To Our Shareholders:

Koppers 1978 performance further strengthened the Company's sound operating and financial position. Sales and income were at good levels in most operations. The unusual problems that severely reduced income in three manufacturing businesses had been corrected by year end. Lower income from these lines was offset by the addition of Western road materials operations. The sale of Koppers investment in the stock of Cutler-Hammer, Inc. resulted in a substantial gain and produced most of the rise in earnings for the year.

We are pleased that the increase in dividends paid in 1978 to Koppers common shareowners continued to outpace the rate of inflation, as illustrated inside the front cover. The cover of this report indicates the 10-year growth in the value of common shareholders' investment in Koppers. It depicts an expanded operating base that has made higher dividends possible. We recognize that the greatest value to investors in such a review of past progress lies in its assurance of growth in earnings and dividends. The following analysis, we believe, reasonably describes the Company's current potential, which continues favorable.

Over the past 10 years, Koppers has carried out an aggressive growth program fueled by capital expenditures, which have grown by an average of 16% per year. This has raised common shareholders' equity from $177.4 million in 1968 to $504.7 million in 1978, an 11% average annual rate of growth.

From this widening operating base have come rising annual levels of cash flow to common stock, a factor that serves to measure a company's ability to continue to increase its annual investment in new facilities and, at the same time, pay higher dividends to shareholders. Koppers cash flow reached a record $141.7 million in 1978. It has averaged a 15% rate of annual growth for the past 10 years. (Cash flow is made up of net income after preferred dividends, plus depreciation and depletion, plus deferred income taxes.)

To fund the expansion of its operating base over the past 10 years, Koppers has plowed back the equivalent of 94% of its average annual cash flow into capital expenditures. This has been composed mainly of internally generated funds, along with a 30% increase in the number of common shares outstanding used to carry out mergers. This growth strategy has resulted, each year, in an improving level of cash flow generated per dollar of common equity, rising from a return of 20% in 1968 to 28% in 1978.

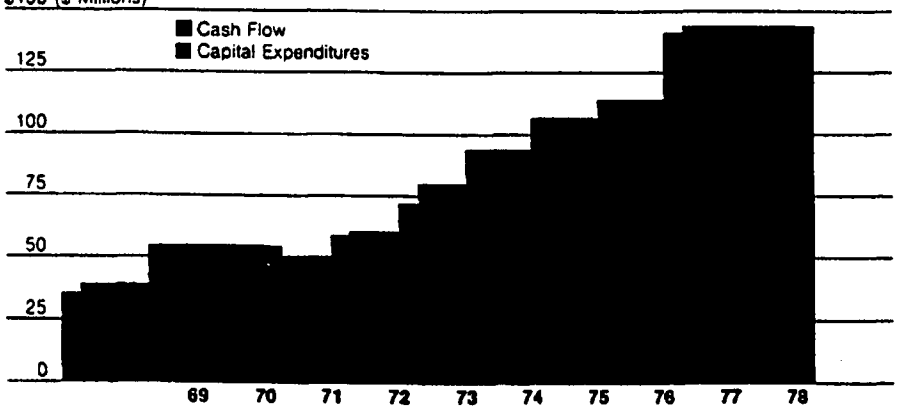
The level of funds paid out in dividends to common stock owners has grown by an average of 15% annually for the past decade, maintaining a level of about 20% of Koppers total annual cash flow.

Company debt has been increased in line with equity and maintained in a range near 30% of total capitalization.

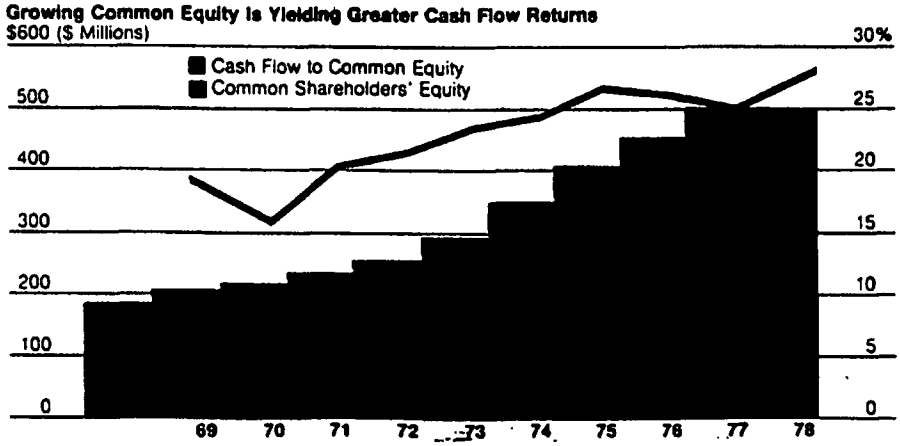
To summarize Koppers current position, high levels of capital investment over the past 10 years have led to a fourfold increase in the Company's operating base (net fixed assets). Common shareholders' equity and common dividends paid have tripled. There has been a significant increase in the level of cash flow generated per dollar invested in common equity. Debt has remained fairly constant in relation to total capitalization.

The Company's ability to support a continuing high rate of growth has never been greater.

Koppers Is Reinvesting 94% of Its Average Annual Cash Flow



Growing Common Equity Is Yielding Greater Cash Flow Returns



Operating Performance

Once again, the wide-ranging diversification of the Company's businesses softened the impact of untoward events in certain areas.

Most conspicuously affected by such events was Organic Materials. Sales rose, but operating income dropped, primarily because of early-year chemical production diffi-