Methodology

Inventories

The estimated replacement cost of raw materials has been based on standard cost that approximates current cost. Finished goods and work in process have been estimated on the basis of standard costs that approximate current cost and include current material, labor, and overhead variances as well as an allocation of replacement-cost depreciation of buildings, machinery and equipment determined on a straight-line basis.

Cost of Sales

For those inventories accounted for on a last-in, first-out (LIFO) basis, estimated replacement cost of sales, exclusive of depreciation, was based on applying the LIFO method of costing ending inventories adjusted for any decrements during the year. The turnover rate of inventories accounted for on a first-in, first-out (FIFO) basis is fast enough to approximate replacement cost. No attempt has been made to quantify the effects of improved efficiency or reduced operating costs that might occur if manufacturing facilities were replaced.

Property, Plant and Equipment

In 1976, the estimated replacement costs for approximately 80%-85% of the Company's property, plant and equipment were developed on a functional pricing basis. This uses updated costs of recent applications of present-day technology. The estimated costs of replacing the remaining 15%-20% of total assets, where there has been little or no significant technological obsolescence over the years, were appropriately indexed by year of acquisition at then-current price levels. After adjusting for changes in technology and additions and dispositions of productive capacity, the 1976 estimated costs were indexed using current price levels to arrive at 1977 and 1978 estimated replacement costs.

Replacement-cost data have been provided for productive capacity represented by buildings, machinery and equipment used in mining operations. Since disclosure of the replacement-cost of mineral reserves is not required, depletion expense for mineral reserves has been included in the replacement-cost data for inventories and cost of sales at the historical cost amount. Costs incurred in acquiring mineral rights, leases or properties were related principally to the acquisitions of other businesses. These costs, which are included in depletable properties on the balance sheet and represent an expansion of the Company's productive capacity, amounted to $15,330,000 and $4,425,000 in 1978 and 1977, respectively. In management's opinion, changing costs of acquisitions will result in corresponding changes in revenues. Costs incurred in exploration activities and the development of ore bodies are not significant.

In addition, no replacement-cost information has been provided for land and timberlands, as they are not consumed in the production process.

Accumulated depreciation of productive capacity at year end and the provision for depreciation for the year related to the replacement costs of such assets were calculated using straight-line depreciation rates based upon the estimated service lives and salvage values used for financial accounting purposes. This was computed by applying a general or specific index to year-end historical cost balances for cost and accumulated depreciation and then recomputing a ratio of accumulated depreciation to historical cost.

Timber

The replacement cost of fee timber was determined by estimating the reforestation cost to replace timber owned at December 31, 1978 and 1977. For those timber tracts that naturally regenerate after selective or clear cutting, a cost per unit to manage the timber through a complete growth cycle was multiplied by the number of units involved. For those tracts in Canada in which the Company starts the regeneration process, the estimated cost of planting seedlings was added. Replacement cost of timber acquired by short-term agreements that entitle the Company to harvest the timber at its convenience during the following 12-18 months was deemed to be the same as historical cost.

Unit costs associated with the estimate of replacement cost of timberlands, determined as above, were applied to the amount harvested during 1978 and 1977 to obtain the replacement cost of timber harvested.