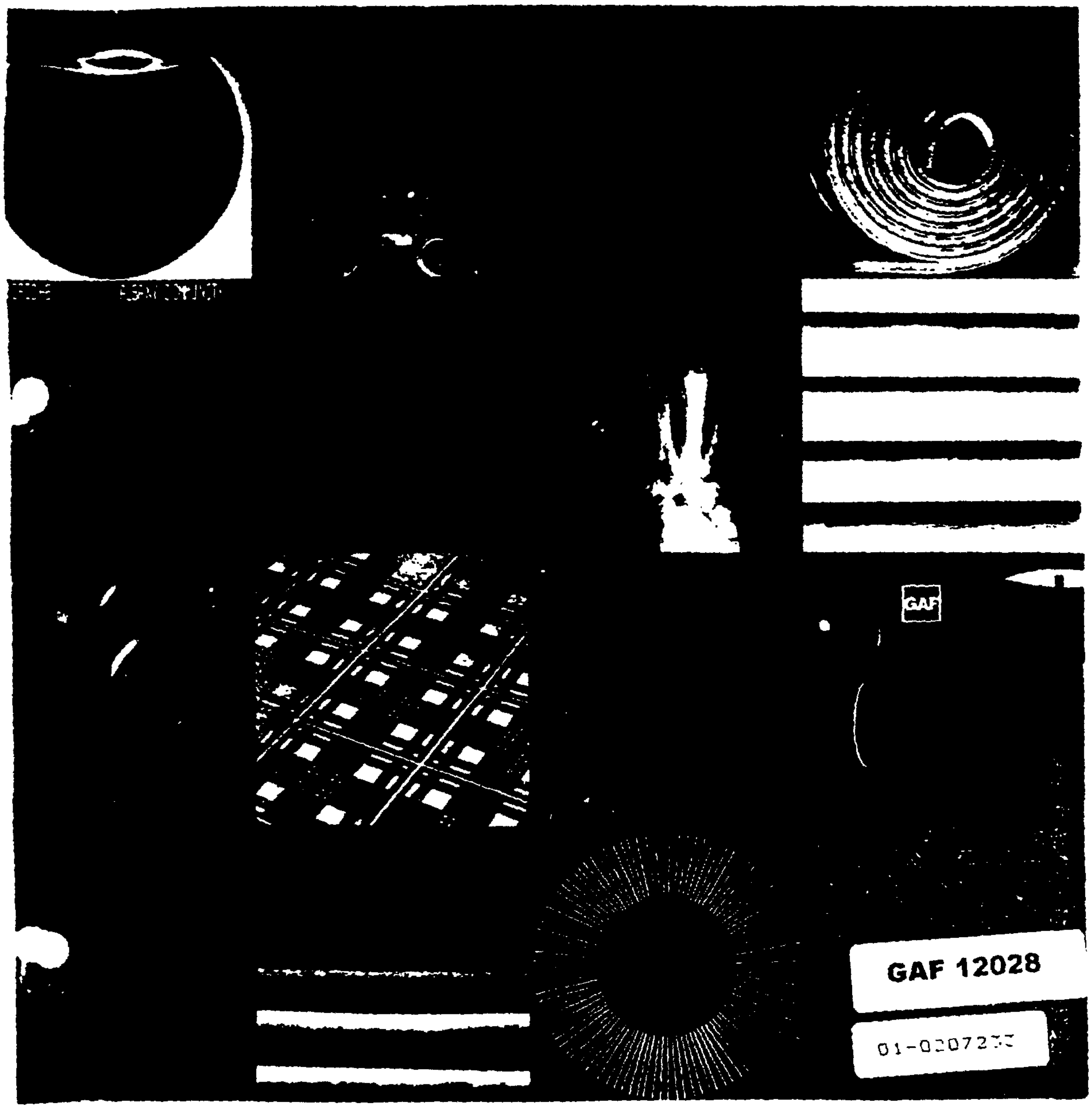
PLAINTIFF'S
EXHIBIT
GF-1948

GAF CORPORATION

ANNUAL REPORT 1976



GAF 12028

01-0207233

HOW GAF REACHED $1 BILLION Milestones on the way to $1 billion in annual sales

GAF goes public March 9, 1965	Sales	New products	Plant expansions	Acquisitions Subsidiaries
1965	$416,677,000	Introduce GAF polyester based films	Start-up of diazo paper coating plant in Arlington, Tex. Start-up of $8-million addition at Binghamton, N.Y. to increase film output	
1966	$484,062,000			[illegible] Acquire Sawyer's [illegible] viewers, View-Master and [illegible] products Acquire [illegible] record company
1967	$504,584,000	Introduce GAF 500 slide film, world's fastest 35mm color film Introduce Galcore latex foam backing for textiles Introduce 90-second processing x-ray film Introduce super 8 film cartridges		Acquire [illegible] roofing [illegible] Acquire [illegible] Establish marketing subsidiary in Sweden
1968 Corporate name changed to GAF CORPORATION	$554,264,000	Introduce Timberline [illegible] roofing shingles	Start-up of $20-million acetylene chemicals plant at Texas City $10-million Texas City addition for agricultural chemicals $16-million addition at Binghamton for color paper coating $2.5-million expansion at [illegible] City doubles production of Gantrez polymer	Acquire Consolidated Reprographics [illegible] Establish subsidiaries in [illegible] Italy and Norway
1969	$592,066,000	Introduce Sure-Stik floor tile Introduce GAF color print film Introduce Talking View-Master viewers Introduce [illegible] pressure-vessel filter systems		Acquire [illegible] Photo Co.—photofinishers serving the Midwest Establish marketing subsidiaries in Austria and Switzerland
1970	$583,482,000	Introduce Cepha plant growth regulator Launch new advertising campaign featuring Henry Fonda GAF Official Film of Disneyland and Walt Disney World. By 1976 GAF film similarly designated at some 20 national tourist attractions		Establish marketing subsidiary in Denmark
1971	$683,762,000		Start-up of $10-million addition at [illegible] to produce base felt for sheet vinyl flooring	Acquire Perfect Photo [illegible]
1972	$768,460,000	Introduce Vanguard vinyl siding and shutters Introduce 110 pocket cameras	Begin production [illegible] products plant [illegible]	Acquire [illegible] [illegible]
1973	$848,886,000	Introduce Mineral Shield [illegible] applied roofing system Introduce 110 color print film		[illegible]
1974	$948,809,000	Introduce super 8 sound movie cameras and projectors	Begin $9-million expansion of European photo complex at Sint-Niklaas, Belgium	
1975	$964,421,000	Introduce Gafite PBT resins—first venture into hard plastics Introduce Gafstar Brite-Bond—urethane-surfaced no-wax sheet vinyl flooring	GAF [illegible] $30-million [illegible] plant in West Germany Begin $30-million [illegible] sheet vinyl flooring plant in [illegible]	
1976	$1,060,507,000	Introduce Galmed [illegible] medical x-ray products	Begin construction of automotive fibrous padding plant [illegible]	Acquire New York City [illegible] Acquire medical [illegible] of United States Radium [illegible]

01-0207234

GAF 12029

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About the cover:
GAF's products are its face to the world. Each year new developments in chemicals, photo and repro, and building materials join our lines of proven products to enhance sales.

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The 1977 Annual Meeting of Shareholders will be held at 10:00 a.m., Tuesday, April 26, at The Continental Plaza, North Michigan and Delaware, Chicago, Ill.

Stock Transfer Agents and Registrars

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

First Jersey National Bank
One Exchange Place
Jersey City N.J. 07303

Form 10-K as filed with the Securities and Exchange Commission may be obtained free of charge by writing to Investor Relations Dept., GAF CORPORATION, 140 West 51 Street, New York, N.Y. 10020

Financial Highlights	**1976**	1975
Sales	**$1,060,507,000**	$964,421,000
Net Income	**$ 19,700,000**	$ 30,946,000
Earnings per Common Share		
Primary	**$1.21**	$2.06
Fully Diluted	**$1.14**	$1.79
Cash Dividends per		
Preferred Share	**$1.20**	$1.20
Common Share	**$ .58**	$ .52

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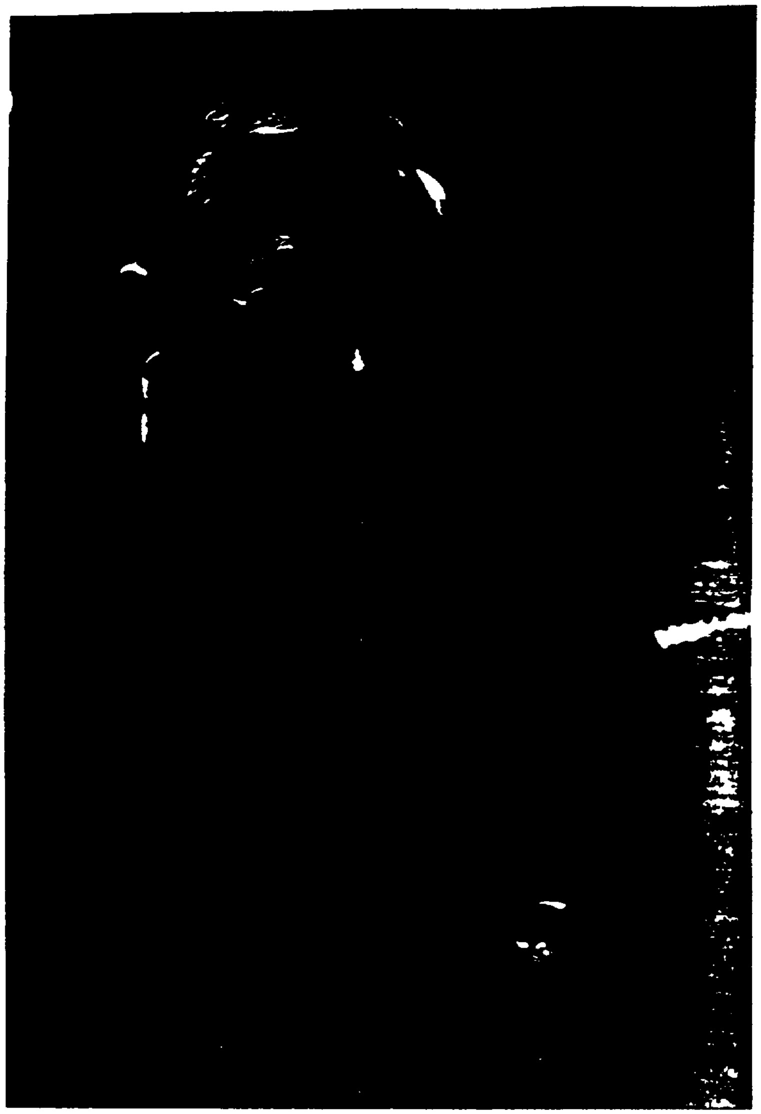
GAF 12030



MESSAGE FROM THE PRESIDENT

Despite GAF's historic achievement of over $1 billion in annual sales, a rise of 10% over 1975, earnings for 1976 were disappointingly low—the result of a complex mix of economic factors.

Earnings for the year dropped 36% to $19.7 million versus $30.9 million in 1975.

Of the $11.2 million earnings decline, $9.2 million is accounted for by the unusual conjunction of a number of special items—a non-recurring $4 million net gain in 1975 on the sale of technology and know-how to the GAF-Hüls joint venture; currency fluctuations that resulted in an after-tax loss of $3.0 million in 1976 compared with a $0.5 million gain in 1975; and the impact of the silver loss, discussed below.

In addition, increased unit manufacturing costs of over $35 million, primarily for raw materials, labor and energy, exceeded price increases by over $10 million.

Year started strong

The continuing worldwide recession in 1976, combined with continually escalating costs of operation, had a mixed effect on GAF.

First quarter results showed the kind of promise we expected, with earnings turning up strongly following a firm fourth quarter 1975. Direct operating profits for the Photo & Repro group were negative, however, as they would be in three of the four quarters of the year. Your company found it increasingly difficult to operate profitably in the consumer sector of the highly dominated photographic industry.

Sales continued strong into the second quarter and, except for the non-recurring $4 million gain a year earlier, earnings were higher. Chemicals and Building Materials continued their profitable performance but signs of slipping began to show up in the third quarter, due primarily to the inability to pass increased costs along.

Sales continued to climb in the third quarter although earnings levels declined from a year earlier, in good part as a result of the vagaries of foreign currency fluctuations.

In the fourth quarter, results were just above break-even.

Earnings for the quarter and for the year were eroded by a pre-tax reserve for a silver shortage of approximately $3.5 million. The cause of the shortage has not as yet been determined, but if it is the result of theft, recovery through insurance may be possible. GAF reserved for the estimated amount of the shortage, and the impact on fourth-quarter earnings was a negative $1.7 million after taxes, or 13c per share of primary earnings. A full-scale investigation is under way.

Prices fluctuated widely in 1976, and increases did not always hold. For the corporation as a whole, price increases did not keep pace with increasing costs of production, distribution and selling.

Management intensified its efforts to lower costs and tighten controls. A personnel reduction program was undertaken in the autumn to reduce our workforce by some 500 people. While such reductions cause a short-term increase in costs—mainly because of severance benefits—the effect will soon show up in lower payroll expenses.

Positive signs

There were a number of positive indications in 1976:

- GAF substantially strengthened its capital structure. In addition to a $10 million loan from three banks to finance a wastewater treatment facility at our Linden, N.J. plant, the company strengthened its capital structure in April 1976 with a $65 million private placement with four major insurance companies. The fixed-rate, long-term loan enabled us to repay intermediate-term bank debt, thus lengthening the average life of the company's debt. This reduces GAF's vulnerability to rate fluctuations and increases the orderliness of payments. Just two weeks ago, on February 3, the company concluded a $40 million private placement with three of the same four insurance companies. Also a fixed-rate loan, it helps provide a solid base for future capital programs.

- Capital expenditures for 1976 were at an all-time high—$46.4 million—in support of expansion at home and abroad.

- GAF continues to move ahead in its product development efforts aimed at broadening product lines and penetrating more deeply into profitable markets. A number of these new products and expanded lines are highlighted in the ensuing pages. Product development is a costly process and often a risky one, but even a reasonably modest record of success can well repay the company's efforts.

- One promising area for GAF is medical and dental x-ray films and chemicals, now consolidated under the umbrella name of Gafmed. In December the company acquired the medical products division of United States Radium Corporation of Morristown, N.J., for some $2.5 million. The acquisition will enable GAF to manufacture intensifying screens, film cassettes, illuminators, and other hardware to complement the company's x-ray line.

- In November the company announced plans for a $2.5 million modernization and expansion program at its disperse dyes facility in Rensselaer, N.Y. The program includes new equipment to increase production capacity aimed at the needs of the synthetic fibers industry. Work on the plant is expected to be completed in late 1977. As an incentive to expand the plant, the local industrial development agency authorized the issuance of tax-free bonds to enable GAF to finance up to $1 million at favorable rates.

- Toward the end of the year, the company began shipping bulk quantities of THF (tetrahydrofuran), a specialty solvent, from the Linden, N.J. plant. GAF is one of only three U.S. firms manufacturing this chemical, which is used in coatings for magnetic tape and vinyl upholstery, in adhesives for plastic plumbing, and as a chemical intermediate. GAF is one of the world's leading producers of butanediol, from which THF is derived.

- In June the newly founded GAF Broadcasting Company took over operation of New York classical music radio station WNCN-FM. The story received considerable attention in the media, and GAF was highly praised for its corporate social responsibility. The station has increased its audience substantially in the eight months of GAF ownership, and advertising revenues have gone up more than proportionally.

Lawsuit against Eastman Kodak

In the company's antitrust suit against Eastman Kodak, intensive pretrial activities continued, with oral depositions being taken on both sides. GAF's case had earlier been linked by the court for pretrial proceedings with another company's claims against Eastman Kodak. At the request of GAF and the other plaintiff, the court has now ordered separate trials in the two cases.

As preparations have intensified, counsel on both sides and the judge have agreed that GAF's case will be scheduled for trial in April 1978.

Company leaner, stronger

GAF went off stride in 1976, slowing our ambitious plans, but this merely delayed our timetable for growth. Even downturns offer certain benefits, principally the opportunity for business to regroup, to trim the fat that tends to accumulate during better times, to get in shape. We feel we have come through the period leaner and more determined than ever to make the best of what the future holds in store. Our long-term plans are intended not only to prepare us for future growth but, more importantly, to help us shape our destiny so that growth can occur. Our capabilities are strengthened, and we have the people who know how to use them.

While some first-quarter 1977 signs seem encouraging, it is too early to predict a marked upturn in the company's fortunes; certainly the weather in the early part of the year did not cooperate. Improvement in profitability will not be easy, but the management of GAF is dedicated to making it happen.

By Order of the Board of Directors

Jesse Werner

Jesse Werner
Chairman of the Board and President

February 17, 1977

01-0237277

CHEMICAL

Group Net Sales (millions)	**1976**	1975
Net Sales	**$267.7**	$235.1
Direct Operating Profit*	**$ 35.6**	$ 36.2

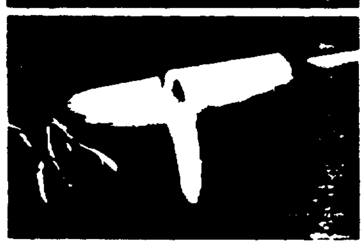
*Excludes unallocated Corporate Expenses

Chemicals
Agriculture Specialties
Dyes and Pigments
Intermediates
Iron Powders
Latex Polymers and Compounds
Monomers
Polymers
Silver Salts

Worldwide sales for GAF's Chemical group rose 14% in 1976 to a record $267.7 million. Direct operating profit was down 2% from last year, as the $3.5-million reserve for the silver shortage eroded what would have been an 8% rise. Recovering from the severe recession that plagued the chemical industry during 1975, demand for chemical products was very strong in the first half of 1976. After leveling off during the summer, monthly sales began to rise again in October.

GAF produces hundreds of chemical products in various fields and serves a broad base of customers. Thus, when the agricultural chemicals market declined sharply, as it did in 1976, the effect on GAF's dollar sales was mitigated by increases in other, less profitable areas.

Sales of acetylene chemicals improved by more than 28% during 1976, led by strong demand for butanediol, used in manufacturing various plastics and fibers.



Now being shipped from GAF's Linden, N.J. plant (top), THF has many uses, including as basic ingredients in PVC pipe cement (bottom).

THF solvent in production

Among new developments, GAF began producing THF (tetrahydrofuran), derived from butanediol, at its Linden, N.J., plant in November. This solvent is used for coating magnetic tapes and in protective coatings for automobile upholstery and vinyl roofs. It is a basic ingredient in solvent mixtures used to cement PVC pipe.

Butanediol-based plastics gaining wide use in autos

Also based on butanediol, Gafite* PBT (polybutylene terephthalate) engineering thermoplastic is under market development. The polymer displays an excellent combination of strength, low density, moldability, solvent resistance and heat resistance. GAF's first entry into the field of hard thermoplastics, Gafite polymer is now being used for automotive distributor caps, appliance housings, electronic connectors, and motor housings. The company's new production facility for manufacture of Gafite resins at Calvert City, Ky., should become fully operational during 1977.

PVP sales good

GAF's PVP (polyvinylpyrrolidone) family continued to sell well in 1976. Three key products in this group are M-Pyrol* (methylpyrrolidone), V-Pyrol* (vinylpyrrolidone) and Polyclar* (polyvinylpolypyrrolidone). M-Pyrol solvent is

GAF 12033

Solvents
Specialty Chemicals
Surfactants
Textile Chemicals
Thermoplastic Molding Resins

Felts and Filters
Designer Felts
Filter Media
Gaskets
Industrial Felts
Liquid and Gas Filtration Devices
Mineral Fiber Products
Papermakers' Felts
Piano Felts
Polishing Felts
Pressure Vessel Filter Systems
Wicking and Lubricating Felts

Granules
Mineral Granules

used for lube oil processing in the oil industry as a purifier of natural gas and as a solvent for a variety of vinyls, urethanes and acrylics. A contract was signed with a major oil company last year to supply M-Pyrol solvent for its refineries.

V-Pyrol monomer is used in formulating coating for ultraviolet curing applications. This technique has found its place in GAF's own manufacturing processes as a means of bonding a polyurethane coating onto floor tile and sheet vinyl flooring.

[illegible]

[illegible] absorbent is used as a clarifier [illegible] and wine-making to improve [illegible] stability and to prevent browning [illegible] is also used to stabilize [illegible] juices

[illegible] PVP products. PVP-iodine [illegible] non-stinging home antisep- [illegible] as a surgical scrub. GAF® [illegible] excipient is used as a [illegible] tablet disintegrant

[illegible] are popular hair [illegible] manual [illegible] improved a 25% [illegible] fluorocarbon [illegible]

Specialty chemical sales up
GAF's specialty chemicals had a good year, with increased sales of surfactants, textile auxiliaries, Uvinul® ultraviolet absorbers, carbonyl iron powders, and silver salts. Among surfactants, sales of the Igepal®, Antarox®, Gafac® and Igepon® lines, used in formulating detergents and cleaning products as well as in cosmetics and toiletries, were strong. GAF® silver salts are used in making miniature energy cells for watches, and GAF is now considered a major supplier of silver oxide to battery manufacturers.

Sales of Uvinul absorbers were up by more than 40%. Used in various plastics in the auto industry, Uvinul absorbers help protect vinyl car roofs and paints from the sun's ultraviolet rays. A similar application extends color stability in polyester carpet yarns.

Sales of carbonyl iron powders, primarily used in electronic applications, increased almost 50% last year, recovering from depressed market conditions in 1975.

Latex products sales advanced 7% in 1976, with particular strength in the area of paper coatings. Latex coatings not only provide paper and cardboard with superior grease resistance, but also improve printing characteristics. GAF latex is widely used as a backing adhesive for carpet. Improved latex manufacturing equipment was installed at GAF's Chattanooga, Tenn., plant in late 1976. The product now being made there is not only of higher quality but also less expensive to manufacture.

Latex coatings add grease resistance to paper

Dye and pigment sales, which have been depressed for some time, increased more than 40% last year despite the textile industry's slow pace of recovery from the 1975 recession. Over the past few years, GAF has evaluated the dye and pigment area carefully, and has eliminated a number of unprofitable products from the line. By concentrating on promising areas, the company believes dye profitability will be improved substantially.

01-0207229

GAF 12034

GAF creates new dyes for polyester fabrics

One of these promising markets for dyestuffs is paper colorings. GAF has long been regarded as a major supplier of dyes to the fine-paper industry, and in 1976 the company gained a good foothold in supplying the household paper (toweling and tissues) market as well. Another growth market involves the sales of disperse dyes for use on textured polyesters. One of these dyes is Genacron® Orange, a disperse dye paste introduced in 1976, which works exceptionally well with the modern rapid printing equipment now in use. Additional disperse dye production capability is being developed through an expansion of the company's Rensselaer, N.Y., plant. Begun in 1976, the upgraded facility will be producing disperse dyes in commercial volume in 1977.

Agrichem sales down

As previously mentioned, sales of agricultural chemicals for GAF and the industry in general were down for the year. A company for which GAF manufactured a herbicide under contract is terminating that arrangement. Also, a farm workers' strike and unseasonal rains in California depressed sales of Cepha® plant growth regulator. Sales of Cepha regulator were good in the eastern part of the country, however, and the company's distribution effort for the product is being expanded on a regional basis.

GAF is a major supplier of semi-ceramic granules to the roofing industry, including the company's own Building Materials group. These granules are used as the surface layer in shingle and industrial roofing, as a filler in other asphalt roofing applications, and in all-weather surfaces for tennis courts. Dollar sales were up for this product line in 1976 due primarily to price increases, while actual sales volume remained unchanged from 1975.

GAF pigments heighten colors in the printing inks

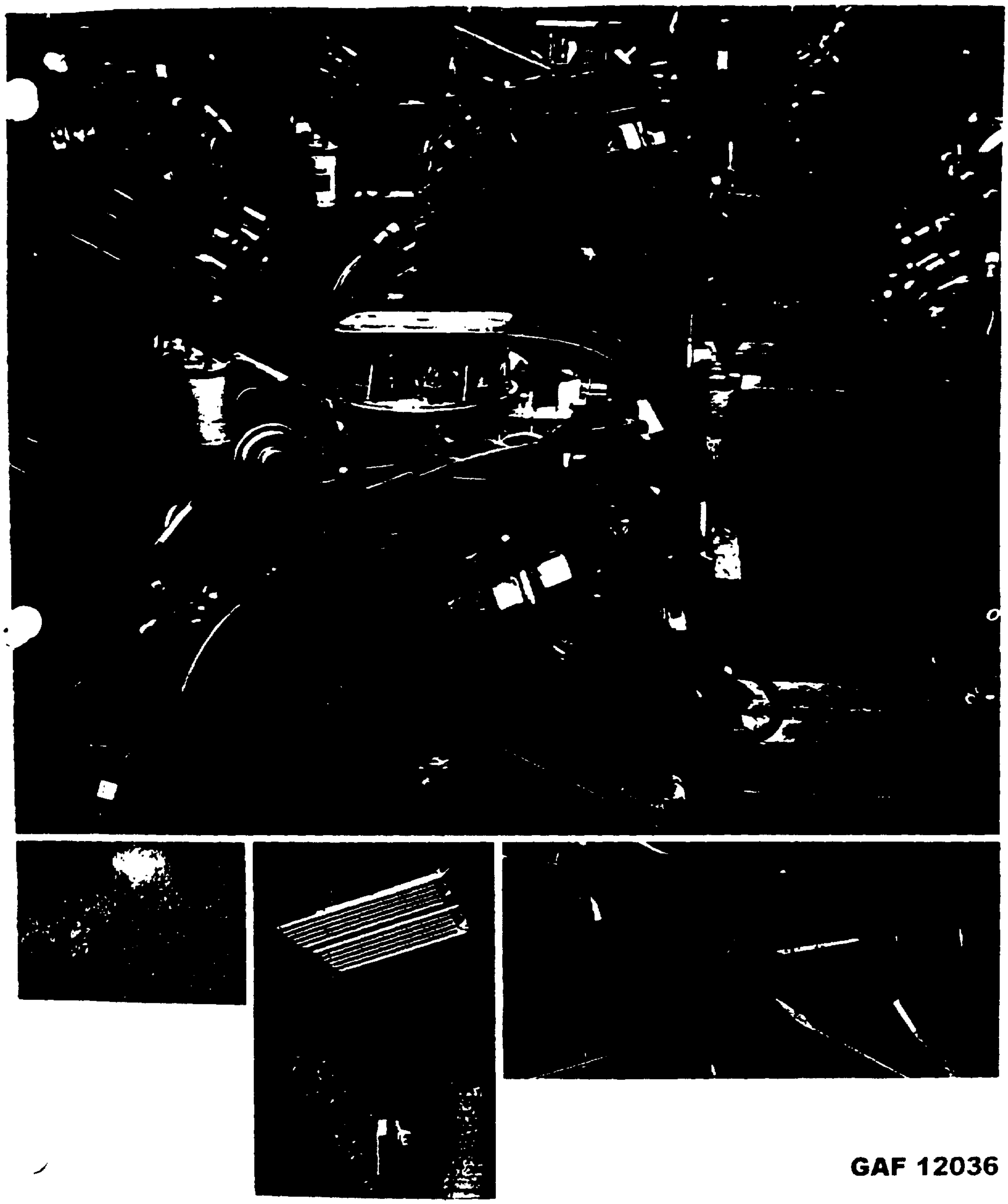
The company is a major factor in the felt and felt-based filtration market and sales were up some 35% last year. With its IFC® filter cartridges, GAF is expanding its role as a supplier of filters for the paint, chemicals, food processing and pharmaceutical industries. GAF's filter products are also finding applications as pollution control devices.

Gafite® Resins ▶

In 1976, GAF continued developing its first commercial hard thermoplastic—Gafite®. With its unusual range of properties, this PBT (polybutylene terephthalate) engineering plastic is now used to make motor housings, automotive distributor caps, electronic connectors, and appliance housings.

Hundreds of other applications, from food packaging to textiles to pen barrels, are being investigated both by GAF and by potential customers.

GAF is expanding its Calvert City, Ky., plant to manufacture this versatile plastic and expects to produce Gafite resins in mid-1977.



GAF 12036

PHOTO & REPRO

Group Net Sales (millions)	1976	1975
Net Sales	**$371.1**	$357.0
Direct Operating Profit (Loss)*	**$ (2.8)**	$ 4.8

*Excludes Unallocated Corporate Expenses

Photo Products
Accessories
Cameras
Diazo Photoplates
Films
Graphic Arts Materials
Papers
Photo Chemicals

For Photo & Repro, 1976 worldwide sales were 4% higher than in 1975, but the group experienced a loss as cost increases exceeded selling price increases. Consumer film sales lagged well behind 1975 levels. Camera sales did not reach expected levels due primarily to the failure of several key equipment suppliers to deliver sufficient product in time to meet customer demands.

Raw material costs continued at near-record highs, with the price of silver, a basic ingredient in photo manufacturing, declining only slightly from 1975 levels. The unit cost of raw materials was $3 million greater than in 1975.

Technical problems encountered in creating a new color print film compatible with processing methods required for the film that dominates the industry are being resolved, and the new film is being moved from pilot production into full-scale manufacture.

Popular 102A home movie camera zooms (top). New compactible 2020 camera closes to fit pocket (bottom).

The $2.9-billion amateur photography market is dominated by one company. There are several domestic competitors for small segments of the total market, but GAF is the only other U.S. company that offers an across-the-board product line—film, paper, chemicals and processing, still and movie cameras and projectors.

New photo products
During 1976, GAF expanded its product line with six new cameras and a new slide projector. The compactible 2020, the 2020S with self-contained electronic flash, and the 330 TeleScopic pocket cameras are tiny, easy-to-use cameras that use popular 110 size film. The 100A compact 8mm movie camera and the 102A model with zoom lens are easy to operate and fit neatly into the palm of the hand. The 2100R remote-control slide projector is a lower priced version in the popular GAF Hush-A-Matic® line. The 2020, the 2020S and the 102A achieved the unusual distinction of being selected for the (New York) Museum of Modern Art's prestigious design collection, and all were particularly well received in the marketplace.

The other new GAF development in 1976, the XL-2 camera, is the lowest priced quality sound movie camera available.

Lowest-priced quality camera of its type, XL-2 makes sound movies affordable to many families.

01-0207242

GAF 12037

Photo Processing Service
Photoresists
Pictorial Slides
Projectors
Slide Viewers
Specialized Professional Materials
Stereo Picture Reels
Stereo Viewers
X-ray Films, Chemicals, and
Accessories

Business Systems Products
Business Forms
Contract Manufacturing Service
Copying Supplies
Diazo Copiers
Document Retrieval Units
Microfilm Equipment
Microfilms
Overhead Transparencies

Among other GAF® photo products the Mickey Mouse motif 126 film camera for children ties in with GAF's marketing position as "The Official Film" at Disneyland and Walt Disney World. GAF is the film supplier at twenty other leading theme parks in the United States, including Sea World, Opryland, Great Adventure and Kings Dominion.

[illegible] sound movie cameras satisfy even the [illegible] amateur filmmakers

View-Master® pictorial products sales maintained 1975 levels, supported by such new features as the Six Million Dollar Man, Happy Days, Scooby-Doo, King Kong, and a series of reels celebrating America's bicentennial. In 1977 the company will introduce a new standard viewer that achieves contemporary styling without sacrificing the durability or simplicity of operation that have built the quality reputation View-Master products have enjoyed for decades.

In GAF's film finishing business, sales improved for the year as the company placed added emphasis on serving [illegible] national accounts. Operating improvements enhanced the company's ability to meet the quality and service requirements of discerning customers. GAF is one of the nation's largest photo processors, handling its own film and that of other manufacturers at 18 photo service plants in the United States and two in Europe. A new plant opened early in 1977 in the San Francisco Bay area.

GAF's involvement in industrial photography is being expanded. Sales in this area increased more than 20% last year.

Medical x-ray expanding
GAF is intensifying its efforts in the $400-million medical x-ray market. Sales rose significantly for GAF® x-ray products in 1976, as the product line was broadened to better serve the needs of the market. Under its new Gafmed™ label, the company offers a wide variety of products for the medical and dental industries, from sophisticated x-ray films and chemicals to hospital-type business forms. In December, GAF acquired the medical products division of the U.S. Radium Corp., further expanding the Gafmed line with intensifying screens, x-ray film cassettes, illuminators, and accessories. New products introduced in 1976 included a new medical x-ray film, Gafmed SR-1, Gafmed SC/90 developer-replenisher, an industry first in that it requires no starter solution, and Gafmed SR/S orthochromatic black-and-white film for photofluorography.

Three of many new View-Master features added in '76

The Gafmate® and Gaftype™ graphic arts product lines fared well in 1976 with sales up more than 30%. The phototypesetting and graphic arts markets are estimated at $375 million, and GAF, with less than 10% of the total, sees the potential for growth as excellent. In 1976 a new newspaper film was successfully introduced and plans for 1977 include augmenting the existing lines with a new phototypesetting paper.

01-0207243

GAF 12038

GAF's expanding photofinishing business offers customers quality, convenience, service

Compact diazo machine
Reprographic sales increased slightly in 1976, with particular strength in the diazo area. GAF is a major manufacturer of diazo equipment, paper and chemicals. Sales of diazo paper and chemicals were even with last year's levels in revenue but down slightly in volume. The company enhanced its position in diazo hardware in 1976 when it introduced the 172 FL printer, a compact, desk-top machine priced at under a thousand dollars. A major breakthrough in diazo technology, the small machine is ideal for users with limited space, as well as for customers who want to decentralize their diazo operations. The 172 FL features a negative-pressure developer tank for ventless operation.

In micrographics, GAF introduced the 5000 MRP microfiche reader-printer last year. GAF is presently a small factor in the $950-million micrographics market, but through an expanding product line the company hopes to improve its position. The GAF® line of micrographics products now includes microfiche duplicators, readers, reader-printers and the only U.S.-made 16mm diazo roll film duplicator. Also, in 1976 an improved diazo microfilm was introduced. Reprographic service revenues were slightly ahead of last year's levels.

While the market for business forms in general declined last year, GAF achieved an 18% increase in sales. By concentrating its efforts on major markets and specific types of forms, GAF was able to make major sales gains. GAF forms are designed for retail, wholesale, food industry, health care and industrial applications. By specializing, GAF can offer customers forms that are better suited for their needs and are competitively more attractive.

In addition to active efforts in Photo & Repro product development and marketing, an ambitious cost-reduction program is under way. Elimination of unprofitable products, reduction of manufacturing expenses and plant overhead, installation of more efficient methods and equipment, improvement of technology, and implementation of more cost-effective processes are designed to have a positive effect on profits in 1977.


New compact diazo machine offers small size, low price

Gafmed™ Medical Products ▶
The company's medical products were grouped together in 1976 under the Gafmed brand-name. Now, whether customers need x-ray film and chemicals, x-ray illuminators, or hospital-type forms, they can be served by the same GAF sales team.

Such x-ray hardware as illuminators and film cassettes were added to the Gafmed line in December, when the company acquired the medical products division of U.S. Radium Corp. GAF has long been considered a leader in x-ray photographic technology, and the new hardware enables the company to better fill its medical customers' needs.

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GAF 12039


RIGHT

BUILDING MATERIALS

Group Net Sales (millions)	1976	1975
Net Sales	$421.7	$372.3
Direct Operating Profit *	$ 45.4	$ 48.8

*Excludes Unallocated Corporate Expenses

Floor Products
Adhesive-Backed Floor Tile
Adhesives and Fillers
Flooring Felt
Installation Tools
Resilient Floor Tile

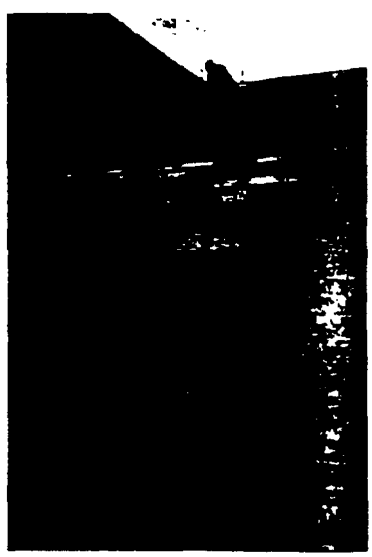
GAF Building Materials achieved record sales of $421.7 million in 1976. Profits were somewhat lower than the record levels of 1975, due to cost increases that outpaced unit sales and price increases, and to highly competitive market conditions that precluded price increases on some products. Despite these problems, 1976 showed one of the highest profits in the Building Materials group history.

New construction rose in 1976 to a reasonably healthy 1.5-million starts, up from the depressed 1.1-million level of 1975, with 1976 remodeling jobs increasing as well. Unlike new construction, which can fluctuate widely, the renovation market has expanded at a steady pace in recent years.

Renovations increase
As in 1975, GAF gained much of its strength from the growing renovation and remodeling market. GAF estimates that well over half of its sales of building materials go into renovation projects. Thus, GAF's line of building materials, which is equally well suited for new construction or renovation, is enjoying good sales gains.

Two factors influenced the growth in renovations: families are reluctant to move, as the price of the average new home has risen to $48,000 (compared with $32,800 in 1973), and some 45-million American homes are now 20 years old or more—and many are ready for new roofs, new siding, and new floor coverings.

The soft spot in the building industry last year was the industrial/commercial and multi-residential segment of the market. As new industrial/commercial starts continued at depressed levels, sales suffered in the company's Architectural series of commercial flooring. Experts predict that this type of construction will increase in 1977.



Durable Timberline roofing beautifies, protects

As industrial/commercial construction picks up in 1977, GAF will be ready with a coordinated sales effort and product line. Of particular interest: Mineral Shield® cold-applied roofing system is generally regarded as a superior product in both durability and ease of application, and Gaftemp™ insulation, a new product offered by GAF, will complement the product line by offering an excellent polyurethane and perlite insulation for roof decks.

Market positions good
Despite strong competitive pressures GAF maintained or improved its position in all major building products markets it serves. The largest manufacturer of asphalt shingles in the world, GAF continued to maintain its leadership. Sales of premium Timberline® shingles were up 50% over 1975 as the durable natural-looking shingles continued to gain popularity. GAF almost doubled its sales of vinyl siding with its attractive Vanguard® line and now ranks fifth among vinyl siding manufacturers. Stratalite® and Panelstone® mineral fiber sidings are the dominant products in their fields. Gafstar® floor products, both sheet vinyl and floor tile, also sold well. GAF now ranks second in the floor tile and third in the sheet vinyl flooring markets.

01-9257246

GAF 12041

Seam Fusing System
Sheet Vinyl Floors
Vinyl Cove Base

Roofing, Siding and Insulation
Asphalt Roof Shingles
Automotive Sound-Deadening Products
Building Board
Building Insulation
Built-up Roofing Materials
Canal Bulkheads
Driveway Sealer
Foundation Coatings
Mineral Siding
Plastic Cements
Roll Roofing
Roof Coatings
Vinyl Shutters
Vinyl Siding

GAF quality control assures customer satisfaction

The company is constantly improving product lines and expanding distribution. During 1976, GAF's popular sheet vinyl flooring line was enhanced by the expanded series of Gafstar urethane-coated "no-wax" flooring products. With a tough layer of high-gloss urethane over bright, attractive patterns printed by new, proprietary processes, the flooring has been welcomed warmly in the marketplace.

GAF® Brite-Bond™ floor tile brings the advantages of urethane coating to the do-it-yourself floor tile market. Introduced in 1975, the Brite-Bond line caught on quickly and has been expanded with several new colors and patterns.

GAF sheet vinyl flooring gives consumers choice of patterns, price ranges to fit any decor, budget

Distribution improved

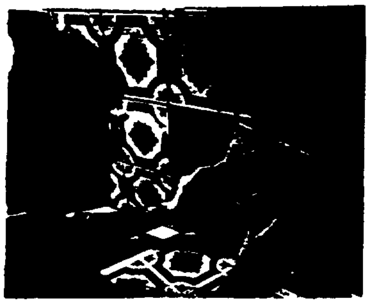
In 1976, the company added six independent flooring distribution points and expanded GAF distribution centers in Cincinnati and San Diego. A new center in Elmsford, N.Y., to serve the New York and suburban areas opened in early 1977. Further expansion is planned for 1977. GAF flooring is now represented in 125 major U.S. markets through independent distributors, supplemented by six company-owned distribution centers. This network serves the retail flooring dealer, the mass merchandiser, and the manufactured home industry.

GAF broadens distribution for Vanguard vinyl siding, shutters

Strengthening distribution of other GAF building materials, a new sales organization is being formed to supply the company's roofing, siding, and insulation west of the Rockies. Also, Vanguard vinyl siding is gaining acceptance outside of the Northeast, its traditional stronghold. Sentinel™ glass-based shingles, which were test-marketed successfully in Florida last year, are now being distributed throughout the Southeast.

01-0207247

GAF 12042



New Gafstar wall tile makes decorating easy

Gafstar® self-adhesive wall tile went into test market in 1976. With this attractive new product, the do-it-yourselfer will be able to install new wall coverings as easily as the company's Brite-Bond™ floor tile. An innovation in the do-it-yourself market, the wall tile is expected to do well in broadened distribution in 1977.

Auto padding use up

GAF's felt technology formed the basis for its business in automotive fibrous padding. There are almost 60 square feet of vibration- and sound-deadening paddings in the average new car, with GAF supplying more than one-third of the market. Production of fibrous padding is being increased to meet higher projected demand, as small cars require proportionally more padding for quiet operation. The new production capacity at GAF's Joliet, Ill. plant is expected to enhance the profitability of this product line.

In 1976, GAF signed a major contract to supply mineral fiber-cement products used in cooling towers for power plants. The GAF filler material acts as a baffle to the constantly flowing water, and provides optimum surface area to cool the water within a relatively small chamber. More than a million dollars worth of mineral fiber-cement is needed for each tower. The Federal Power Commission estimates that, in the next decade, utilities plan to build hundreds of new power plants. Many of these will have cooling towers that use mineral fiber-cement. Sales of this material, up 50% in 1976, bear out the rising trend.

On the manufacturing side, improved methods, better manpower utilization, better energy utilization, and more efficient equipment combined to control costs and reduce overhead. At the asphalt roofing plant in Millis, Mass., for example, a low-energy system was installed last year to reclaim asphalt fumes. It is estimated that this system will save the company almost $200,000 a year in energy costs. Other GAF plants are planning similar installations. Also an automated floor tile packaging system now in operation at the Long Beach, Calif., plant has been working successfully, reducing costs appreciably.

GAF is a major force in automotive padding market

GAF's commercial roofing is choice of thousands

Brite-Bond™ Floor Tile ▶
One of GAF's new entries into floor coverings is Brite-Bond Sure-Stik® adhesive-backed tile, which brings a "no-wax", urethane-coated finish to the do-it-yourself market. In a wide range of patterns and colors, the tile has a tough polyurethane coating for a high-gloss surface that requires only damp mopping to look as good as new.

The protective wear layer is bonded to the vinyl by ultraviolet curing, a technology GAF helped pioneer. Patterns are printed by a proprietary offset process, assuring vivid colors and pattern clarity. The Brite-Bond "no-wax" finish is also available in GAF's Gafstar® Brite-Bond lines of sheet vinyl.

INTERNATIONAL

International sales of GAF products, both those exported from the United States and those produced abroad, totaled $174-million, an increase of 5% over 1975 (these figures have been abstracted from the results reported for the various preceding sales groups)

Slow recovery from the worldwide recession, as well as the actions of foreign governments to control inflation, dampened the growth of sales abroad. Price controls, coupled with intense competition, hampered the company's ability to raise prices enough to offset increased production and operating costs. In terms of local currencies, GAF's international profitability was off due to slow economic recovery in Western Europe. Currency fluctuations further reduced pre-tax profit from international operations, as measured in U.S. dollars, by approximately 19% or $2.4 million ($2.2 million after tax)

International sales of GAF chemicals increased 18% over 1975 levels, with acetylene chemicals continuing as the major product line in revenue

Building materials up
Building materials sales outside of the United States increased 12% over 1975 sales. Gafstar* sheet vinyl flooring continued as the revenue leader in international sales for this product group. Increased sales of Stratalite* mineral siding and sales of GAF floor tile also contributed to the sales growth. A stucco-textured mineral fiber siding was introduced to the European market during 1976

Because supply and distribution considerations in Hawaii are similar to those outside of the United States, a new subsidiary, GAF Hawaii Inc., was formed under the International group to market flooring and photo products

International photo & repro sales were on par with 1975.

Consumer photo sales decreases were offset by increased sales of industrial photo and repro products. GAF's compactible pocket cameras were introduced and well received in international markets. As in the domestic market, camera sales were restricted by limited product availability

The international micrographics market continues to grow, paced by the 7700 DMR and 7800 DMR microfiche readers, which have exceeded sales forecasts. In Australia alone, more than 1,000 GAF microfiche readers were sold last year under a contract with the Australian government.

Sales of the non-venting 176 FL diazo machines were particularly strong in the United Kingdom and Australia. The new compact 172 FL was recently introduced to the international market and has been well received. The larger 185 FL is also selling well. Among the heavier duty diazo machines, the 1200 DA has surpassed sales expectations in Europe

Irish flooring plant under way, opens in '77

Expanding manufacturing
The company's $30-million-plus sheet vinyl flooring plant under construction in Mullingar, Ireland, is proceeding on schedule. One of the largest single-story factories in Ireland, the new facility is due to be in production in late 1977

Construction of the butanediol plant in Marl, West Germany, by the GAF Hüls Chemie G.m.b.H. joint venture is also on schedule. This plant is also expected to be in production in late 1977

All facilities and equipment have been moved into the new photo manufacturing plant in Sint-Niklaas, Belgium. The plant, which makes View-Master* viewers, GAF* projectors and converts and packages x-ray, graphic arts and consumer film, is expected to be in full operation by mid-1977

Once these facilities become productive, GAF's competitive position in the Common Market countries will be enhanced, as import duties will be eliminated or lowered on the company's products made and sold there. Transportation and distribution costs will be reduced significantly as well. Sales potential for GAF in the Common Market is second only to that in the United States

01-0207250

GAF 12045

CORPORATE

Research and Development

In 1976, Research and Development continued its efforts to develop superior products and manufacturing processes. Of particular note, process improvements have brought costs down in the manufacture of surfactants, dyes and pigments, and x-ray film.

Developments made by Research and Development in 1976 are discussed in the operating group parts of this report. Among the most significant were:

- A new color print film which is compatible with the processing methods required for the film that dominates the photo service industry. The new product, which is in the process of moving from pilot production into full-scale manufacture, has excellent color, wide exposure latitude, stable latent image, and superior aging characteristics.
- Ultraviolet curing of a high-gloss wear layer for floor tile. This process is used in Gafstar® Brite-Bond tile for a "no-wax" finish.
- A new process for manufacturing THF (tetrahydrofuran) was conceived and implemented producing high-yield, high purity material. This solvent has many industrial applications, including protective coatings for vinyl and in cement for PVC pipe.

New product and process developments were made in vinyl siding, sheet vinyl flooring and resilient tile, fibrous padding for automotive sound deadening, dyestuffs, [illegible] chemicals, surfactants, agricultural chemicals, latex products, inorganic chemicals, x-ray film, and photographic [illegible].

Engineering Services

[illegible] control continued to be a major [illegible] commitment in 1976, with several [illegible] under way through the year. [illegible] $4.5 million last year to carry [illegible] intensive program to improve air [illegible] water pollution controls and liquid/ [illegible] waste disposal systems. Since the [illegible] program was undertaken in [illegible] GAF has spent almost $45 million [illegible] control systems.

[illegible] pollution control projects [illegible] with commitments [illegible] state and federal agencies [illegible] unforeseen legislative or regulatory changes. GAF is making significant progress toward full compliance.

Milestones reached in 1976 include:

- Connection of the wastewater treatment facility at the Rensselaer, N.Y., dye and chemical plant to the county treatment facility for final processing.
- Construction of a complete wastewater treatment facility at the Linden, N.J., chemical plant. Completion is scheduled for 1977.
- Construction of an effluent-recycle system for the Bound Brook, N.J., granules plant which will be in operation shortly.
- Completion of arrangements to link the Chattanooga chemical plant to the city's waste treatment facility, avoiding the necessity of building a separate treatment facility there. The plan has been approved by all appropriate government agencies and will be implemented in the summer of 1977.
- Completion of a wastewater neutralization system at the St. Louis building materials plant.
- Improved control of emissions was achieved at the building materials facilities in South Bound Brook, N.J., and Mt. Vernon, Ind.
- Acceptable levels of treatment for all wastewaters and sanitary wastes achieved, on schedule, at the Joliet, Ill., building materials plant.

In its role as internal consultant to all units of the company, the corporate Industrial Engineering department was involved in several projects to reduce costs and increase efficiency in the areas of manufacturing and distribution. As energy costs rise, conservation becomes increasingly important for the company.

Purchasing

The company's first line of defense against rising prices is its Purchasing department. Much of the impact of inflation is first felt by this function when it buys the materials the company needs to make its products.

In 1976, the department was able to negotiate a number of favorable contracts to provide GAF with raw materials at realistic prices, both in the United States and abroad. Instability caused by inflation and recessionary pressures is expected to continue in 1977, but to a lesser degree than in past years.

In 1976, the department surveyed the company's utility contracts to ensure that energy needs and other utility requirements were being filled most economically. While the study showed the company was controlling its utility consumption effectively, further savings will be made as recommendations from the study are implemented.

Marketing Services

The company continued its strong advertising and promotion efforts through 1976 to support its products during a period of rapidly changing market conditions.

With continued emphasis on consumer research, trade media, point-of-purchase promotions, and innovative packaging design, a coordinated program was carried out aimed at selling GAF products. Television, radio, newspapers, and magazines were all used to bring the GAF story both to mass audiences and specialized markets.

After nearly 100 TV commercials, Henry Fonda and GAF ended their advertising relationship. The company is grateful to Mr. Fonda for his unique contribution. The seven-year campaign attracted enormous attention to GAF products.

The company's 1977 commercials will feature GAF photo products and building materials in the style of humorous vignettes. One musical theme will be carried through all the commercials to reinforce the GAF product and company identity.

In 1976, GAF's advertising and product design were singled out for special recognition. A radio campaign to build awareness for GAF products in Canada was awarded gold medals at the Toronto Art Directors Show for being the best radio commercial done in Canada and at a major New York advertising group show as the best international radio commercial of the year.

The Brussels Design Center in Belgium selected two of the company's movie cameras, two pocket cameras, and a slide projector for design excellence awards.

WNCN

Upon licensing approval of the Federal Communications Commission GAF Broadcasting Company Inc., a new subsidiary, took over the operation of New York radio station WNCN on June 7. Negotiations to purchase the station and transfer its license had taken more than a year.

The FM station attracted national attention in 1974, when its classical music audience vigorously protested a change to rock programming. In acquiring the station, GAF promised to return to a classical music fine arts approach.

GAF's purpose in purchasing the station was twofold—to provide the highest quality programming for New York City and to build a new profitable venture for the company.

Toward these ends, the station's facilities have been considerably upgraded since GAF took the reins. A new 10,000-watt transmitter installed in the Empire State Building will give the station added broadcast range, new sound equipment—the best available—will give it the finest sound in broadcasting; new studios, scheduled for completion by mid-1977, complete the physical picture.

The listener outcry that resulted when the station turned to rock music has turned into listener support for WNCN's classical music format. Advertising sales since GAF began operating the station have been very encouraging.

Fine music, fine sound—WNCN

In 1977, listeners will be able to subscribe to a new WNCN program guide, which will not only help them plan which music to hear but also help to reinforce long-term audience loyalty for the station.

Personnel

At the end of 1976, GAF employed 20,499 people, of whom 17,524 were located in the United States and 2,975 in foreign countries. This reduction of more than 500 employees from earlier 1976 levels was the result of attrition and layoffs under the company's cost-cutting program.

Thirty-four labor contracts were negotiated in 1976. Two brief work stoppages were ended quickly—at the distribution facility in San Francisco and among a small group of employees at the Binghamton plant. Neither had a significant effect on production or shipping.

Employment of minority group members and women remained relatively stable last year, making up approximately 15% of the GAF workforce. Progress was made in advancing some of these employees into management, sales, technical and professional positions.

Government Sales

GAF increased sales to the federal government significantly last year. The Washington, D.C. office opened in 1975 expanded its activities and secured a variety of contracts for each of the company's product groups.

GAF is now listed as a supplier of floor tiles and sheet vinyl flooring by the U.S. Department of Housing and Urban Development (HUD). As a result, GAF is able to sell both directly to HUD and to many regional and local housing authorities under HUD's auspices.

In 1976, the Washington office conducted several seminars at U.S. government installations on the use of GAF products.

Management

In January 1977 John A. Brennan was elected a vice president, and will serve as director of marketing for GAF's Photo & Repro group. Mr. Brennan, whose most recent post was that of director of marketing for the company's reprographic, micrographic and business forms products, joined GAF in 1971 as assistant general credit manager. Other assignments since then included credit manager and corporate assistant treasurer.

Board of Directors

Sam Harris, partner in the law firm of Fried, Frank, Harris, Shriver & Jacobson, was elected to the board of directors in January of 1977. He is a member of the bar in New York, California and the District of Columbia.

Mr. Harris fills a vacancy created by the death of Wm. Peyton Marin, who served with great distinction on GAF's board and the board's executive committee since 1961. Mr. Marin was vice chairman and secretary of the board from 1961-65. He played a key role in GAF becoming a public corporation in 1965. The breadth of his mind, his common sense judgment and his humanity will be deeply missed by the company and his colleagues.

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GAF 12047

GAF CORPORATION
Board of Directors

Jesse Werner*
Chairman

Philip B. Dalton
Executive Vice President
GAF Corporation

Kenneth C. Foster*
Former President
The Prudential Insurance
Company of America

Rainer E. Gut* **
General Manager
Credit Suisse

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**
Vice Chairman of the Board
United States Trust Company
of New York

James T. Sherwin
Executive Vice President
GAF Corporation

William Sword**
Wm. Sword & Co. Inc

Howard S. Turner**
Chairman of the Board
Turner Construction Company

*Member Executive Committee
**Member Audit Committee

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.

GAF CORPORATION
Officers

Jesse Werner
Chairman of the Board
and President

Philip B. Dalton
Executive Vice President

Juliette M. Moran
Executive Vice President

James T. Sherwin
Executive Vice President

James M. Cloney
Senior Vice President

Joseph G. Hall
Senior Vice President

Frank T. Campagna
Group Vice President

R. Power Fraser, Jr.
Group Vice President

Jack F. Gow
Group Vice President

John A. Brennan
Vice President

John J. Butler
Vice President

George F. Dappert
Vice President

Thomas A. Dent
Vice President

Leo J. Faneuf
Vice President

Alfred Geduldig
Vice President

Simon W. Kantor
Vice President

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

Richard C. Mullen
Vice President

Jay R. Olson
Vice President and
Treasurer

Alfred P. Rimlinger
Vice President

Jack Scheckowitz
Vice President

Raymond W. Smith
Vice President

Richard F. Smith
Vice President

A. Eugene Stillman
Vice President and
Controller

Frank E. Wetherill
Vice President

01-0207257

GAF 12048

Review of Consolidated Financial Information

Lines of Business

				Dollars in Millions				
Year Ended December 31	**1976**	1975	1974	1973	1972	1971	1970	1969
Net Sales by Group								
Chemical	**$ 267.7**	$235.1	$237.1	$215.3	$193.6	$177.3	$172.7	$181.6
Photo & Repro	**371.1**	357.0	351.1	330.2	296.3	260.4	223.3	221.5
Building Materials	**421.7**	372.3	360.6	303.4	278.6	246.1	187.5	188.9
Total	**$1,060.5**	$964.4	$948.8	$848.9	$768.5	$683.8	$583.5	$592.0
Direct Operating Profit (Loss) by Group								
Chemical	**$ 35.6**	$ 36.2	$ 45.7	$ 29.8	$ 24.4	$ 24.3	$ 24.8	$ 26.4
Photo & Repro	**(2.8)**	4.8	10.0	18.3	11.5	7.3	2.1	[illegible]
Building Materials	**45.4**	48.8	43.5	38.8	48.1	44.4	22.8	21.9
Total	**$ 78.2**	$ 89.8	$ 99.2	$ 86.9	$ 84.0	$ 76.0	$ 49.7	$ 62.0

Summary of Operations

				Dollars in Millions				
Year Ended December 31	**1976**	1975	1974	1973	1972	1971	1970	1969
Net Sales	**$1,060.5**	$964.4	$948.8	$848.9	$768.5	$683.8	$583.5	$592.0
Cost of Products Sold	**779.5**	691.1	672.9	593.0	535.4	477.2	419.8	417.3
Direct Operating Expenses	**202.8**	183.5	176.7	169.0	149.1	130.6	114.0	112.7
Direct Operating Profit	**78.2**	89.8	99.2	86.9	84.0	76.0	49.7	62.0
Discontinued Operations Operating Loss	**—**	—	—	—	—	(4.3)	(2.6)	(1.0)
Unallocated Corporate Expenses								
Interest	**(16.1)**	(16.6)	(16.8)	(12.1)	(10.2)	(10.4)	(11.6)	(10.[illegible])
Other	**(32.1)**	(26.7)	(32.8)	(19.2)	(23.5)	(23.7)	(19.9)	(20.6)
Income before Income Taxes and Extraordinary Items	**30.0**	46.5	49.6	55.6	50.3	37.6	15.6	29.[illegible]
Income Taxes	**(10.3)**	(15.6)	(21.1)	(23.8)	(22.6)	(15.7)	(7.2)	(14.5)
Income before Extraordinary Items	**19.7**	30.9	28.5	31.8	27.7	21.9	8.4	15.2
Extraordinary Items	**—**	—	—	—	—	(8.4)	6.3	(4.[illegible])
Net Income	**$ 19.7**	$ 30.9	$ 28.5	$ 31.8	$ 27.7	$ 13.5	$ 14.7	$ [illegible]

Data per Common Share

				Dollars				
Primary Earnings								
Before Extraordinary Items	**$ 1.21**	$ 2.06	$ 1.84	$ 2.06	$ 1.75	$ 1.33	$ .34	$ .85
Extraordinary Items	**—**	—	—	—	—	(.62)	.46	(.31)
Net Income	**$ 1.21**	$ 2.06	$ 1.84	$ 2.06	$ 1.75	$ .71	$ .80	$ .54
Fully Diluted Earnings								
Before Extraordinary Items	**$ 1.14**	$ 1.79	$ 1.62	$ 1.74	$ 1.49	$ 1.19	$ .38	$ .53
Extraordinary Items	**—**	—	—	—	—	*	.41	*
Net Income	**$ 1.14**	$ 1.79	$ 1.62	$ 1.74	$ 1.49	*	$ .79	*
Common Shares Outstanding in Thousands (Weighted Average)	**13,303**	13,237	13,518	13,631	13,687	13,609	13,594	13,499
Dividends on Common Shares	**$ .58**	$ .52	$ .46	$ .42	$ .40	$ .40	$ .40	$ .40
Shareholders' Equity	**$23.01**	$22.35	$20.87	$18.83	$17.19	$15.77	$15.45	$14.96

*Figure omitted because not dilutive

Management's Discussion and Analysis of Summary of Operations

1976 Compared with 1975

In 1976 consolidated sales increased $96 1 million (10%) to almost $1 1 billion. Record sales were achieved in all worldwide product sales groups primarily as a result of higher unit volumes in most major products and, to a lesser extent, price increases. Gains in roofing and sheet vinyl products in the U S renovation market were the major contributor to the $49 4 million (+13%) increase in Building Materials sales. Chemical sales increased $32 6 million (+14%) reflecting gains in all major product lines except agricultural chemicals, which declined sharply. Photo & Repro sales increased $14 1 million (+4%) largely as a result of industrial photo, photofinishing and business forms gains.

Direct operating profit* declined $11 6 million (13%) principally as a result of the continued inability to pass on higher manufacturing costs and operating expenses. The Photo & Repro group was most severely affected, losing $2 8 million, a $7 6 million decline from the prior year. The Chemical group, although operationally ahead of last year, fell behind as a result of a 1976 nonrecurring $3 5 million pre-tax provision for a silver shortage. Chemical earnings were also unfavorably affected by a change in product mix resulting from decreased sales of agricultural chemicals partially offset by increases in sales of other somewhat lower-margin products. Building Materials profit declined $3 4 million (7%) primarily as a result of generally higher costs of raw materials, energy, labor and distribution. Consolidated profit for 1976 was further reduced by severance costs resulting from a personnel reduction program aimed at improving future profitability. International operations were adversely impacted by pre-tax foreign currency translation losses in 1976 of $2 4 million ($2 2 million after-tax) compared with a $0 7 million ($0 5 million after-tax) gain in 1975.

A summary of the after-tax effects of all foreign currency fluctuations is as follows:

Foreign Exchange Effects (After-Tax)

	1976	1975	Change
	Dollars in Millions		
[illegible] Inventory Gains (Losses)	$(1 4)	$ 1 7	$(3 1)
[illegible] Exchange Losses (Note 2)	(0 8)	(1 2)	0 4
[illegible] Reported in International [illegible]	(2 2)	0 5	(2 7)
Exchange Losses [illegible] in Unallocated [illegible] Expenses (Note 2)	(0 8)	–	(0 8)
	$(3 0)	$ 0 5	$(3 5)

[illegible] corporate interest expense continued to taper off as a [illegible] interest rates and management's efforts to minimize [illegible] borrowings during the year. Other unallocated corporate [illegible] increased $5 4 million (20%). In 1975 there was a $4 0 [illegible] gain on the sale of technology to the GAF-Hüls joint [illegible] $[illegible] million ($0 8 million after-tax) swing in foreign [illegible] 1976 also contributed to the increase in [illegible] corporate expenses. Generally, corporate staff [illegible] reflected normal cost increases consistent with [illegible] economy. Legal expenses related to the lawsuit [illegible] increased sharply as the result of intensified [illegible]

[illegible] for 1976 were $5 3 million (34%) below last [illegible] of the decline in pre-tax income. The annual [illegible] was higher than last year's rate principally [illegible] nontaxable nature of the above mentioned $4 0 [illegible] 1975.

1975 Compared with 1974

[illegible] increased $15 6 million (2%) in 1975, with the [illegible] & Repro product sales groups up 3%. The increase resulted from higher prices [illegible] partially offset by generally lower unit [illegible]

Higher Building Materials sales of $11 7 million were principally due to strong gains in the U S re-roofing market. Increased Photo & Repro sales of $5 9 million were largely the result of selling price increases. Chemical sales declined slightly ($2 0 million – 1%) reflecting depressed economic activity worldwide. Decreased volume of domestic felt, acetylene and specialty chemical lines more than offset significant sales gains in agricultural chemical products. Cost reduction programs succeeded in holding direct operating expenses at levels only slightly higher than in 1974. Selling expenses increased in line with planned personnel increases and programs for deeper market penetration. Administrative and general expenses increased primarily due to higher costs of services.

Direct operating profit* declined in both the Chemical and Photo & Repro groups as a result of lower sales volume and operating levels at manufacturing plants and the inability to pass on all cost increases. Building Materials profit was significantly above 1974 due to selling price increases and higher volume in the latter half of the year.

Unallocated corporate interest expense tapered off from 1974's high levels as a result of reduced prime rates and reduction of short-term debt through internal financing.

Other unallocated corporate office expenses for 1975 were $6 [illegible] million (19%) lower than 1974 primarily as a result of a $4 7 million favorable change between years in foreign exchange and a 1975 nontaxable gain of $4 0 million realized on the sale of technology and know-how to the GAF-Hüls Chemie G m b H joint venture. These were offset in part by the nonrecurrence of three items in 1974 representing a net pre-tax $1 9 million gain realized from a $5 5 million profit on repurchase of 5% convertible subordinated notes and a $1 4 million profit on sale of three properties partially offset by a charge of $5 0 million associated with the move of administrative activities to Wayne, N J. Cost increases resulted from increased staff operating expenses, legal costs and inflationary administrative costs.

Provision for 1975 income taxes decreased $5 5 million (26%) due to a pre-tax income decline of $3 1 million (6%) and an 8 9 percentage point decrease in the effective tax rate due to the above noted $4 0 million nontaxable gain, larger investment tax credits and greater benefit from exporting activities.

During 1974 the company adopted LIFO accounting for dyestuffs and pigments inventories at Rensselaer, N Y, which resulted in increased costs of $3 9 million (with a favorable income tax and cash flow effect of $1 8 million).

1973 and Prior

In 1973 a $6 4 million profit was realized on repurchase of 5% convertible subordinated notes, which was classified as other unallocated corporate expense.

The extraordinary items for the years 1969 through 1971 were as follows. During 1971 the company discontinued manufacture of various chemicals resulting in a net $9 7 million provision for disposal of assets. Accordingly, 1969 and 1970 results were restated. Partially offsetting the charge was a $1 0 million net gain in translation of foreign currencies. The company changed its investment tax credit accounting to the current recognition method from the deferral method, thereby increasing income by an average of approximately $1 4 million per year. In 1970 the extraordinary gain of $6 3 million consisted of a net $2 4 million gain on the sale of the company's Texas production facilities for Amiben, abandonment of its original facility in New Jersey and renegotiation of the Amiben supply contract. In addition, the company's English subsidiary realized a net gain of $3 9 million from the sale of its London headquarters. In 1969 a net $4 1 million extraordinary loss was provided for the disposal of certain plant facilities and related costs.

*Direct operating profit for each of the company's three worldwide product sales groups is on a direct responsibility basis. Accordingly, corporate staff and interest expenses are not allocated.

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Financing Activities

In 1976 GAF increased the average life of its long-term debt while reducing interest-rate-sensitive debt. In April the company completed a $65-million private placement with four major insurance companies. The 9½% senior notes are due March 1997. Also, domestic short-term bank credit lines were restructured and expanded to a total of $100 million. These bank lines, two-thirds of which are in the form of three-year contractual agreements, are used primarily as back-up for issuing commercial paper.

In February GAF borrowed $10 million from three banks to finance a wastewater treatment facility at the Linden, N.J. chemical plant. The interest rate on this four-year loan is set at 75% of prime, and, as the money is being used for pollution control, the interest is tax-exempt.

Negotiations were substantially completed in December for a $40-million private placement of 8½% senior notes due 1997 with three of the insurance companies that participated in the April financing. This placement, which closed in February 1977, further lengthens the average life of the company's debt. The proceeds of this financing were used to reduce our short-term debt.

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

1977	$4,038,000
1978	$6,813,000
1979	$6,819,000
1980	$5,292,000
1981	$5,768,000

Financial Condition

Dollars in Millions

December 31	**1976**	1975	1974	1973	1972	1971	1970	1969
Current Assets	**$451.3**	$ 426.6	$ 435.2	$ 364.0	$ 340.3	$ 319.0	$ 289.8	$ 297.5
Current Liabilities	**145.4**	158.8	130.9	112.6	132.0	113.8	84.5	99.8
Working Capital	**305.9**	267.8	304.3	251.4	208.3	205.2	205.3	198.0
Property, Plant and Equipment—Net	**263.2**	243.6	231.6	221.2	225.9	222.6	231.2	235.8
Total Assets	**765.5**	720.5	709.4	628.4	610.8	588.3	561.2	574.2
Long-term Debt (Including Current Portion)	**188.9**	166.9	186.4	136.6	136.7	155.6	152.5	156.8
Shareholders Equity	**387.9**	379.0	357.6	342.9	321.3	301.8	297.1	290.2

Quarterly Stock Data

Dollars

	1976 By Quarter				1975 By Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Dividends per Share								
Common	13	15	15	15	13	13	13	13
Preferred	.30	30	30	30	30	30	30	30
Price Range of Securities on the New York Stock Exchange								
Common (Low-High)	10¾-17⅜	13½-16¼	13¼-16⅛	11-14½	7⅛-11⅜	9¼-12½	9½-13¼	9½-11¾
Preferred (Low-High)	15⅞-22	19-22⅝	19⅜-22⅝	16⅛-20⅝	13-16¾	15⅛-17½	14½-18¼	14½-16⅞

Employment Summary

Dollars in Millions

Year Ended December 31	**1976**	1975	1974	1973	1972	1971	1970	1969
Net Sales	**$1,060.5**	$ 964.4	$ 948.8	$ 848.9	$ 768.5	$ 683.8	$ 583.5	$ 592.0
Number of Employees	**20,499**	20,231	22,213	22,544	22,827	21,955	19,773	21,088
Wages, Salaries and Fringes	**$ 301.9**	$ 274.3	$ 257.9	$ 246.4	$ 224.7	$ 204.9	$ 183.3	$ 180.4
				Dollars				
Net Sales per Employee	**$ 51,734**	$47,669	$42,714	$37,655	$33,666	$31,146	$29,510	$28,081
Wages, Salaries and Fringes, as a % of Sales	**28.5%**	28.4%	27.2%	29.0%	29.2%	30.0%	31.4%	30.5%
Average Wages, Salaries and Fringes per Employee	**$ 14,728**	$13,558	$11,610	$10,930	$ 9,845	$ 9,334	$ 9,273	$ 8,555

GAF Corporation and Consolidated Subsidiaries
Summary of Significant Accounting Policies

Principles of Consolidation

The accounts of all significant subsidiaries of the company are included in the consolidated financial statements. Certain 1975 amounts have been reclassified to conform with the classifications followed in 1976.

Translation of Foreign Currencies

Cash, accounts receivable and liabilities of foreign subsidiaries are translated into U.S. dollars at current exchange rates; all other assets, deferred income taxes and depreciation are translated at historical rates. Operating accounts, except for depreciation, are translated using average exchange rates to approximate the rates in effect when transactions were consummated.

Foreign exchange gains or losses are included in net income of the period in which the exchange rate changed.

Inventories

Inventories, other than dyestuffs and pigments, are valued at the lower of cost (principally average) or market. Dyestuff and pigment inventories are valued at cost, determined by the last-in, first-out (LIFO) method.

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 annual review and revision to assure that the cost of the related assets is written off over the economic lives.

Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired in connection with acquisitions prior to November 1, 1970, is not being amortized because there has been no diminution in value; such cost relating to acquisitions made subsequent to October 31, 1970, all of which has continuing value, is being amortized on the straight-line method over a period of forty years.

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 United States 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.

Research and Development Costs

Expenditures for research and development are charged to income as incurred.

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 net 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.

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Consolidated Balance Sheet

December 31	1976	1975
Assets		
Current Assets		
Cash	$ 18,748,000	$ 27 738 000
Accounts receivable—trade, less allowance for doubtful accounts—1976 $6 444 000, 1975, $4.908.000	156,128,000	151.233.000
Accounts receivable—other	10,687,000	10 159 000
Inventories (Note 3)		
Finished goods	123,240,000	106 180 000
Work in process	51,168,000	46 329 000
Raw materials and supplies	84,082,000	78.432 000
Total Inventories	258,490,000	230.941.000
Prepaid expenses	7,284,000	6.523 000
Total Current Assets	451,317,000	426.594.000
Property, Plant and Equipment, at cost		
Land and land improvements	15,676,000	15.083.000
Buildings and building equipment	109,048,000	104.585 000
Machinery and equipment	277,708,000	270 639 000
Construction in progress	29,093,000	17.076.000
Total Property, Plant and Equipment	431,525,000	407.383.000
Less accumulated depreciation	168,282,000	163.815 000
Property Plant and Equipment—Net	263,243,000	243.568 000
Cost in Excess of Net Assets Acquired of which $2.422.000 at December 31, 1976, is being amortized	34,574,000	34 790 000
Other Assets	16,339,000	15.596 000
Total Assets	$765,473,000	$720.548 000

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

01-0207256

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December 31	1976	1975
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable (Note 5)	**$ 23,684,000**	$ 21 754 000
Current portion of long-term debt (Note 5)	**4,038,000**	27 683 000
Accounts payable	**67,855,000**	61 173 000
Accrued liabilities	**45,572,000**	42 085 000
United States and foreign income taxes	**4,278,000**	6 071 000
Total Current Liabilities	**145,427,000**	158 766 000
Long-term Debt Less Current Portion (Note 5)	**184,823,000**	139 168 000
Deferred Credits		
Income taxes	**39,385,000**	35 231 000
Investment tax credit	**3,153,000**	3 726 000
Total Deferred Credits	**42,538,000**	38 957 000
Other Liabilities	**4,738,000**	4 626 000
Commitments and Contingent Liabilities (Note 11)		
Shareholders' Equity (Notes 5, 7 & 8)		
Preferred stock, $1 par value, authorized 6 000,000 shares, $1 20 convertible series issued—1976, 3,106 002 shares, 1975 3 105 706 shares, at assigned value of $1 25 per share (liquidation value 1976, $83,314,000)	**3,883,000**	3 882 000
Common stock $1 par value, authorized 25,000,000 shares, issued—1976, 13,770,347 shares, 1975, 13,764,090 shares	**13,770,000**	13 764 000
Additional paid-in capital	**53,629,000**	53 151 000
Retained earnings	**321,935,000**	313 546 000
Total	**393,217,000**	384 343 000
Less stock held in treasury, at cost		
Common—1976 531 599 shares, 1975, 534,949 shares	**4,338,000**	4 380 000
Preferred—1976 76,400 shares, 1975, 76,400 shares	**932,000**	932,000
Total Shareholders' Equity	**387,947,000**	379 031 000
Total Liabilities and Shareholders' Equity	**$765,473,000**	$720,548 000

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

01-0207259

GAF 12054

Consolidated Statement of Income

Year Ended December 31	1976	1975
Net Sales	**$1,060,507,000**	$964,421,000
Costs and Expenses		
Cost of products sold (Note 3)	**779,511,000**	691,104,000
Distribution and selling	**147,735,000**	134,255,000
Advertising	**19,788,000**	18,409,000
Research and development	**17,953,000**	15,272,000
Administrative and general	**47,545,000**	45,623,000
Interest (Note 5)	**16,040,000**	16,555,000
Total Costs and Expenses	**1,028,572,000**	921,218,000
Other Income (Charges)		
Provision for silver loss (Note 10)	**(3,500,000)**	—
Gain on sale of technology and know-how (Note 1)	**—**	4,000,000
Other—net	**1,598,000**	(694,000)
Total Other Income (Charges)—Net	**(1,902,000)**	3,306,000
Income Before Income Taxes	**30,033,000**	46,509,000
Income Taxes (Note 6)	**10,333,000**	15,563,000
Net Income	**$ 19,700,000**	$ 30,946,000
Less Preferred stock dividend requirements	**3,635,000**	3,635,000
Net Income Applicable to Common Stock	**$ 16,065,000**	$ 27,311,000
Weighted Average Number of Common Shares Outstanding	**13,303,000**	13,237,000
Earnings per Common Share		
Primary	**$1.21**	$2.06
Fully diluted	**$1.14**	$1.79

Consolidated Statement of Retained Earnings

Year Ended December 31	1976	1975
Balance January 1	**$313,546,000**	$293,108,000
Net Income	**19,700,000**	30,946,000
Less cash dividends		
Preferred stock ($1.20 per share)	**3,635,000**	3,635,000
Common stock (1976—$.58 per share, 1975—$.52 per share)	**7,676,000**	6,873,000
Balance December 31	**$321,935,000**	$313,546,000

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

01-3037263

Consolidated Statement of Changes in Financial Position

Year Ended December 31	1976	1975
Funds Provided		
From operations		
Net income	**$ 19,700,000**	$ 30 946 000
Charges (credits) not affecting working capital		
Depreciation	**27,640,000**	25 026 000
Deferred income taxes	**4,154,000**	3 347 000
Translation (gains) losses — noncurrent portion	**(351,000)**	640 000
Other	**2,661,000**	828 000
Funds provided from operations	**53,804,000**	60 787 000
Increases in long-term debt	**118,465,000**	1 072 000
Total	**172,269,000**	61 859 000
Funds Applied		
Additions to property, plant and equipment	**46,391,000**	37 995 000
Cash dividends	**11,311,000**	10 506 000
Reductions in long-term debt	**72,414,000**	42 505 000
Investment in joint venture company	**—**	6 549 000
Acquisition of common stock for treasury	**27,000**	120 000
Property, plant and equipment of businesses acquired	**2,155,000**	—
Other assets of businesses acquired	**1,521,000**	—
Other	**388,000**	647 000
Total	**134,207,000**	98 324 000
Increase (Decrease) in Working Capital	**38,062,000**	(36 465 000)
Working capital, January 1	**267,828,000**	304 293 000
Working capital, December 31	**$305,890,000**	$267 828 000
Analysis of Changes in Working Capital		
Increase (decrease) in current assets		
Cash	**$ (8,990,000)**	$ 12 503 000
Accounts receivable	**5,423,000**	(556 000)
Inventories	**27,549,000**	(18 519 000)
Prepaid expenses	**741,000**	(2 014 000)
Total	**24,723,000**	(8 586 000)
(Increase) decrease in current liabilities		
Notes payable	**(1,930,000)**	10 677 000
Current portion of long-term debt	**23,645,000**	(22 440 000)
Accounts payable	**(6,682,000)**	(18 857 000)
Accrued liabilities	**(3,487,000)**	(1 632 000)
United States and foreign income taxes	**1,793,000**	4 373 000
Total	**13,339,000**	(27 879 000)
Increase (Decrease) in Working Capital	**$ 38,062,000**	$(36 465 000)

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

01-0207261

GAF 12056

Notes to Consolidated Financial Statements

1 Gain on Sale of Technology and Know-how

During 1975 the company and Chemische Werke Hüls A G ("Hüls") a West German company, formed a joint venture (GAF Hüls Chemie G m b H) to construct and operate a butanediol manufacturing plant in West Germany. The joint venture is owned equally by the company and Hüls. The investment is included in Other Assets and has been accounted for by the equity method.

In the second quarter of 1975 the company sold certain technology and know-how to the joint venture resulting in a gain of $4 000 000 after elimination entries. This gain is not subject to U.S. income tax.

2 Foreign Operations

Foreign exchange losses of $1,569,000 and $1,257,000 (after taxes) are included in net income for the years 1976 and 1975, respectively.

The company's foreign subsidiaries are located principally in Western Europe, Canada and Australia.

The consolidated financial statements include the following amounts with respect to foreign subsidiaries (all of which are wholly owned):

Balance Sheet	Dollars in Thousands	
December 31	**1976**	1975
Current assets	**$75,648**	$72 814
Other assets	**26,561**	12 691
Total assets	**102,209**	85 505
Current liabilities	**35,888**	28 137
Other liabilities	**11,833**	8 645
Total liabilities	**47,721**	36 782
Net assets	**$54,488**	$48 723

Statement of Income	Dollars in Thousands	
Year Ended December 31	**1976**	1975
Net sales	**$142,302**	$135 526
Net income	**$ 650**	$ 5 248

3 Inventories

The company accounts for dyestuff and pigment inventories on the last-in first-out (LIFO) method. The current cost for these inventories exceeded their LIFO valuation by $4 918 000 and $4 712,000 at December 31 1976 and 1975, respectively.

4 Retirement Plans

The cost of employee retirement benefits amounted to $12 223,000 in 1976 and $11 797 000 in 1975. At December 31, 1976, the actuarially computed value of vested benefits exceeded the total of pension funds and accrued liabilities for pension costs by $47 800 000. The estimated unfunded prior service cost at December 31 1976 was $53 500 000.

5 Debt and Dividend Restrictions

Long-term debt at December 31 1976, and 1975 was as follows

	Dollars in Thousands	
	1976	1975
9½% senior notes due March 31 1991 equal annual principal repayments beginning March 31 1982	**$ 65,000**	$ —
8½% senior notes due January 15 1997 with equal annual principal repayments beginning January 15 1983	**40,000**	—
5⅞% sinking fund debentures due December 1 1991 with annual sinking fund payments of $2 500 000 on each December 1 less $1 373 000 and $2 869 000 in treasury in 1976 and 1975 respectively	**36,127**	[illegible]
Tax-exempt industrial revenue bonds which bear interest at rates of 3⅝% to 6⅞% and mature at various dates to 2001	**21,104**	11 694
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	**3,000**	3 200
6½% Swiss franc [illegible] paid October 1 1976	—	19 085
Promissory notes payable to banks due in 1980 and 1981	—	70 000
Other notes which bear interest at 5⅜% to 12½% and mature at various dates to 1997	**15,430**	15 54[illegible]
Total	**188,861**	166 85[illegible]
Less portion due within one year	**4,038**	27 68[illegible]
Long-term debt less current portion	**$184,823**	$139 16[illegible]

The proceeds from the sale of the 9½% senior notes obtained April 7 1976 were applied toward the retirement of promissory notes due in 1980 and 1981. The retired promissory notes bore interest at rates ranging from 115% to 128% of the prime commercial lending rate.

The proceeds from the sale of the 8½% senior notes obtained February 1977 were used to reduce short-term debt outstanding at December 31 1976. The financial statements reflect the issuance of these notes and an equivalent reduction of the related short-term debt outstanding at December 31 1976.

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).

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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 on April 1, 1976.

At December 31, 1976, GAF had domestic lines of credit aggregating $100,000,000. Sixty-eight million dollars is in the form of three year agreements with a group of banks. Borrowings against this line of credit bear interest generally at 120% of the prime commercial lending rate. The company must pay an annual fee of ½ of 1% of the unused portion of the $68,000,000 commitment; no compensating balances are required and, with proper notice, the agreements may be cancelled without penalty. The remaining lines of credit bear interest generally at the prime commercial lending rate. Compensating balances are generally required on these lines of credit to equal 20% of the outstanding borrowings and 10% of the unused portion. At December 31, 1976, compensating balances amounted to approximately $3,200,000. None of these lines of credit were utilized at December 31, 1976.

Dividends are restricted under provisions of certain loan agreements. Under the most restrictive of these provisions, retained earnings cannot be reduced below $299,228,000. Retained earnings at December 31, 1976 were $321,935,000.

Short-term debt at December 31, 1976 was $23,684,000 as compared with an average of $52,988,000 for the year 1976. The maximum amount of such borrowings which were outstanding at any month-end during 1976 was $79,698,000. The average interest rate on the year-end balance was 8.2% as compared with an average of 7.2% for the full year.

6 Income Taxes

Provision has not been made for the United States income taxes on unremitted earnings of foreign subsidiaries of $34,667,000 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 has been indefinitely postponed. United States income taxes have not been provided on the unremitted earnings of the Domestic International Sales Corporation subsidiary aggregating $9,103,000 through December 31, 1976 since the company intends to postpone indefinitely the remittance of such earnings.

The provision for income taxes consists of the following:

	Dollars in Thousands	
	1976	1975
United States—current	**$ 6,823**	$10,558
United States—deferred	**3,952**	2,923
United States investment tax credit	**(2,602)**	(2,925)
Amortization of deferred United States investment tax credit arising prior to 1971	**(573)**	(573)
Foreign	**1,421**	3,641
State	**1,312**	1,939
Total income taxes	**$10,333**	$15,563

The effective tax rates were 34.4% and 33.5% in 1976 and 1975, respectively. The reasons for the differences from the statutory rate of 48.0% are as follows:

	% of Pre-tax Income	
	1976	1975
Statutory rate	**48.0%**	48.0%
Increases (decreases) in tax rates resulting from:		
Gain on sale of technology and know-how	**—**	(8.6)
United States investment tax credit	**(10.6)**	(7.5)
State and local income taxes, net of United States income tax benefit	**2.3**	2.2
Domestic International Sales Corporation—DISC	**(2.2)**	(2.9)
Other—net	**(3.1)**	2.3
Effective tax rate	**34.4%**	33.5%

The principal sources of United States deferred taxes were:

	Dollars in Thousands	
	1976	1975
Excess of tax depreciation over amount reported in Consolidated Statement of Income	**$2,377**	$2,614
Foreign exchange transactions	**413**	(730)
Other—net	**1,162**	1,039
Total deferred taxes	**$3,952**	$2,923

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Notes to Consolidated Financial Statements
(continued)

7 Stock Option and Stock Purchase Plans

The 1975 stock option plan authorizes the granting of non-qualified stock options for 800,000 shares to key employees during a ten-year period ending February 11, 1985. The prices at which options may be granted may not be less than 100% of the fair market value of the shares on the dates the options are granted. No options have been granted under the 1975 stock option plan.

Authority to grant options under the company's 1965 qualified stock option plan expired on March 31, 1975. Under the provisions of the plan, options to purchase shares of common stock were granted to key employees during a ten-year period. The prices at which options were granted were not less than 100% of the fair market value of the shares on the dates the options were granted. The options are exercisable after a one-year waiting period and terminate five years from date of grant. A summary of the transactions affecting options under the 1965 plan is as follows

	Number of Shares		Average Option Price	
For the Year	**1976**	1975	**1976**	1975
Outstanding January 1	**312,500**	178,050	**$11.66**	$13.52
Granted	**—**	163,000	**—**	9.69
Exercised	**(14,410)**	—	**11.03**	—
Terminated	**(4,400)**	(28,550)	**12.50**	12.00
Outstanding December 31	**293,690**	312,500	**11.68**	11.66
Exercisable December 31	**293,690**	152,000	**11.68**	13.74

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 restriction period. As a result of these charges, additional paid-in capital has been increased by $385,000 and $532,000 in 1976 and 1975, respectively. The balance to be amortized through 1984 amounted to $702,000 and $1,150,000 at December 31, 1976 and 1975, respectively.

8 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 $28.00 per share through May 31, 1977 and $27.50 per share thereafter.

Transactions in common stock held in treasury were as follows

	Dollars in Thousands	
	1976	1975
Balance, January 1	**$4,380**	$5,02[illegible]
Purchase of 5,000 shares in 1976 and 22,000 in 1975 via stock purchase plans	**27**	[illegible]
Issuance from treasury of 8,350 shares in 1976 and 108,000 in 1975 (in connection with sales under stock option plan in 1976 and the restricted stock purchase plan in 1975)	**(69)**	[illegible]
Balance, December 31	**$4,338**	$4,38[illegible]

As a result of the above issuance of treasury shares during 1976 and 1975 additional paid-in capital has been increased by $84,000 and decreased by $185,000, respectively.

The shares of common stock reserved for issuance at December 31, 1976 and 1975 were as follows

Reserved for	**1976**	1975
Conversion of $1.20 convertible preferred stock	**3,787,587**	3,78[illegible]
Conversion of convertible subordinated notes	**402,639**	409,502
Exercise under stock option and purchase plans	**1,409,890**	1,42[illegible]
Total	**5,600,116**	5,62[illegible]

9 Supplementary Financial Information

The following expenses have been included in the Consolidated Statement of Income

	Dollars in Thousands	
For the Year	**1976**	1975
Maintenance and repairs	**$42,491**	$[illegible]
Taxes, other than taxes on income: Social Security and unemployment	**18,235**	16,550
Other	**8,767**	[illegible]
Rent	**17,108**	14,60[illegible]

Approximately 40% of rent expense is applicable to non-capitalized financing leases (as defined by the Securities and Exchange Commission). If the assets associated with such leases had been capitalized, the effect on net income would not have been significant in either 1976 or 1975. However, in such event the expense presently recorded as rent would be comprised of two different elements (i.e. amortization of leaseholds and imputed interest). Amortization would represent the major portion of this expense.

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10 Provision for Silver Loss

For December 1976, the company established a $3 5 million reserve for a silver shortage An intensive investigation to determine the cause of the shortage is under way with the assistance of GAF's outside auditors and attorneys If the shortage is due to theft it may be recovered through insurance

11 Commitments and Contingent Liabilities

The company is obligated under various long-term noncancellable leases at December 31, 1976, as follows

Minimum Renta By Period — Dollars in Thousands

	Land & Land Improvements	Buildings & Building Equipment	Machinery & Equipment	Total
1977	$ 33	$ 4 786	$ 5 179	$ 9 998
1978	33	4 308	876	5 217
1979	33	3 914	205	4 152
1980	38	3 587	75	3 700
1981	38	3 523	57	3 618
1982-1986	188	17 102	55	17 345
1987-1991	128	11 780	9	11 917
1992-1996	10	7 729	—	7 739
Beyond 1996	10	2.398	—	2.408

Note 11 (continued)

These amounts are for existing leases and do not represent a forecast of future expenses

Approximately 55% of all rental commitments are applicable to noncapitalized financing leases

The company had commitments of approximately $20.505.000 at December 31 1976, for the acquisition of property, plant and equipment

At December 31, 1976, 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 affect on the company's consolidated financial position

12 Quarterly Financial Data (Unaudited)

The following is a summary of financial data by quarter for the years 1976 and 1975

Dollars in Thousands

	1976 By Quarter				1975 By Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Net Sales	$258.475	$271 662	$282.163	$248.207	$209.860	$235 779	$265 669	$253.113
Cost of Products Sold	190.574	194 869	208.795	185.273	151.542	170.038	187.601	181.923
Gross Profit	67.901	76.793	73 368	62.934	58 318	65.741	78 068	71 190
Net Income	4 780	8 176	5.911	833 (a)	3 650	10.204 (b)	12 118	4 974
Less Preferred Stock Dividend Requirements	909	909	909	908	909	909	908	909
Net Income Applicable to Common Stock	3.871	7 267	5.002	(75)	2 741	9 295	11 210	4.065
Earnings per Common Share				Dollars				
Primary	29	55	37	—	21	70	85	30
Fully Diluted	28	47	34	(c)	21	60	70	28

(a) Includes $3 5 million ($1 7 million after-tax) silver loss provision
(b) Includes $4 0 million nontaxable gain on sale of technology and know-how
(c) Figure omitted because not dilutive

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Notes to Consolidated Financial Statements
(continued)

13 Impact of Inflation (Unaudited)

Although a portion of the dollar increase in consolidated net sales is attributable to higher selling prices, competitive factors have restricted such price increases to amounts which are less than those required to recover escalating product costs. As a result, the company has not been able to maintain gross margin percentages at levels generally experienced in prior years.

Consideration of current replacement costs for all inventories and higher depreciation charges relative to current replacement costs of the company's present productive capacity would appear to have the effect of further decreasing such margins.

Estimates of replacement costs, as required by the SEC in Form 10-K for 1976, include inherent significant imprecisions and there are serious limitations as to the usefulness of such information. Many currently indeterminable factors (technology, competitive conditions, economic developments, governmental and environmental changes, and corporate strategy) will materially affect future replacement costs and margins.

In the normal course of business, over an extended period of time, the company may or may not replace all of its productive capacity and will, in the light of these many variable factors, examine a number of available alternatives in order to maintain margins.

Reference is made to the company's Annual Report Form 10-K (a copy of which is available on request) for additional quantitative information with respect to the estimated replacement cost of inventories and plant and equipment at December 31, 1976 and the related estimated effect of such costs on cost of sales and depreciation expense for the year then ended.

Auditors' Opinion

Haskins & Sells
Certified Public Accountants

Two Broadway
New York, N.Y. 10004

To the Shareholders and Board of Directors of GAF Corporation:

We have examined the consolidated balance sheet of GAF Corporation and its consolidated subsidiaries as of December 31, 1976 and 1975 and the related consolidated statements of income, retained earnings, and changes in financial position for the years then ended. Our examination was 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, 1976 and 1975 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.

Haskins & Sells

February 7, 1977

GAF PRODUCTS AND SERVICES

BUILDING MATERIALS

GAF® Automotive Products
Automotive sound deadening and insulation products

GAF® Floor Products
Resilient floor tiles for residential and commercial uses. Sure-Stik® adhesive-backed floor tiles for "do-it-yourself" market. Galstar® sheet vinyl floorings for residential and commercial uses. Brite-Bond® urethane-surface flooring, flooring felt, adhesives, vinyl base and floor cleaners and finishes

GAF® Roofing, Siding and Insulation Products
[illegible]perline® shingles and other roofing shingles, roll roofing; roofing felts, asphalt protective coatings and cements, mineral fiber board sidings, canal bulkhead, corrugated and flat sheets, building and roof insulations, Stratalite® match-look siding, [illegible]guard® vinyl siding and decorative shutters

CHEMICAL PRODUCTS

GAF® Chemicals

Dyes and Pigments
[illegible] agents for synthetic and natural [illegible] and blends for the carpet and textile [illegible], also for paper, leather, lacquers [illegible], printing inks, plastics, rubber [illegible] and detergents, disperse, acid [illegible] basic dyes, fluorescent brighteners, spirit- and water-soluble dyes [illegible]bases

High-Pressure Acetylene Derivatives
[illegible] polymers, copolymers, sol[illegible] intermediates, and specialty [illegible] derived from acetylene for use [illegible] petroleum, pharmaceutical [illegible] adhesive and a variety of [illegible]ies

Industrial Organic Chemicals
[illegible] and aliphatic compounds [illegible] ingredients and as inter[illegible] pharmaceutical, agri[illegible] chemical processing

Iron Powders
[illegible] spheres of iron used in [illegible] circuitry, transmitters, re[illegible] powder metallurgy

Latex Polymers and Compounds
SBR latices and Galcote® coating compounds produced from a wide range of monomers and polymers for use as binders and coatings on floor coverings, upholstery, textile fabrics, paper and paper board, nonwovens, and adhesives

Silver Salts
Silver nitrate, silver cyanide, monovalent and divalent silver oxides for photography, electroplating, battery, and other applications

Specialty Chemicals
Processing and formulating agents including Gaftex® textile auxiliaries, Biopal® biocides, Gafstat® antistats, flame-retardants for plastics, coating and finishing agents, adhesive additives, Cheelox® sequestrants, Antara® metal lubricants, corrosion inhibitors, flocculants and solvents for use in various industries and in recycling operations and pollution control

Surfactants
Nonionic, anionic, cationic, and amphoteric surface-active agents for use as detergents, emulsifiers, dispersants and wetting agents

Thermoplastic Molding Resins
Gafite® engineering resins for automobile mechanical and electrical parts, electrical, electronic components, appliance housings and business machines

Ultraviolet Absorbers
Uvinul® ultraviolet-screening agents for cosmetics, plastics, textiles, pigments, rubber and adhesives

GAF® Felt and Filter Products
Natural and synthetic fiber felts and filter devices for liquid and gas filtration. Gaflo® pressure vessel filter systems, also felts for seals, lubrication, polishing, pianos, apparel and interior design, papermaking and other industrial and aerospace applications, noise- and vibration-control materials and nonwovens

GAF® Mineral Granules
Mineral granules for roofing and other uses, inert fillers, and slate flour

PHOTO & REPRO PRODUCTS

GAF® Photo Products

Consumer Photo
Still cameras, silent and sound movie cameras and projectors, slide projectors, color slide, movie, and print films, black-and-white still films, chemicals and accessories

Graphic Arts
Gafmate® films and chemicals for offset printing, photolithography, photoengraving, rotogravure, and silk-screen printing, also stabilization papers and Gaftype phototypesetting paper

Photoimaging
High resolution see-through Microline® glass plates and film, photoresists, printers and developers for the electronics industry

Pictorial Photo
View-Master® talking and silent stereo viewers, picture reels, and projectors. Pana-Vue® slide viewers and color slides for educational, entertainment and commercial uses

Professional Photo
Color and black-and-white films; color and black-and-white papers and chemicals for portrait, school, aerial, commercial and industrial photography and photofinishing, specialized materials for seismic recording, instrumentation, surveillance, and oscillography

X-ray
Gafmed® medical x-ray films, chemicals, intensifying screens, cassettes, illuminators and accessories, industrial x-ray films and chemicals, radiologic teaching aids

GAF® Business Systems Products

Audio-Visual
Slide projectors, overhead projection transparency series for preschool through college instruction, and materials and supplies

Business Forms
Custom designed and printed data-processing forms, sales books, manifold order books, single copy forms, unitset forms, voucher and receipt books, Card-Set® forms, forms for autographic register and similar items, and optical scanning forms

Micrographic
Diazo microfilm, microfilm cameras, full line of readers, reader-printers and roll film and microfiche duplicators, automatic document retrieval units for use in various business and microfilm systems

Reproduction
Diazoprinters, accessories and sensitized materials for engineering and business systems. Galoni® lettering machine, drafting materials and supplies, electrostatic copier papers, toners, and supplies

SERVICES

Contract Manufacturing Service
Precision parts and equipment contract manufacturing service

Photo Service
Nationwide processing service for black-and-white and color still and movie films

Transparency Service
Custom overhead transparency and color slide production service

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GAF

GAF Locations

Corporate Offices
140 West 51 Street
New York, NY 10020
212 582 7600

Domestic Operations

GAF Corporation's plants, research laboratories, sales offices, distribution centers, photofinishing plants and photo equipment repair centers are located throughout the U.S.A.

Alabama
Birmingham
Huntsville
Mobile
Arizona
Phoenix
California
La Habra
Long Beach
Los Angeles
San Diego
South San Francisco
Sunnyvale
Van Nuys
Colorado
Denver
Connecticut
Greenwich
Rockville
Staffordville
District of Columbia
Florida
Hialeah
Orlando
Tampa
Georgia
Atlanta
Savannah
Illinois
Chicago
Franklin Park
Joliet
Lincolnwood
Melrose Park
Peoria
Indiana
Indianapolis
Mount Vernon
South Bend
Iowa
Des Moines
Mason City
Kansas
Kansas City
Kentucky
Calvert City
Louisiana
Kenner
Maryland
Baltimore
Cheverly
Hagerstown
Massachusetts
Franklin
Millis
Newton
Somerville
Michigan
Detroit
Lansing
Southfield
Troy
Warren
Minnesota
Minneapolis
Missouri
Annapolis
Joplin
Kansas City
Maryland Heights
St Louis
New Jersey
Bound Brook
Gloucester City
Linden
Morristown
Newark
South Bound Brook
Wayne
New York
Binghamton
Brooklyn
Delmar
Dewitt
Elmsford
Glens Falls
Johnson City
Newburgh
New York
Rensselaer
Vails Gate
Vernon
Vestal
Woodside
North Carolina
Charlotte
Ohio
Cincinnati
Columbus
Elyria
North Olmsted
Shelby
Toledo
Youngstown
Oregon
Eugene
Portland
Progress
Pennsylvania
Allentown
Blue Ridge Summit
Erie
Malvern
Philadelphia
Pittsburgh
Whitehall
Rhode Island
Westerly
South Carolina
Greenville
Tennessee
Chattanooga
Johnson City
Knoxville
Nashville
Texas
Arlington
Dallas
Houston
San Antonio
Texas City
Washington
Seattle
Spokane
Wisconsin
Appleton
Milwaukee
Pembine
Wauwatosa

Domestic Subsidiaries

GAF Broadcasting Company Inc
New York, N Y

GAF Export Corporation
New York, N Y
Carolina
Puerto Rico

GAF Hawaii Inc
Honolulu, Hawaii

GAF International Corporation
New York, N Y

International Manufacturing and Marketing Subsidiaries

GAF (Australasia) Pty. Ltd.
Alexandria, Australia
GAF (Qld.) Pty. Ltd.
Brisbane, Australia
GAF (S.A.) Pty. Ltd.
Adelaide, Australia
GAF (Vic.) Pty. Ltd.
Melbourne, Australia
GAF (W.A.) Pty. Ltd.
Perth, Australia
GAF (Belgium) N.V.
Sint-Niklaas, Belgium
GAF do Brasil Indústria e Comércio Ltda.
São Paulo, Brazil
GAF (Canada) Limited
Mississauga, Ontario, Canada
Toronto, Ontario, Canada
Vancouver, British Columbia, Canada
GAF (Danmark) A/S
Ballerup, Denm-
GAF (Deutschland) G.m.b.H.
Frechen, Germa
GAF (France) S.A.
Louvres, France
GAF (Great Britain) Limited
Colnbrook, England
Hounslow, England
Manchester, England
GAF Hellas S.A.
Athens, Greece
GAF (Ireland) Limited
Dublin, Ireland
GAF (Israel) Ltd.
Tel Aviv, Israel
GAF (Italia) S.r.l.
Milano, Italy
GAF (Japan) Limited
Tokyo, Japan
GAF Corporation de Mexico S.A. de C.V.
Mexico City, Mexico
GAF (Nederland) B.V.
Delft, Holland
GAF (New Zealand) Pty. Ltd.
Wellington, New Zealand
GAF (Norge) A/S
Oslo, Norway
GAF (Osterreich) G.m.b.H.
Vienna, Austria
GAF South Africa (Pty.) Ltd.
Johannesburg
Republic of South Africa
GAF Corp. Sucursal en España
Barcelona, Spain
GAF (Suomi) Oy
Helsinki, Finland
GAF Svenska AB
Stockholm, Sweden
GAF (Switzerland) A.G.
Zug, Switzerland

Affiliates:
Chemical Developments of Canada Limited
Pointe Claire, Quebec, Canada
GAF/Hüls Chemie G.m.b.H.
Marl, West Germany
Sawyer's Asia Pty. Ltd.
Bombay, India

International Film Processing Laboratories:
Sint-Niklaas, Belgium
London, England

GAF authorized film-processing laboratories and equipment repair stations are located throughout the world.

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