

Notes to Financial Statements

December 31, 1978 and 1977

Koppers Company, Inc. and Subsidiaries

1. Accounts Receivable

Receivables include the following amounts applicable to long-term construction contracts:

	1978	1977
Billed or billable	\$66,045,000	\$78,834,000
Retainage:		
Due after one year	\$ 4,507,000	\$ 5,520,000
Due within one year	17,407,000	7,305,000
Total	\$21,914,000	\$12,825,000

2. Inventories

Product inventories, including work in process, used in the calculation of cost of sales before deducting progress billings amounted to \$122,797,000, \$134,180,000 and \$129,643,000 at December 31, 1978, 1977 and 1976, respectively.

3. Investment in Cutler-Hammer, Inc.

During 1978, the Company acquired approximately 21% of the stock of Cutler-Hammer, Inc. On December 14, 1978, the stockholders of Cutler-Hammer, Inc. approved an agreement of merger with another company under which Koppers received \$80,765,000 (\$58 per share) on January 4, 1979.

The Company has recognized pretax profit of \$15,118,000 on the investment, as follows:

Proceeds from sale	\$80,765,000
Cost of stock purchased	62,102,000
	18,663,000
Expenses associated with investment:	
Interest	3,992,000
Legal and other	528,000
	4,520,000
	14,143,000
Dividends received during 1978	975,000
	\$15,118,000

4. Retirement Plans

Total pension expense in 1978 was \$24,556,000, as compared with \$20,325,000 in 1977. Pension expense increased as a result of benefit improvements, additional participants and differences between actuarial assumptions and actual experience.

The unfunded prior service costs under all plans at December 31, 1978 amounted to \$47,432,000.

The actuarially computed value of vested benefits for all plans exceeded pension fund assets as of the latest valuation date by approximately \$23,960,000.

During 1977, the Company established an Employee Stock Ownership Plan (ESOP) retroactive to January 1, 1976 for the benefit of employees upon retirement. Contributions to the ESOP are offset by additional investment tax credit.

5. Leases

The Company has entered into various lease arrangements covering land, buildings, machinery and equipment. In compliance with Statement of Financial Accounting Standards No. 13, Accounting for Leases, the financial statements have been restated as of January 1, 1976 to reflect as capital leases certain leases previously classified as operating leases. It was not practicable to restate periods prior to 1976. The effect of this change increased retained earnings at January 1, 1977 by \$741,000 and increased net income by \$211,000 in 1977 and \$182,000 in 1978.

The following is an analysis of the lease property under capital leases:

	1978	1977
Land and buildings	\$15,056,000	\$15,056,000
Machinery and equipment	14,441,000	14,341,000
	29,497,000	29,497,000
Less: Accumulated amortization	12,852,000	11,121,000
	\$16,645,000	\$18,376,000

The amortization of leased property for 1978 and 1977 has been included in depreciation, depletion and amortization.

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 1978:

1979	\$ 3,143,000
1980	2,926,000
1981	1,486,000
1982	1,256,000
1983	952,000
1984 and later	15,864,000
Total minimum lease payments	25,627,000
Less: Amount representing executory costs	97,000
Net minimum lease payments	25,530,000
Less: Amount representing interest	11,083,000
Present value of net minimum lease payments (including \$2,081,000 classified as current obligations under capital leases)	\$14,447,000