the current standard lines.

Crane continued to upgrade valve production facilities in 1977. The company's original valve plant in Chicago was closed and the profitable product lines transferred to other modern locations with increased production capability. A new bronze casting center be-

Crane fittings are used on the Trans-Alaska Pipeline.
Steel valves and Crane Teledyne operators are installed in the power house at one of the country's busiest airports.

CRTX 0395





Large Deming turbine pumps provide fire protection on this offshore drilling platform.

Cochrane chemist analyzes a customer's waste water problem.

Florida's State Capitol Building, designed by Edward Durell Stone Associates, is equipped with Crane plumbing fixtures.

Hydro-Aire's computerized braking system is installed on the Space Shuttle.

came fully operational during the year, while modernization of the company's steel casting center will be completed in early 1978.

Crane had improved pump sales in 1977. This performance is attributable largely to greater market penetration through broader product lines and entry into new market areas.

With full-line capability in the manufacture of large solids handling pumps, Crane enjoyed higher sales for municipal and industrial sewage applications. During the year, the company also acquired a line of high quality smaller sewage pumps for residential and light commercial use. This addition enables Crane to serve the market from the smallest domestic need to large municipal and industrial fluid waste applications.

The Deming line of double suction split-case pumps was broadened with the inclusion of several large sizes. These are specified primarily for industrial and municipal potable water service as well as for the growing agricultural/irrigation markets.

Domestic water systems pumps, although a smaller percentage of Deming's business than the industrial lines, experienced a sharp increase in sales, paralleling the strong activity in home construction and remodeling.

Sales of Chempump canned motor pumps for nuclear service continued strong last year, confirming Crane's leadership in this market for critical service pumps. Though chemical process markets weakened, Chempump products have entered several new market areas. Chempump units are handling coal slurry in coal conversion technology, while the smaller, fractional horsepower Dynapump units are in use for solution transfer in solar cooling systems. A new metering pump was successfully introduced last year. This low flow, high pressure, controlled volume pump is in strong demand for precision fluid transfer in medical and industrial research.

Cochrane Environmental Systems Division achieved higher earnings in 1977. Sales of water treatment systems improved markedly, reflecting increased capital investment for cost saving equipment. Key to this improvement was stepped-up demand for Cochrane's proprietary Ammonex boiler water treatment process. This process, which contributes significant savings in the cost of boiler water treatment, is finding increasing use in power plant applications. Cochrane also anticipates growing demand for its condensate booster recycling system, which offers unique energy conservation features for industrial steam boilers.

As a further step in the development of specialized fluid and pollution control systems, Cochrane introduced a line of comprehensive fluid monitoring instruments in 1977. These instruments utilize ultrasonics to detect and precisely measure pollutant agents present in industrial wastewater. The line complements Cochrane's recently developed Uni-Pac Clarifier, a packaged system which separates the toxic elements in metal-bearing wastewater. Early market reaction to both products has been favorable. With environmental controls demanding an ever greater share of corporate investment dollars and production costs steadily on the rise, the outlook for increased sales of Cochrane's engineered systems is encouraging.

Crane Supply Company, Crane's wholly-owned industrial distribution network, had a difficult year in 1977. Crane Supply offers industrial markets a full line of standard Crane valves, pumps and fittings plus related products of other manufacturers. Industry's slow pace of spending for new plant and equipment coupled with ready availability of imports in some standard products made certain lines extremely competitive. With a branch network which extends nationwide, Crane Supply is well positioned to benefit from improved commercial and industrial construction activity when it occurs.

Building Products

With housing starts at their highest level since the 1973 pre-recession peak, Crane's Plumbing Division experienced improved sales and earnings in 1977. The division's performance also was aided by strong remodeling activity and the introduction of additional products directed to both the new construction and remodeling markets.

A line of pulsating showerheads was added last year, and the high-style Classic Brass fixture group was expanded to include additional decorative finishes and designs. Early in 1978 the division introduced a new, streamlined pedestal lavatory in both solid and dual-tone colors. Crane is steadily expanding its line of water economy fixtures for both domestic and commercial use and has added a series of flow control adaptors and showerheads to its plumbing brassware.

In order to reach the rapidly expanding home improvement market more directly, Crane formed the Classic Home Products Division in 1977. Classic Home Products markets Crane plumbing products, related accessories and other home improvement lines to home centers and other retailers that specialize in reaching the remodeling customer. Through Classic, Crane has direct access to the do-it-yourself segment of this growth market, a segment which now accounts for more than half of the over $30 billion in annual home improvement sales.

With building activity expected to continue strong again in 1978, the outlook for Crane's building products is encouraging. If an upswing occurs in multi-family and commercial construction as is anticipated, the company should enjoy renewed order strength in its commercial and institutional plumbing fixtures, as well.

Aerospace and Aircraft Products

The company's Hydro-Aire Division designs and manufactures brake control systems, fuel and hydraulic pumps, controls and other accessories and systems for military, commercial and general aviation aircraft. Both sales and earnings achieved new records in 1977 as all segments of the division's markets were strong.

Hydro-Aire's products, designed specifically to improve aircraft safety and dependability, are found on virtually all commercial transport aircraft and the majority of military and general aviation craft. The past year saw a resurgence of domestic airline travel and a corresponding upswing in new equipment orders. This increase coupled with heavy export sales has resulted in an improved commercial market, and consequently, high order levels for Hydro-Aire's automatic braking and skid control systems.

The business aircraft sector of the general aviation market is exceptionally strong as new uses emerge for this class of aircraft. Worldwide, the search for energy, geodetic and agricultural research, and the transportation needs of developing nations should assure a strong market for years to come. Hydro-Aire anti-skid brake controls are specified on most of these aircraft. During 1977 the new Power Brake/Anti-Skid package was certified for the Cessna Citation II and the Beech Aircraft Super King Air. Also, the highly reliable invermotor fuel boost pump is certified for all Beech, Swearingen and Mitsubishi turboprop aircraft.

The first flight of the Space Shuttle, which occurred last year, was significant to Hydro-Aire. This new hybrid air/spacecraft, incorporating Hydro-Aire's automatic brake controls, will become the key element in the nation's space exploration program during the next decade. It gives the United States the capability of building sophisticated structures in space to house research laboratories and communication networks devoted to scientific advancement.

During 1977 Hydro-Aire's manufacturing capabilities were expanded as the production assembly area was increased by 26,000 square feet. This addition permitted the consolidation of many related operations to further improve production efficiency.

CF&I Steel Corporation

CF&I serves the transportation, petroleum, mining, construction and agricultural industries, primarily in the western United States. A vertically integrated steel manufacturer, CF&I supplies most of its own coking coal, iron ore, limestone and dolomite from company-operated mines and quarries. A common carrier subsidiary, The Colorado & Wyoming Railway Company, transports raw materials from CF&I mines in Colorado and Wyoming in addition to serving other customers in the region.

Operations

Pressured by escalating operating costs, slack capital goods markets and steep import competition, the steel industry as a whole experienced one of its most difficult periods last year. In the face of these severe business conditions, CF&I performed well in 1977 even though operating results did not match the prior year.

The company's creditable performance, despite major industry problems, is largely attributable to increased productivity resulting from the large scale facility modernization program at CF&I's Pueblo plant in recent years. Important, as well, are the company's product mix and geographic location. One of the few integrated steel facilities in the West, CF&I enjoys strategic access to important oil and gas producing regions, the independent and successful western rail lines, major mining activity, the farm and ranch sector, and a construction industry attendant upon western expansion. It is to these markets that CF&I's product lines are targeted.

Sales of oil country casing and tubing rose sharply as domestic drilling activity increased during 1977, and improved demand for tubular goods has continued into 1978. Oil industry projections indicate a 15 percent increase in exploration spending during 1978, with a larger portion of this investment going into domestic drilling. With the heightened need for new domestic petroleum sources, this market should continue to expand over the long term.

Demand for rails and accessories softened as the year progressed due to delays by major railroads in their replacement programs. Last year the western roads, which derive a high percentage of revenue from basic commodity haulage, suffered from special factors such as low grain traffic, a prolonged iron ore strike and the coal strike.

The outlook for CF&I's rail products is encouraging for 1978 and beyond, however, as the railroads return to high levels of track construction and maintenance. The efficiency of rail transportation becomes increasingly important as energy costs continue to rise. Western coal development is heavily dependent upon rail transportation, and the vast coal reserves in CF&I's market area are virtually certain to be in demand as the nation moves toward greater energy self-sufficiency. With CF&I's rail mill modernization nearing completion, early this year the company will offer longer length rail and a new high strength alloy rail, which are expected to increase market penetration.

Mining products experienced a sharp sales increase during 1977 despite labor contract problems in the copper, taconite and coal industries. With improved mining activity anticipated for 1978, these products are expected to continue to perform well.

Sales of some wire products were favorably influenced by a high level of home building and government spending on water projects during 1977. However, wire rod and nail markets eroded dramatically as a result of import pricing pressures. Although CF&I has been affected by the large influx of steel imports to a lesser extent than many of the major companies, foreign competition remains a serious problem for the industry. Measures are needed to re-establish equal competitive opportunities in an open market environment for both foreign and domestic producers.

Demand for structural products mirrored the continued slow pace of capital expenditures for plant and equipment last year. An increase in heavy construction activity in 1978, if it occurs, would have a positive impact on shipments of rolled products.

Facilities

CF&I continued to pursue its aggressive plant improvement program during 1977 as capital expenditures totaled $73,685,000. Of this sum, $6,910,000 was invested in environmental quality improvements at various CF&I facilities.

Approximately 50 percent of the company's capital expenditures went into expansion and modernization of the rail mill facilities. The first phase of this three year project became operational in August. Included in the program's initial phase were cooling boxes, roller straightener, and automated end finishing and drilling equipment. A new rolling mill and rail rolling equipment will go into production during 1978. CF&I now has the capability of producing rails up to 25 meters in length, more than twice the prior standard length. Upon completion of the program in early 1979, CF&I will have the most modern rail producing facility in North America.

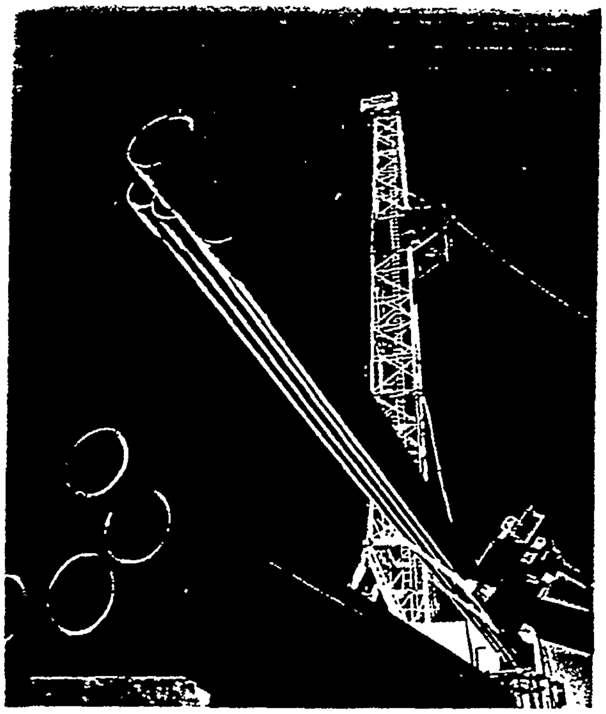
Improvements were implemented in other production areas last year. Billet conditioning capacity, which will increase production capability of high grade oil country goods, was added to the seamless tube mill. In March a new coupling shop went into operation, which reduces the need to purchase couplings from outside suppliers. New nail and barbed wire machines of substantially improved design and higher throughput also were installed in 1977. Facilities currently are being installed to enable CF&I to produce high quality specialty bar products. These products command higher prices in the marketplace.

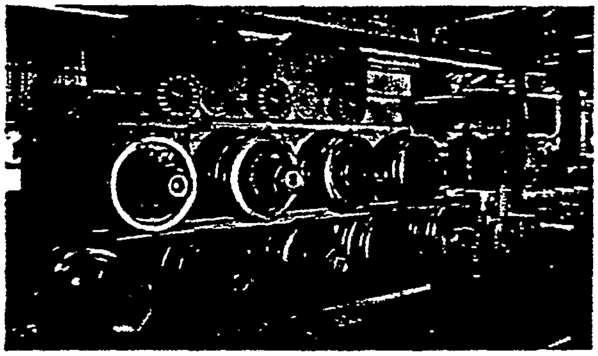
CF&I continues to focus upon development of its raw material supplies. The new Maxwell coal mine, located in southern Colorado, became operational in early 1977 and final development was completed before year-end. With the opening of this mine, the company became completely self-sufficient in supplying the high volatile metallurgical coal required for steelmaking. In order to attain self-sufficiency in low volatile metallurgical coal supplies, CF&I has initiated plans to develop a mine in eastern Oklahoma, which will be the company's third coal mine.

The Colorado & Wyoming Railway Company has expanded its rail car fleet by acquiring 40 new rapid discharge hopper cars to transport coal from the Maxwell and Allen mines in a unit train system. Further improvements in raw material supplies include a new auto shredder at one of the company's scrap metal processing operations and the start-up of an iron ore beneficiation plant at the Sunrise Mine in Wyoming. By refining the ore quality at the mining site, the beneficiation plant reduces shipping costs to Pueblo and improves the efficiency of blast furnace operations.

During 1977 CF&I's environmental improvement program focused on upgrading air quality control equipment. Four major emission control projects are now underway. At the basic oxygen furnace a new electrostatic precipitator is being installed, and facilities are being added to control fumes emitted during charging and tapping of the furnace. Improved facilities also are under construction for controlling emissions which escape as coke is pushed from oven to quench car, and upgraded air quality control facilities are being added at the sinter plant.

Late in 1977 CF&I formed a new subsidiary, CF&I Energy Resources Company, in order to further develop resources of its own as well as those of others. With its 350,000 outlying acres in the Rocky Mountain area, CF&I has substantial reserves of sub-bituminous steam coal. Drawing on this raw supply plus its years of experience in mining coal, CF&I will explore and develop coal resources throughout the area for sale to energy consuming industries.





CF&I casing is unloaded at a drilling site near Hobbs, New Mexico.

The new roller straightener in the rail mill handles rails up to 25 meters in length.

Air quality improvement included a new baghouse cleaning system at the Pueblo lime plant.

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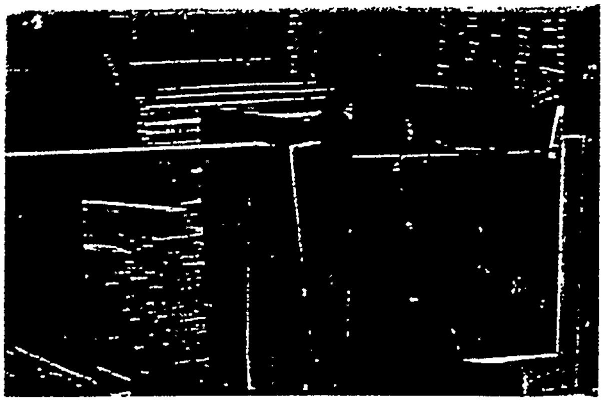
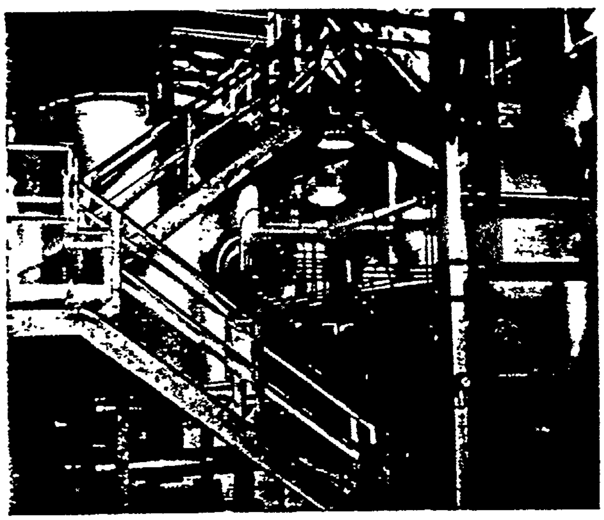




Insulated window units are manufactured at Huttig's Charlotte facility.

Crane Canada furnished valves and plumbing fixtures for the Place du Portage project in Hull.

Cochrane cation hydrogen exchange vessels and demineralizers being installed at an Ontario refinery. Completed water treatment system will handle 3,600 gallons per minute.

Huttig Sash & Door Company

Huttig manufactures and distributes millwork and allied building products primarily to residential construction markets. Huttig's branches are concentrated in the South, Southeast, Southwest and Midwest, among the fastest growing residential construction areas in the country.

Huttig achieved record results in 1977 for the second consecutive year.

The surge in residential construction activity, which continued throughout the year, meant strong and consistent demand for Huttig products. The 1977 housing market also reflected increased remodeling activity, another growing sector for Huttig. A major factor in the escalation of home improvement activity in the past several years has been the emergence of the do-it-yourself market. With steeply rising labor costs, greater consumer awareness and the availability of detailed instructional data, homeowners are investing in self-installed improvements. Huttig products are ideally suited to this self-sufficient market sector.

Higher utility costs have reinforced the importance of energy saving home improvements, and Huttig experienced a marked upswing in sales of these products in 1977. Metal entrance door systems and insulated glass window units were especially strong. Huttig is expanding production capability of these and related energy saving products. In 1977 the company established a third separate glazing facility for wood windows, and this year will expand the original facility, which became operational in 1976. Additional energy saving products, tailored for the remodeling market, will be added at these glazing operations.

Last year Huttig completed a new larger facility at Rockford, Illinois and expanded operations at Rock Island, Illinois. Construction has begun on facilities for a new branch in Champaign, Illinois and on a new building at the Des Moines, Iowa location. These are scheduled for completion in 1978. Each of these midwestern regions continues to offer fine growth opportunities for Huttig's business. Last fall new branch operations were opened in North Carolina and Tennessee to strengthen penetration of southern markets.

Although 1978 housing starts are expected to fall below the 1977 level, home building activity should continue brisk and remodeling markets, led by the do-it-yourself customer, should strengthen further. These factors, coupled with Huttig's strategic geographic concentration in the South and Midwest, make the outlook for 1978 quite favorable.

Crane Canada

Crane Canada Limited manufactures and distributes valves, pumps, plumbing fixtures and fittings for the construction industry, as well as fluid and pollution control and water conditioning equipment for basic industrial applications. Primary Canadian markets parallel those in the United States.

The pervasive slow-down in Canadian economic activity in 1977 had an adverse effect on Crane Canada's sales and earnings. Capital spending markets account for the majority of the company's business. Such factors as government wage and price controls, an unsettled political environment, the declining value of the Canadian dollar and a continuing high level of inflation had a depressing effect on business investment in new plant and equipment.

Manufacturing Operations

Crane Canada's manufacturing operations performed reasonably well in 1977 although results were below the prior year. Despite an unfavorable business climate, the company maintained a firm market share in its major product areas.

Sales of bronze and iron valves for commercial, government and institutional construction markets approximated year-earlier levels, while waterworks product sales held up well in the face of keen domestic and import competition. In the past several years Crane Canada has focused on these municipal and in dustrial wastewater markets, areas which should offer better-than-average growth potential when capital investment again picks up.

Demand for plumbing products in 1977 remained level with 1976 even though Canadian housing starts were below the record number of the prior year. As one of the country's largest plumbing manufacturers, Crane Canada holds a strong market position which should result in continued good performance of these products.

Distribution Operations

Crane Supply Division, which distributes the company's products and related items of other manufacturers, was severely affected by the low level of economic activity. Lack of demand, particularly in industrial markets, resulted in decreased sales volume and a consequent squeeze on profit margins. For the current year commercial and industrial construction are expected to strengthen only marginally, while the government, in its efforts to control inflation, will continue to restrain spending for public facilities. With distribution branches located in key industrial areas of Canada, however, Crane Supply should participate in renewed business activity once it occurs.

One area of industrial construction which is expected to improve during 1978 and beyond is energy related building. Twenty major power generation projects are planned for Canada before the end of 1980, with work beginning on several large nuclear facilities this year. The Alaska Highway Pipeline project, scheduled to commence in 1979, offers additional market potential. Such activity in the energy related sector—a major market for a wide range of Crane Canada's products—should have a positive effect on both manufacturing and distribution operations.

Crane International

One of the largest valve and fittings manufacturers in Europe, with operations in the United Kingdom, France, Spain and The Netherlands, Crane is a leading supplier to petroleum, petrochemical, chemical, power and marine markets. An Australian valve plant serves that country, while a pump facility in Mexico sells to industrial and agricultural markets in Latin America.

The pace of the world economy was disappointing in 1977. Plagued by continuing high inflation, rising labor costs and, in some cases, tight credit and price restraints, private industry deferred investment in new plant and equipment while governments, as well, held back on projects. This lack of capital investment depressed the overall performance of Crane's international operations, although several sectors showed improvement.

In the United Kingdom, Crane Ltd. achieved higher earnings in 1977. Crane Ltd. manufactures valves, pumps, fittings and castings for construction engineering, mechanical services and petrochemical applications both domestically and overseas. Although these markets generally were not strong in 1977, the company bettered its performance largely because of increased productivity and greater market penetration. Plant improvements were concentrated upon labor saving equipment, particularly at the malleable iron foundry and machining facilities.

Crane Ltd. is gaining a larger share of export markets despite keen competition in these sectors. During 1977 the company extended its pump and malleable fittings markets in the Middle East and developed export business for steel castings in Europe and North America. With increased investment by Middle East and African countries, demand in these regions is expected to grow at a faster pace than in the more mature economies.

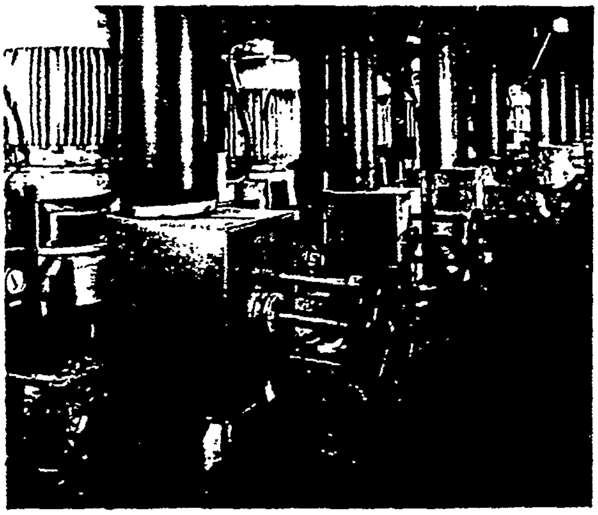
Crane Nederland N.V. manufactures valves, pipe fittings and central heating products for residential, commercial and light industrial construction. The company experienced a good year in 1977 as profit margins improved despite a lower level of sales. Last year Crane Nederland introduced a new residential boiler line, which was well received in the marketplace, and improved manufacturing efficiency at its production facilities. Such factors indicate a favorable outlook for Crane Nederland even though domestic construction markets are not expected to strengthen notably in 1978.

Crane's industrial valve operations in Spain and France were depressed in 1977. In Spain Crane-FISA, S.A. suffered deterioration of its domestic markets. An inflation rate exceeding 25 percent, tight credit and general economic uncertainty following the change in government brought business investment in Spain to a virtual standstill last year. In view of these conditions, it is difficult to foresee any improvement in 1978.

Because of the decline in worldwide demand for standard cast steel valves, Crane S.A., located in France, concentrated on developing markets for its high pressure valves. This has led to a situation of dependence on project work, particularly in petrochemical and power markets, and the transition to more specialized markets proved difficult. Crane S.A. should benefit from better penetration of these specialized markets in 1978. At this writing France is on the eve of a national election, the outcome of which will affect basic economic policy. It is, therefore, impossible to assess the near term business environment.

Crane Australia Pty. Limited performed well in 1977 despite the continued slow rate of capital investment in Australia. The company continues to maintain a strong position in refining and chemical processing markets, areas which should expand during the next several years.

Crane-Deming de Mexico S.A., which manufactures pumps for industrial and agricultural applications, enjoyed higher sales and profitability in 1977. The company has increased its sales of pumps to agricultural/irrigation markets, sectors which exhibit firm growth potential. The development of Mexico's oil and gas resources, now underway, offers additional market opportunities for 1978 and beyond.



These Crane steel valves operate at temperatures as low as −45°F in an Australian natural gas plant.

High capacity Crane pumps help heat the Central Terminal at London's Heathrow Airport.

CRTX 0402

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