CRANE

Crane Co. 1978 Annual Report

PLAINTIFF'S
EXHIBIT
CRA-32

CRTX 0405

Crane Co. 1978 Annual Report

Contents

Operations

United States

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

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

Cavalier Corporation
Chattanooga, Tennessee
W. W. Williams, *President*

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

Huttig Sash & Door Company
St. Louis, Missouri
S. P. Wells, *President*

Canada

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

International

Crane Australia Pty. Limited
St. Mary's, Sydney, Australia
P. J. Farrell, *Managing Director*

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

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

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

Annual Meeting

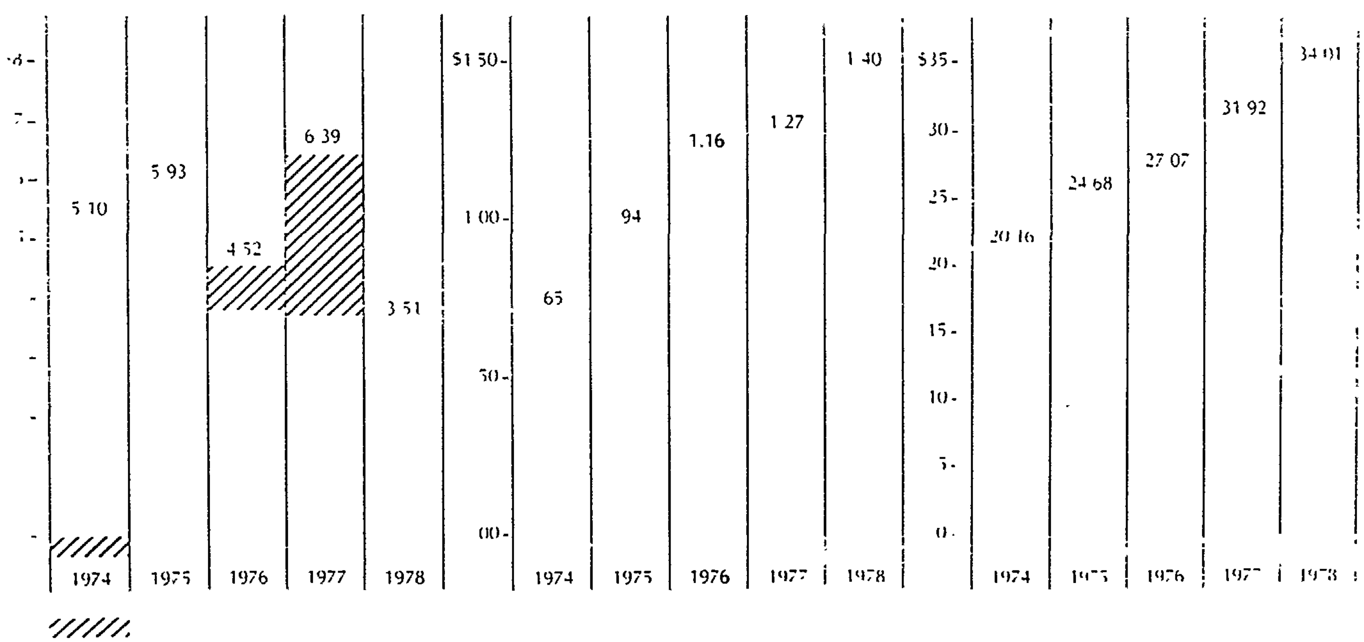
The Crane Co. 1979 annual meeting will be held Monday, April 23, 1979, in the Lecture Room, Morgan Guaranty Trust Company of New York, 2nd Floor, 299 Park Avenue, New York City, at 10 A.M.

Form 10-K

Copies of Form 10-K for the year 1978, which are to be filed with the Securities and Exchange Commission, are available without charge to each shareholder of the Company upon written request made to the Secretary, 300 Park Avenue, New York, N.Y. 10022.

	1978	1977
Sales	$1,227,449,000	$1,133,822,000
Net Income	$ 35,355,000	$ 66,171,000*
Per Common Share:		
Primary earnings **	$ 3.51	$ 6.39*†
Cash dividends	1.40	1.27†
Net Working Capital	$ 221,448,000	$ 239,833,000
Total Assets	$ 881,325,000	$ 875,209,000
Current Ratio	2.4	2.4
Common Shareholders' Equity	$ 335,565,000	$ 326,152,000
Per share	34.01	31.92†
Common Shares Outstanding at Year-end	9,866,891	10,017,199

*The year 1977 included net income from non-recurring transactions of $28,389,000, or $2.72 per share.
**Net income per common share would amount to $3.36 ($6.05 in 1977) assuming conversion of subordinated debentures.
†Adjusted for 2% stock dividend in February, 1978.



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Crane Co.'s sales for 1978 were $1,227,449,000, compared with $1,133,822,000 for 1977. Net income amounted to $35,355,000, compared with $37,782,000 from operations in 1977, excluding a non-recurring net gain of $28,389,000.

Net income per share in 1978 was $3.51. In 1977 net income was $3.67, excluding $2.72 per share from non-recurring transactions.

Depreciation for 1978 was $51,189,000, compared with $44,192,000 in 1977. The company's financial accelerated depreciation method is the maximum allowed for income tax reporting and recognizes, to some extent, the current high rate of inflation.

Crane's lower 1978 results reflect the effects of continuing startup costs in connection with CF&I Steel Corporation's rail mill expansion and modernization program, the 111-day coal strike, and unusually severe weather experienced during the first quarter.

The new CF&I facilities, scheduled to be fully operational in the second half of 1979, will increase the company's rail-making capacity by 50 percent. CF&I will soon have the most advanced facility of its type in North America, capable of rolling standard rails up to 25 meters long, more than twice the length rolled by any other company in the United States.

Huttig Sash & Door Company achieved record results for the third consecutive year and Crane building products operations performed well as housing starts passed the two-million level in 1978. Both Crane Canada and International Operations showed improved results despite lagging capital spending, inflationary pressures, and losses incurred in terminating certain international operations.

As part of its plant improvement program, Crane invested $57 million in modernization and air and water pollution control in 1978. This reduction in capital expenditures from $98 million in 1977 reflects the culmination of major projects to improve facilities begun several years ago, primarily at CF&I Steel Corporation.

A cash dividend of $1.40 per share was paid to shareholders in 1978, compared with $1.27, as adjusted, paid in 1977. A 2 percent stock dividend was paid in February 1979, the eleventh year that such a stock dividend has been paid.

During the past year, Crane took several steps designed to strengthen its position in basic industries. Less efficient company-owned wholesaling branch operations were replaced by independent distributors, and international investments were reduced with the termination of two unprofitable European operations.

Most importantly, Crane made a substantial investment in 1978 in Medusa Corporation, a major producer of cement and aggregates. Medusa, like CF&I Steel Corporation, controls a major portion of its own raw materials sources.

Since last year, Crane has acquired approximately 95 percent of Medusa's common stock. The company purchased 600,100 shares on the New York Stock Exchange and 700,000 shares in a cash tender offer at $50 per share. Crane

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acquired the balance of its Medusa shares in January, 1979 through an exchange offer of $10 in cash and $40 principal amount of Crane 10½ percent Subordinated Sinking Fund Debentures, due February 1, 1994.

The total cost of the Medusa acquisition was $147,055,000, of which $78,574,000 was cash and $68,481,000 principal amount of subordinated debentures. The average cost per share after allowance for original issue discount was $47.17. The acquisition was accomplished without any dilution of common shareholders' equity.

Crane and the Federal Trade Commission have entered into a Hold Separate Agreement permitting Crane to acquire Medusa without litigation with the FTC. Crane has agreed not to influence or seek working control of Medusa until the Medusa annual meeting, March 27, 1979, at which time Crane will take control of the company.

We believe Medusa, as a natural resource company, should provide an additional hedge against the inflationary forces in the economy. For the year 1978 Medusa reported sales of $287,517,000 and net income of $15,623,000. A brief summary of the company's operations and financial statements are on pages 16 and 17.

R. F. Eson, Chairman of Huttig Sash & Door Company, a subsidiary, retired at the end of 1978 after 40 years of outstanding service. At the January meeting, the Crane Board of Directors elected R. S. Evans Executive Vice President of the company.

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

Respectfully submitted,

D. C. Fabiani

D. C. Fabiani, President

T. M. Evans

T. M. Evans, Chairman

February 21, 1979

D. C. Fabiani, President

T. M. Evans, Chairman

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FOR YEARS ENDED DECEMBER 31

	1978	1977
Net Sales	$1,227,449,118	$1,133,822,269
Operating Costs and Expenses:		
Cost of sales	999,751,793	916,846,784
Selling, general and administrative	108,845,415	105,665,342
Depreciation	51,188,976	44,191,500
	1,159,786,184	1,066,703,626
Operating Profit	67,662,934	67,118,643
Other Income (Deductions):		
Interest—net	(25,186,280)	(18,698,083)
Dividend income on investments	5,782,013	3,932,461
Miscellaneous—net	2,203,251	26,441,871
	(17,201,016)	11,676,249
Income Before Income Taxes	50,461,918	78,794,892
Provision for Income Taxes	15,106,504	12,623,727
Net Income	$ 35,355,414	$ 66,171,165
Net income per common share:		
Average shares outstanding	$3.51	$6.39
Assuming conversion of debentures	3.36	6.05

FOR YEARS ENDED DECEMBER 31

	1978	1977
Balance at Beginning of Year	$231,049,733	$192,561,537
Net Income	35,355,414	66,171,165
	266,405,147	258,732,702
Dividends:		
Preferred shares—$3.75 per share	88,241	90,054
Common shares:		
Cash—$1.40 per share ($1.27 in 1977)	14,043,605	13,166,871
Stock—2%, market value of 200,301 shares (200,580 in 1977)	5,081,636	5,628,275
Excess of Cost Over Par Value of Reacquired Shares—Net:		
305 preferred (282 in 1977) and 462,400 common (381,100 in 1977) reacquired, less 21,978 issued under stock options (37,965 in 1977)	10,268,400	8,797,769
	29,481,882	27,682,969
Balance at End of Year	$236,923,265	$231,049,733

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FOR YEARS ENDED DECEMBER 31	1978	1977
Balance at Beginning of Year	$ 32,494,625	$ 27,201,643
Excess of debentures converted over par value of 89,813 common shares issued (128,857 in 1977)	649,229	918,332
Excess of market value over par value of common shares issued as a 2% stock dividend	3,829,755	4,374,650
Balance at End of Year	$ 36,973,609	$ 32,494,625

FOR YEARS ENDED DECEMBER 31	1978	1977*
Source of Funds:		
Operations:		
Net income	$ 35,355,414	$ 66,171,165
Depreciation	51,188,976	44,191,500
Amortization of debt discount	2,082,257	2,372,386
Other, net	2,254,712	3,074,588
Unrealized non-recurring credits—net	—	(8,515,000)
	90,881,359	107,294,639
Increase in long-term debt and capital leases	44,899,431	39,551,196
Conversion of debt to common stock	1,213,400	1,725,000
Disposals of property, plant and equipment	5,883,953	9,428,880
Decrease in long-term investments	32,361,349	18,466,716
Increase (decrease) in reserves and other	(9,706,692)	1,184,668
	165,532,800	177,651,099
Application of Funds:		
Additions to property, plant and equipment and capital leases	57,403,054	97,807,787
Unexpended proceeds from an Industrial Revenue Bond	6,255,408	—
Increase in long-term investments	61,180,342	8,611,349
Reduction in long-term debt	31,959,312	25,121,582
Reacquisition of shares, less options exercised	12,987,865	10,751,875
Cash dividends	14,131,846	13,256,925
	183,917,827	155,549,518
Net Source (Application) of Funds	$ (18,385,027)	$ 22,101,581
Increase (Decrease) in Components of Working Capital:		
Current assets:		
Cash and short-term investments	$ (24,008,030)	$ 9,401,442
Accounts receivable	(5,594,022)	12,714,496
Inventories	1,810,676	10,348,232
Prepaid expenses	312,440	(342,262)
	(27,478,936)	32,121,908
Current liabilities:		
Current maturities of long-term debt	(6,701,215)	842,983
Loans payable to banks	(5,711,708)	(5,227,981)
Accounts payable	3,989,285	817,068
Accrued payrolls, taxes and other liabilities	(2,524,913)	12,544,592
U.S. and foreign taxes on income	1,854,642	1,043,665
	(9,093,909)	10,020,327
Increase (Decrease) in Working Capital	$(18,385,027)	$ 22,101,581

*Restated to include all capital leases

See Financial Review

AT DECEMBER 31

Assets	1978	1977*
Current Assets:		
Cash	$ 51,702,431	$ 35,513,764
Short-term investments, at lower of cost or market	48,324,797	88,521,494
Accounts receivable, less allowances of $2,786,165 ($2,924,635 in 1977)	136,364,335	141,958,357
Inventories, at lower of cost, principally last-in, first-out, or market. LIFO reserves amounted to $74,369,923 ($67,334,697 in 1977):		
Finished goods	74,197,648	73,756,830
Work in process	45,075,142	42,030,379
Raw materials and supplies	27,238,462	28,913,367
	146,511,252	144,700,576
Prepaid expenses	2,515,670	2,203,230
Total current assets	385,418,485	412,897,421
Investments and Other Assets:		
Investments	104,597,342	74,736,349
Unamortized debt discount	6,920,407	9,002,664
Construction fund	6,255,408	—
Outlying lands	1,228,425	1,232,300
Miscellaneous	783,256	1,548,623
	119,784,838	86,519,936
Property, Plant and Equipment and Capital Leases at Cost:		
Land	21,692,903	20,768,952
Buildings and improvements	166,343,598	154,920,741
Machinery and equipment	575,164,290	555,849,821
	763,200,791	731,539,514
Less accumulated depreciation	387,078,758	355,747,606
	376,122,033	375,791,908
	$881,325,356	$875,209,265

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Liabilities and Shareholders' Equity	1978	1977*
Current Liabilities:		
Current maturities of long-term debt	$ 11,834,165	$ 18,535,380
Loans payable to banks	7,101,227	12,812,935
Accounts payable	73,899,910	69,910,625
Accrued payrolls, taxes and other liabilities	65,057,768	67,582,681
U.S. and foreign taxes on income	6,077,750	4,223,108
Total current liabilities	163,970,820	173,064,729
Long-Term Debt (see page 8)	273,035,129	270,744,441
Capital Leases:		
Industrial revenue bonds	42,957,900	31,864,858
Other	9,594,319	10,037,930
	52,552,219	41,902,788
Deferred Income Taxes—Depreciation	23,529,444	24,353,670
Reserves and Other Liabilities	28,340,701	34,695,686
Shareholders' Equity:		
Preference stock of a subsidiary, 5½%	1,986,500	1,920,000
Cumulative preferred shares, 3¾%, par value $100 (redeemable): Authorized—39,402 shares (43,389 in 1977); outstanding—23,456 shares (23,761 in 1977) after deducting 15,946 shares in treasury (19,628 in 1977)	2,345,600	2,376,100
Serial preferred shares, par value $5: Authorized—600,000 shares	—	—
Common shareholders' equity:		
Common shares, par value $6.25: Authorized—20,000,000 shares; outstanding—9,866,891 shares (10,017,199 in 1977) after deducting 5,029,094 shares in treasury (4,566,694 in 1977)	61,668,069	62,607,493
Capital surplus	36,973,609	32,494,625
Earned surplus—$100,828,824 ($103,173,875 in 1977) is not restricted under a long-term debt indenture	236,923,265	231,049,733
Total common shareholders' equity	335,564,943	326,151,851
Total shareholders' equity	339,897,043	330,447,951
	$881,325,356	$875,209,265

*Restated to include all capital leases.

See Financial Review

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AT DECEMBER 31

	1978	1977
Crane Co.:		
6½% Sinking fund debentures due 1992, $2,000,000 due annually, after deducting $5,474,000 in treasury in 1978	$ 22,526,000	$ 25,428,000
12% Bank term loan due 1984, $2,187,500 due quarterly, commencing August 31, 1980, fluctuating with minimum commercial lending rate	35,000,000	35,000,000
11¾% Bank term loan due 1985, $1,500,000 due quarterly, commencing March 31, 1981, fluctuating with minimum commercial lending rate	30,000,000	—
Bank term loan due 1980, prepaid in 1978	—	13,125,000
	87,526,000	73,553,000
Subordinated debentures:		
8% Sinking fund debentures due 1985, $8,241,000 due annually, after deducting $2,097,000 in treasury in 1978	49,442,140	57,682,600
7% Sinking fund debentures due 1993, 5% due annually, after deducting $3,774,000 in treasury in 1978	11,867,400	12,183,400
7% Debentures due 1994, after deducting $3,818,000 in treasury in 1978	48,259,000	48,259,000
5% Convertible debentures due 1993, convertible at $12.50 per share (72,160 common shares reserved in 1978)	902,000	1,427,700
5% Convertible debentures due 1994, convertible at $14.37 per share (388,727 common shares reserved in 1978)	5,586,000	6,273,700
	116,056,540	125,826,400
	203,582,540	199,379,400
CF&I Steel Corporation:		
8% First mortgage and collateral trust bonds, sinking fund series due 1983, $1,000,000 due quarterly	17,000,000	21,000,000
12% Bank term loan due 1985, $2,500,000 due quarterly, commencing August 1, 1981, fluctuating with minimum commercial lending rate	40,000,000	40,000,000
8% Mortgage note due 1983, $71,429 due annually	285,713	357,142
	57,285,713	61,357,142
Huttig Sash & Door Company:		
7½% Loan payable due 1980, $43,953 due quarterly	131,860	307,672
Cavalier Corporation:		
12¼% Bank term loan due 1983, $250,000 due quarterly, fluctuating with minimum commercial lending rate	3,500,000	—
Crane Canada Limited:		
5¾% Sinking fund debentures (collateralized by a general claim on property and assets), due 1985, $372,000 due annually	4,089,800	4,831,200
International Operations:		
Crane Ltd. (England):		
13½% Bank term loan, fluctuating with bank rate, $1,020,000 due 1980 and 1981	2,040,000	1,920,000
13$\frac{11}{16}$% Bank term loan, fluctuating with bank rate, due 1982	510,000	480,000
5¾% Unsecured loan stock due 1982	613,389	1,062,204
Other	1,281,827	1,406,823
	4,445,216	4,869,027
	$273,035,129	$270,744,441

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Consolidation

The consolidated financial statements include all subsidiaries; foreign currencies have been translated at the appropriate rates. Subsidiaries operating outside the United States and Canada represented 6 percent of shareholders' equity in 1978, down from 8 percent in 1977.

Investments and Other Assets

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

At December 31, 1978, Crane held 1,300,100 shares, 43 percent of the outstanding common shares of Medusa Corporation. In January, 1979, Crane purchased, pursuant to a tender offer, 1,712,000 Medusa Corporation common shares in exchange for $10 cash and $40 principal amount of Crane Co. 10½% Subordinated Sinking Fund Debentures due February 1, 1994 for each common share of Medusa tendered. (See page 12 "Subsequent Event" for further details of this transaction.)

On December 11, 1978, Crane and the staff of the Federal Trade Commission ("FTC") reached agreement upon the terms of a Hold Separate Agreement and upon the substantive terms of a Consent Order to be submitted to the FTC for approval. The Hold Separate Agreement permitted Crane to consummate its tender offer without litigation with the FTC and required Crane not to influence or seek to influence in any way Medusa's management or the conduct of Medusa's business, vote its shares of Medusa common stock or seek representation on the Medusa Board until the earlier of the Annual Meeting of Medusa, which is presently scheduled for late March, or final approval or rejection of the proposed Consent Order. As a result of this Consent Order the company has not recognized the equity method of accounting for its investment in Medusa. Accordingly, only cash dividends received of $1,189,000 have been included in "Other Income."

In early 1977, the company exchanged 4,120,230 common shares of The Anaconda Company (cost $71,577,000) for 2,060,115 Atlantic Richfield common shares in a tax-free exchange and received a $24,721,000 cash dividend. As required by Accounting Principles Board Opinion No. 29, the company assigned a market value of $47.50 to each Atlantic Richfield share retained. Overall, 560,115 Atlantic Richfield common shares were sold during 1977. In late 1978, 200,000 shares of Atlantic Richfield were sold and 300,000 shares were reclassified as short-term investments.

Details of Long-Term Investments are as follows:

	1978	1977
	(in thousands)	
Atlantic Richfield Company—1,000,000 common shares (1,500,000 in 1977) excluding 300,000 common shares in 1978 included with short-term investments	$ 47,500	$71,250
Medusa Corporation—1,300,100 common shares	61,180	—
Asarco, Inc.—564,000 common shares	—	8,611
Deferred income taxes on unrealized gain—net	(4,083)	(5,125)
	$104,597	$74,736

The "Construction Fund" at December 31, 1978 of $6,255,408 represents the unexpended proceeds from an Industrial Revenue Bond which are held in escrow pending completion of an emission control plant.

Property, Plant and Equipment and Capital Leases

The basis of charging depreciation for buildings, plant and equipment acquisitions was stepped up to the accelerated method from the straight-line method during 1977 in order to provide a better matching of costs and revenues in an inflationary environment.

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

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

The company's financial statements were restated during the first quarter of 1978 to reflect the accounting for certain leases entered into prior to January 1, 1977, as capital leases by recording assets and liabilities for leased property, plant and equipment in accordance with FASB Statement No. 13, "Accounting for Leases." The effect of this change is to increase property, plant and equipment (less allowances for depreciation) and capital lease obligations by $38.3 million. The capitalization of leases had no material effect on previously reported earnings.

Property, plant and equipment includes the following amounts for capitalized leases at December 31, 1978 and 1977:

	December 31, 1978	1977
	(in thousands)	
Buildings and improvements	$20,857	$19,556
Machinery and equipment	38,498	33,454
	59,355	53,010
Less accumulated amortization	11,936	10,078
	$47,419	$42,932

Pensions

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

Pension costs charged against operating income were $34,691,000 in 1978, compared with $30,743,000 in 1977. An additional charge of $21,070,000 was incurred in 1977 as a provision for unfunded pension liabilities for operations being phased out or relocated.

Based upon latest estimates as of December 31, 1978, vested benefits exceeded pension plan assets and balance sheet accruals by $106,000,000 ($107,000,000 at December 31, 1977) before future income tax credits.

Miscellaneous—Net

	Components 1978	1977
	(in thousands)	
Gain on investments—net	$8,079	$ 4,924
Termination of certain operations	(5,243)	(2,200)
Gain on disposal of capital assets—net	969	595
Minority interest	(701)	(1,116)
Loss on foreign exchange adjustments	(659)	(1,166)
Loss on repurchase of debentures	(168)	(470)
Other	(74)	(64)
	2,203	503
Non-recurring transactions—net	—	25,939
	$2,203	$26,442

The year 1977 included the following non-recurring transactions:

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

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

(c) The pre-tax income from these transactions was $25,939,000 and the net income was $28,389,000, or $2.72 per share.

Long- and Short-Term Financing

Long-term debt was increased by a $30,000,000 unsecured seven-year bank term loan during 1978 and a $4,250,000 unsecured bank term loan of a subsidiary and was decreased by $31,959,000 due to sinking fund requirements and optional redemptions ($25,122,000 during 1977).

At December 31, 1978, the principal amounts of long-term debt repayments required for the next five years were $11,834,000 in 1979, $19,253,000 in 1980, $35,022,000 in 1981, $41,598,000 in 1982 and $42,093,000 in 1983.

At year-end there were $102,000,000 of unused short-term credit lines available with domestic and foreign banks, and such lines are subject to annual review.

Covenants contained in a long-term debt indenture require the company to: (i) maintain consolidated working capital of at least $185,000,000 and consolidated tangible net worth of at least $250,000,000; (ii) restrict payment of cash dividends; and (iii) restrict issuance of additional senior funded debt to $1,700,000 as of December 31, 1978.

Reserves and Other Liabilities

	Components 1978	1977
	(in thousands)	
Deferred income taxes—other	$13,658	$ 7,084
Minority interest in subsidiaries	10,024	10,704
Pension and wage benefits	2,353	11,271
Retainage on long-term contracts	382	2,802
Miscellaneous	1,924	2,835
	$28,341	$34,696

Income Taxes

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

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

	1978	1977
	(in thousands)	
Income before income taxes	$50,462	$78,795
Non-recurring transactions—net	—	(25,939)
	50,462	52,856
Less permanent tax adjustments:		
Depletion	3,290	3,759
Original issue bond discount	720	720
Nontaxable net capital gains	370	840
Nontaxable domestic dividends	4,914	3,699
Foreign exchange adjustments	(272)	(1,166)
Other	776	626
	9,798	8,478
Taxable income for accounting purposes	40,664	44,378
Tax @ 50% (composite rate)	20,332	22,189
Less investment tax credit realized	5,225	7,115
	$15,107	$15,074

The foregoing provision includes foreign taxes of $4,568,000 and $2,803,000, and state taxes of $1,673,000 and $2,002,000, in 1978 and 1977, respectively.

The provision for income taxes is composed of the following:

	1978	1977
	(in thousands)	
Deferred income taxes	$ 2,020	$ 2,503
Current income taxes	13,087	12,571
	$15,107	$15,074

Income taxes on non-recurring transactions were a credit of $2,450,000 for 1977.

Leases

Future minimum payments, by year, and in the aggregate, under capitalized leases and operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 1978:

	Capital leases	Operating leases	Minimum non-cancellable sublease rentals	Net
		(in thousands)		
1979	$ 5,352	$ 6,000	$1,761	$ 9,591
1980	5,446	5,025	1,514	8,957
1981	5,388	4,028	1,366	8,050
1982	5,352	3,146	1,183	7,315
1983	5,212	2,425	970	6,667
1984 & beyond	65,934	7,662	433	73,163
Total minimum lease payments	92,684	$28,286	$7,227	$113,743
Amounts representing interest	(38,286)			
Present value of net minimum lease payments	$54,398			
Portion:				
Current	$ 1,846			
Long-Term	52,552			
	$54,398			

Rental expense was as follows for all leases not capitalized:

	1978	1977
	(in thousands)	
Rentals on operating leases:		
Minimum	$12,719	$13,318
Contingent	764	972
Sublease income	(587)	(788)
	$12,896	$13,502

Stock Options

A summary of option transactions follows:

	Number of shares	Price per share
Outstanding January 1, 1978	111,544	$ 7.95-35.34
2% Stock dividend	2,169	— —
Options granted	30,500	24.25-29.32
Options expired	(982)	28.42-34.38
Options exercised	(21,978)	7.95-28.42
Outstanding December 31, 1978	121,253	$ 8.78-35.34

CRTX 0417

At December 31, 1978 options for 70,436 shares were exercisable and 33,305 shares were available for grant. In 1977, options for 24,480 shares were granted and options for 37,965 shares were exercised. Shares and per share statistics have been adjusted for the 2 percent stock dividend. The plan is not a compensatory plan which would require charges to income.

Estimated Replacement Cost Information

In compliance with the rules of the Securities & Exchange Commission, the company has estimated the cost of replacing its plant and equipment as of December 31, 1978, together with estimated depreciation based on replacement cost for the year then ended. The company's Annual Report on Form 10-K (a copy of which is available upon request) contains unaudited estimates with respect to replacement cost.

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

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

Analysis by Segment of Business

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

Segment description by products and industries served is given on pages 18 through 24.

Subsequent Event

On January 26, 1979 the Crane Co. Exchange Offer for any and all Medusa Corporation common shares was terminated. As of the close of business on that date Crane Co. purchased 1,712,000 shares for a cash consideration of $17,120,000 and $68,481,000 in 10½% Subordinated Sinking Fund Debentures due February 1, 1994 with a level sinking fund. This increased the total Medusa common shares owned to 3,012,100 for a total investment of $142,090,000, which represents 95 percent of the outstanding common shares of Medusa Corporation. See financial information regarding Medusa on pages 16 and 17.

CRANE CO. and Subsidiaries

(IN THOUSANDS)

Quarter	Sales	Gross Profit	Net Income	Net Income Per Common Share Primary	Net Income Per Common Share Fully Diluted
1978					
1st	$ 287,880	$ 37,583	$ 5,145	$ .50	$ .48
2nd	322,655	47,055	11,417	1.13	1.08
3rd	311,299	44,614	8,492	.85	.81
4th	305,615	49,172	10,301	1.03	.99
	$1,227,449	$178,424	$35,355	$3.51	$3.36
1977					
1st	$ 270,053	$ 40,838	$37,132*	$3.56*	$3.35*
2nd	297,349	46,862	10,218	.98	.94
3rd	294,037	44,592	9,530	.93	.89
4th	272,383	41,229	9,291	.92	.87
	$1,133,822	$173,521	$66,171	$6.39**	$6.05**

* Includes non-recurring transactions.
** Adjusted for 2% stock dividend in February, 1978.

CRTX 0418

To the Shareholders of Crane Co.

We have examined the consolidated balance sheet of Crane Co. and subsidiaries as of December 31, 1978 and 1977, and the related consolidated statements of income, earned surplus, capital surplus and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain consolidated subsidiaries, which statements were examined by other independent certified public accountants whose reports thereon have been furnished to us. Total assets and net sales of such subsidiaries constituted approximately 47% and 41%, respectively, of the related consolidated totals in 1978 (45% and 39% in 1977). Our opinion expressed herein, insofar as it is related to the amounts included for such subsidiaries, is based solely upon the reports of the other independent certified public accountants.

In our opinion, based upon our examinations and the aforementioned reports of other independent certified public accountants, the financial statements referred to above present fairly the consolidated financial position of Crane Co. and subsidiaries at December 31, 1978 and 1977, and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, N.Y.
January 22, 1979

Ernst & Ernst

CRANE CO. and Subsidiaries

Quarter	New York Stock Exchange Price Per Share				Dividends Per Share	
	1978		1977		1978	1977*
	High	Low	High	Low		
1st	$28⅝	$24½	$33¼	$26⅞	$ .35	$ .29
2nd	31⅝	26¾	36	30¾	.35	.30
3rd	37	26⅝	34⅜	27⅛	.35	.34
4th	34⅝	23	28¾	25	.35	.34
					$1.40	$1.27

* Adjusted for 2% stock dividend in February, 1978.

CRANE CO. and Subsidiaries

(IN THOUSANDS)

	1978	1977	1976	1975	1974
Net Sales	$1,227,449	$1,133,822	$1,087,606	$1,119,494	$1,144,031
Depreciation	51,189	44,192	36,380	35,784	34,880
Operating Profit	67,663	67,119	80,595	125,738	120,885
Interest Expense	29,802	23,574	22,699	15,905	18,933
Income Before Income Taxes	50,462	78,795	76,778	114,202	97,354
Income Taxes	(15,107)	(12,624)	(28,819)	(50,594)	(41,221)
Net Income	$ 35,355	$ 66,171	$ 47,959	$ 63,608	$ 56,133
Net Income per Common Share:					
Average Shares Outstanding	$3.51	$6.39	$4.52	$5.93	$5.10
Assuming Conversion of Debentures	3.36	6.05	4.23	5.26	4.07
Dividends per Common Share:					
Cash	1.40	1.27	1.16	.94	.65
Stock	2%	2%	2%	2%	2%

CRTX 0419

Sales

Consolidated sales for 1978 were $1,227,449,000, 8.3 percent higher than 1977. Crane Domestic sales were 10.3 percent above the 1977 level, mainly due to the addition of the vending machine product line in 1978 and higher aerospace and building products demand. CF&I Steel Corporation sales increased 7.5 percent in 1978 due to additional shipments of wire and rolled products, reflecting improved market conditions together with moderately higher selling prices on all products. This was partially offset by lower rail tonnage due to the modernization program. Huttig Sash & Door Company sales were 20.0 percent higher than in 1977, reflecting substantially higher sales at its Florida branches and higher price realization. Crane Canada sales in local currency were about the same as last year. International Operations sales increase of 8.4 percent over a year ago was attributable to improved price realization. Certain international operations were terminated in 1978 and their sales are included for only ten months.

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

Operating Profit

Consolidated operating profit for 1978 remained about the same as a year ago. Crane Domestic showed an increase of 12.4 percent over 1977, primarily due to higher aerospace and distribution profits and the addition of the vending machine product line. CF&I Steel Corporation experienced a 25.8 percent decline in operating profit, primarily due to higher costs caused by the rail mill startup expense and higher depreciation in 1978 as more assets were employed. Huttig Sash & Door Company's operating profit in 1978 increased 24.5 percent over 1977, reflecting a significant increase in sales. Crane Canada's operating profit increased 21.0 percent over 1977. This was primarily attributed to improved margins in the distribution business. International operating profit increased 8.0 percent over 1977, primarily due to higher profits in the United Kingdom operations, partially offset by losses at certain operations eliminated in 1978.

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

Depreciation

Depreciation expense increased 15.8 percent over 1977, primarily due to the company's continuing capital expenditure program, particularly the expansion and modernization of rail mill facilities at CF&I Steel Corporation's Pueblo plant.

Depreciation expense increased 21.5 percent during 1977 as a result of a change from the straight-line method to the accelerated method and the higher level of assets employed, particularly at CF&I Steel Corporation.

Other Income (Deductions)

Interest expense in 1978 increased 26.4 percent from 1977, largely due to an increase in the prime lending rate and the inclusion of a full year's interest on a $35,000,000 term loan. The increase of 3.9 percent in interest expense in 1977 over 1976 largely reflected the increase in the prime lending rate.

Miscellaneous—Net in 1978 includes an increase of 64.1 percent in gains on investments partially offset by termination expenses of certain international operations. Miscellaneous—Net in 1977 included non-recurring transactions resulting in a gain of $25,939,000. See page 10, "Miscellaneous—Net," for details.

Income Taxes

Income taxes for 1978 were at an effective tax rate of 29.9 percent compared with 16.0 percent for 1977. The increase was attributable primarily to more income subject to maximum tax rates and less investment tax credits realized. The effective tax rate for 1977 was lower than 1976 due to the significant increase in non-recurring items, which included dividends and capital gains not subject to maximum tax rates and to higher investment tax credits.

(IN THOUSANDS)

	1978 Amount	%	1977 Amount	%	1976 Amount	%	1975 Amount	%	1974 Amount	%
Net Sales:										
Crane Domestic	$ 355,328	29	$ 322,187	29	$ 325,897	30	$ 355,341	32	$ 377,312	33
CF&I Steel Corporation . . .	475,143	39	441,869	39	413,054	38	427,900	38	438,721	38
Huttig Sash & Door Company.	181,905	15	151,628	13	116,328	11	80,495	7	89,762	8
Crane Canada Limited . . .	125,387	10	135,383	12	151,030	14	157,386	14	155,869	14
International Operations . .	89,686	7	82,755	7	81,297	7	98,372	9	82,367	7
Total Net Sales	$1,227,449	100	$1,133,822	100	$1,087,606	100	$1,119,494	100	$1,144,031	100
Operating Profit:										
Crane Domestic	$ 24,585	32	$ 21,869*	29	$ 31,648	36	$ 38,081	28	$ 28,532	22
CF&I Steel Corporation . . .	18,431	24	24,855*	34	29,611	33	67,788	50	75,261	59
Huttig Sash & Door Company.	18,838	25	15,133	20	10,861	12	5,110	4	7,253	6
Crane Canada Limited . . .	6,701	9	5,540	8	8,448	9	15,995	12	13,437	11
International Operations . .	7,310	10	6,766	9	8,520	10	7,841	6	3,025	2
	75,865	100	74,163	100	89,088	100	134,815	100	127,508	100
Corporate	(8,202)		(7,044)		(8,493)		(9,077)		(6,623)	
Total Operating Profit . .	$ 67,663		$ 67,119*		$ 80,595		$125,738		$120,885	
Assets:										
Crane Domestic	$142,347	20	$139,551	20	$116,731	18	$124,369	21	$138,122	23
CF&I Steel Corporation . . .	402,900	58	391,442	56	353,309	56	308,814	52	287,567	49
Huttig Sash & Door Company.	57,220	8	50,960	7	36,135	6	29,360	5	25,507	4
Crane Canada Limited . . .	51,429	7	53,084	8	61,033	10	62,859	10	63,697	11
International Operations . .	45,805	7	60,651	9	60,345	10	69,680	12	74,391	13
	699,701	100	695,688	100	627,553	100	595,082	100	589,284	100
Corporate	181,624		179,521		133,008		127,119		18,663	
Total Assets	$881,325		$875,209		$760,561		$722,201		$607,947	

Capital Expenditures:	1978	1977
Crane Domestic	$ 3,770	$10,751
CF&I Steel Corporation	45,131	75,031
Huttig Sash & Door Company . .	2,334	5,965
Crane Canada Limited	1,514	2,440
International Operations . . .	4,654	3,621
Total Capital Expenditures . .	$57,403	$97,808

Depreciation:	1978	1977
Crane Domestic	$ 8,037	$ 6,355
CF&I Steel Corporation	37,942	33,317
Huttig Sash & Door Company . .	1,181	612
Crane Canada Limited	1,696	1,531
International Operations . . .	2,333	2,377
Total Depreciation	$51,189	$44,192

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

Medusa Corporation and its subsidiaries produce, sell and provide building and construction materials and services, primarily in the eastern half of the United States. The construction materials business includes the production and sale of cement and other products, including aggregates and asphalt. Construction services include highway safety construction and asphalt paving.

Gray portland cement is Medusa's most important product, but the company also manufactures white cement, masonry and other specialty cements. The company markets cement in the Great Lakes and Mid-Atlantic states and in northern Florida and Georgia. Because cement is heavy and expensive to transport, Medusa sells most of its product within 200 miles of the plants.

Medusa has an annual capacity of approximately 3.8 million tons of cement. Reserves of limestone, located near all plants and essential in production, range from 15 to over 50 years.

Medusa produces and sells crushed stone, sand and gravel from 68 locations. The nation's fourth largest producer of crushed stone, the company operates 38 stone plants and 15 sand and gravel plants with an annual capacity of 22,000,000 tons. Reserves are owned or leased on a long-term basis and range from 10 to over 50 years. Medusa also operates 17 asphalt plants with a capacity of 2,800 tons per hour.

Medusa's James H. Drew Corporation subsidiary, operating in Indiana and Missouri, installs guard rails, median barriers, fences, signs, traffic signals and lights for highways.

Set forth below are the condensed financial statements of Medusa Corporation as reported to its shareholders.

MEDUSA CORPORATION and Subsidiaries

YEAR ENDED DECEMBER 31, 1978

Sales, less discounts	$287,517,000
Other income	2,454,000
Gain on sale of a subsidiary	3,048,000
	293,019,000
Costs and expenses:	
Cost of products sold	241,435,000
Selling and administrative	19,356,000
Interest	3,497,000
Other expenses	2,437,000
	266,725,000
Earnings before income taxes and cumulative effect of change in accounting method	26,294,000
Income taxes	9,890,000
Earnings before cumulative effect of change in accounting method	16,404,000
Cumulative effect of change in accounting method	(781,000)
Net earnings	$ 15,623,000

CRTX 0422

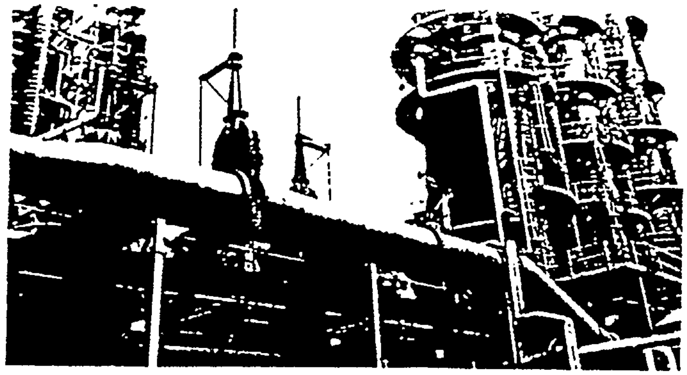
AT DECEMBER 31, 1978

Assets

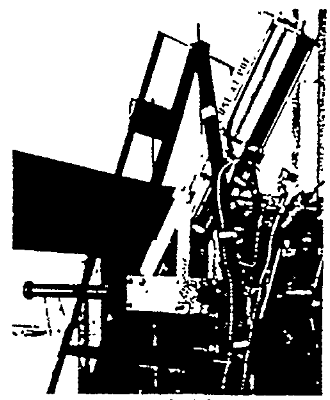
Current Assets:	
Cash	$ 2,727,000
Marketable securities (at cost, which approximated market)	16,507,000
Trade receivables, less allowances of $1,987,000	32,398,000
Inventories	22,940,000
Other current assets	2,010,000
Total current assets	76,582,000
Property, plant and equipment:	
At cost	280,123,000
Less allowance for depreciation and depletion	142,262,000
	137,861,000
Other assets:	
Sundry notes, investments and other assets	6,348,000
Cost of businesses in excess of net assets acquired, net of amortization	5,586,000
	11,934,000
	$226,377,000

Liabilities and Shareowners' Equity

Current Liabilities:	
Accounts payable, including $6,089,000 of construction	$ 18,826,000
Income taxes	4,918,000
Other current liabilities	11,435,000
Current installments of long-term debt	1,742,000
Total current liabilities	36,921,000
Long-term debt:	
Senior debt	29,071,000
Subordinated convertible debt	7,922,000
	36,993,000
Deferments:	
Income taxes	9,931,000
Investment credits	5,562,000
	15,493,000
Shareowners' Equity:	
Preferred shares	1,450,000
Common shares	50,935,000
Retained earnings	84,585,000
	136,970,000
	$226,377,000

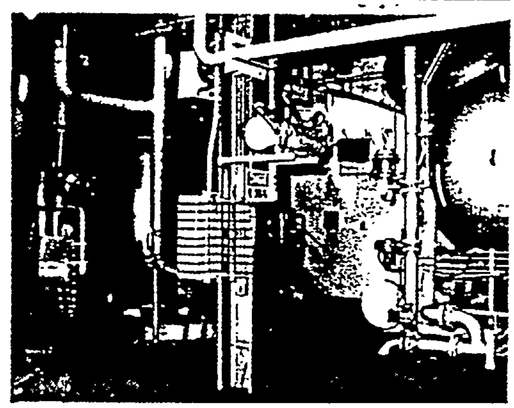


(Above) Crane gate valves control flow in the piping system at an Eastern steel mill.



(Right) Testing a nuclear isolation valve, which opens or closes in less than 1/10 second.

(Below) Cochrane Ammonex system cuts boiler water treatment cost at a New York power plant.



Domestic operations provide capital goods markets with a broad range of industrial products. Fluid and pollution control products—valves, fittings, pumps and water conditioning and waste treatment systems—serve petroleum, chemical, power, pulp and paper, and municipal markets. Plumbing and related building products serve residential, commercial and institutional construction markets. Specialty products include aircraft systems and accessories for commercial transport, general aviation and military aerospace markets and refrigerated soft drink vending machines supplied to franchised bottlers.

Fluid and Pollution Control Products

Operating results for fluid and pollution control products did not come up to expectations in 1978 as capital spending remained sluggish in most major markets.

The Valves & Fittings Division saw little significant increase in demand and continued to receive strong competition from imports. Toward year-end, however, there were signs of an upturn and reports of longer delivery times for steel valves. There also were indications of a drop in steel valve imports because of the dollar's declining value.

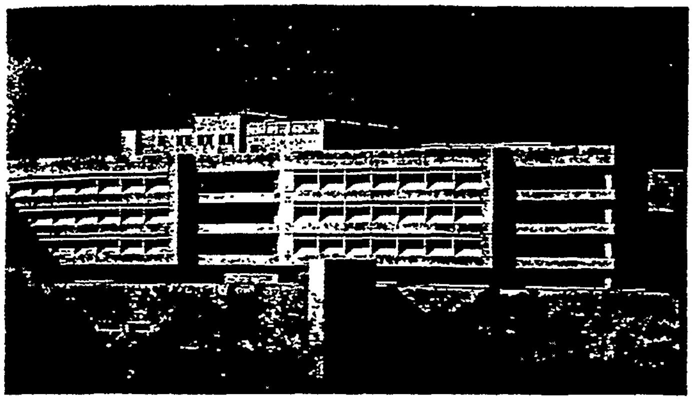
Sales of the broadened line of ball and butterfly valves continued to improve. A new butterfly line designed primarily for process industry use was successfully introduced, and several additional products will be released this year. To capitalize on this growing potential, the marketing organization for quarter-turn valves has been strengthened significantly. During 1978, a new bronze valve line was added for use in commercial and light industrial applications.

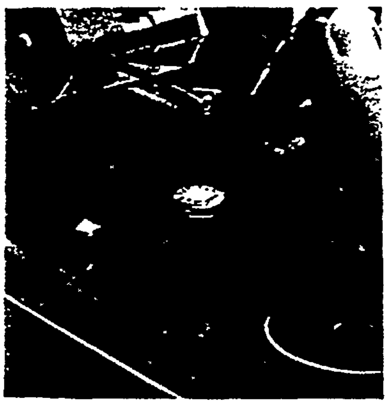
At the company's bronze casting center in Rogers, Arkansas, the installation of two automated molding lines increased the foundry's capacity. Modernization of the division's steel casting facility at Indian Orchard, Massachusetts was completed during the year, putting Crane in a good position to capitalize on any upturn in steel valve demand. Upgrading of machining and hydraulic pressing equipment at the St. Louis plant made it possible to handle a broader range of large welding fittings.

The Deming line of commercial and industrial pumps was further broadened, and additional models for municipal and industrial waste handling will be added during the coming year. Overall, the demand for pumps continued strong, with year-end order backlogs at record levels. Increased penetration of the power and wastewater markets contributed substantially to increased bookings.

While nuclear business remained level for Chempump canned motor pumps, sales to the chemical process industries were up. This was due, in part, to growing emphasis on potential health hazards from toxic chemicals which these leakproof pumps are designed to handle. To maintain its leadership, Chempump established three more centers to service customers' pumps and insure minimum interference with production. At least one additional center will be opened this year. Product development included an expanded line of metering pumps.

Results at the Cochrane Environmental Systems Division were below the 1977 level, primarily because of the dearth of orders for power plant applications during 1977.





(Top) Leakproof Dynapump handling sulfuric acid reduces maintenance and safety problems at a processing plant.

(Center) Crane Supply furnished plumbing fixtures for the new Mobile Infirmary in Alabama.

(Left) Microelectronic components provide greater reliability in Hydro-Aire systems.

However, bookings were stronger in 1978 and the order backlog was much higher at the end of the period than a year earlier.

New product lines, particularly fluid monitoring equipment for municipal and industrial water and wastewater applications, figured in the bookings gain. Other new products introduced within the last several years also were a factor. During the year, Crane acquired the product line of Pro-Tech, Inc., expanding the environmental systems capabilities of the division.

Building Products

The Plumbing Division performed well in 1978 as housing starts surpassed the two-million unit level and commercial construction was at its highest level since 1974. Home remodeling activity also contributed to these results. New products introduced during the year included a complete line of washerless faucets and a countertop lavatory with Crane's exclusive Cush-N-Seal that provides a watertight joint without sealing compounds.

The Classic Home Products Division, which was formed in 1977 to serve the rapidly growing do-it-yourself market, introduced a broad line of plumbing fittings featuring the new washerless faucets. Leading merchandisers, including major home center, building supply, hardware and discount department store chains, now stock and promote the Classic line, and increased market penetration is expected.

The Classic line is being expanded to include other items manufactured by the Plumbing Division, and in 1979 the Engineered Products Division will supply sump pumps and cellar drainers to be marketed through the line's retail channels.

Specialty Products

Hydro Aire designs and manufactures aircraft and aerospace control systems and accessories for installation as original equipment on new aircraft. The division also designs and manufactures similar systems or portions of systems for the retrofit of existing aircraft and replacement parts for equipment for sale in the after-market.

In 1978 sales of original equipment achieved record levels reflecting sharply increased orders for new jet liners to meet the demands of climbing passenger traffic and to replace aging fleets. The division also gained a greater share of the general aviation business aircraft market as a new power brake anti-skid package was sold to several manufacturers of executive aircraft. A high level of demand for these products is expected in 1979.

Sales of retrofit and replacement products were well above last year reflecting the fact that all commercial airlines have large numbers of planes that have been in service for many years.

Last year a brake fan for the 747 aircraft and a rotor brake for the Sikorsky S-76 helicopter were developed. Other technologically advanced products now in development will be introduced in years ahead.

Cavalier manufactures a complete line of refrigerated, coin-operated soft drink vending machines which it markets to franchised soft drink bottlers throughout the United States and Canada for use in supermarkets, service stations and other high-traffic locations. Buoyed by the strong national economy and consequent good demand for soft drinks, Cavalier enjoyed a good year in 1978. Higher sales to major customers and tighter control of production costs also figured in the improved results.

Although Coca-Cola bottlers continue to be the major purchasers of the company's vending machines, Cavalier has launched a program to increase its share of this business with bottlers of other soft drinks.

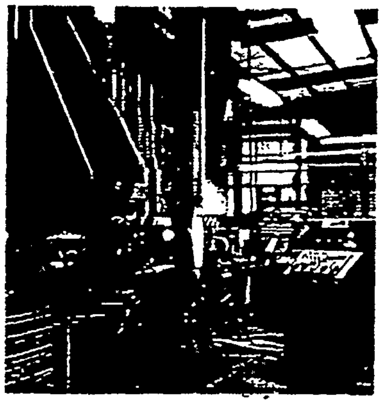
Wholesaling Operations

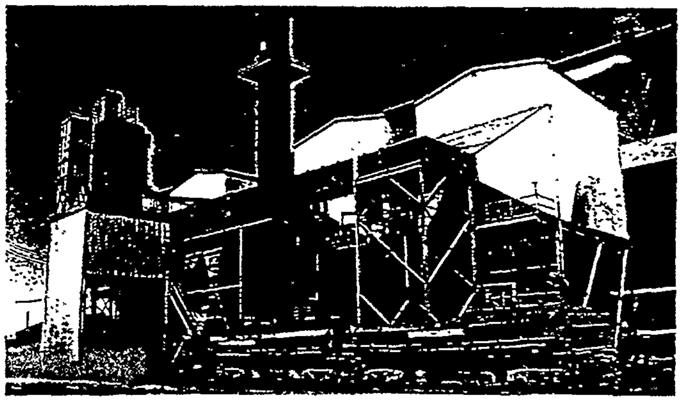
Crane Supply, a wholly owned distribution network, serves industrial and building and construction markets with Crane valves, fittings, pumps and plumbing products. It also offers a variety of related products of other manufacturers as required by local market demand.

Crane Supply improved its performance in 1978 despite the low level of capital spending in a competitive marketplace.

(Right) Hydraulic press forms shapes for Cavalier vending machine cabinets.

(Below) New electrostatic precipitators meet air pollution control requirements for the basic oxygen furnaces.





CF&I is the largest vertically integrated steel manufacturer in the West. The company serves the transportation, petroleum, mining, construction and agriculture industries and operates mines and quarries that provide most of its own coking coal, iron ore, limestone and dolomite. A common carrier subsidiary, The Colorado & Wyoming Railroad Company, transports raw materials from CF&I mines in Colorado and Wyoming and serves other customers in the region.

Operations

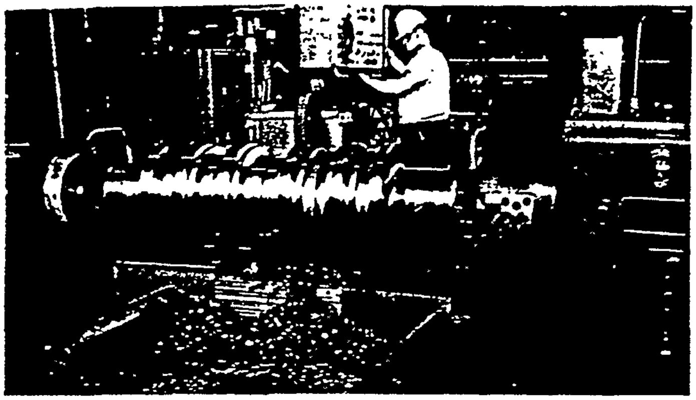
Markets for CF&I products were generally strong throughout the year. The company continued to benefit from its product mix and strategic access to major oil and gas producing regions, the successful Western rail lines, major mining activity, and the region's farm and ranch and construction industries—all of which are sharing in the Rocky Mountain area's expansion.

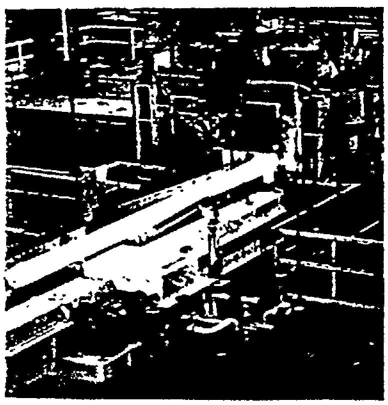
CF&I shipments of rails and accessories declined during the year because of the 111-day coal strike and startup problems caused by the rail mill expansion and modernization program. Shipments of Cromorail, CF&I's new high-strength alloy rail, also have been made to several customers for testing and evaluation. In the years ahead, this rail is expected to account for an increasing share of total shipments.

The nation's railroads continued their extensive, long-term rehabilitation programs to counter the effects of long-deferred track maintenance. Several customers have record track replacement programs scheduled for 1979, and railroads in CF&I's market area are expected to upgrade and expand their lines to tap the West's vast coal reserves as an alternate energy source. With its newly modernized mill in operation, CF&I will be well positioned to capitalize on these markets.

The oil industry's demand for casing and tubing accelerated in early 1978 as drilling activity increased to near-record levels but softened as the year progressed because of rising inventory levels of user stock and a sharp increase in imports. With the increasing demand for energy and the additional emphasis being put on developing domestic sources, this market's long-term prospects remain excellent and CF&I shipments are expected to continue at capacity levels.

Mining products sales remained level with those of the previous year as mining industry activity remained de-





(Top) This 45-inch blooming mill was installed in the CF&I Rail Mill last year.

(Center) The only roll turning lathe in the U.S. with computer numerical control turns and dresses blooming, rail shaping and finishing rolls.

(Left) Blooms are cut by fully automated up-and-down shear in the rail mill.

pressed. Markets for these products are expected to improve modestly in 1979.

The volume of rolled products shipped in 1978 remained at approximately the same level, reflecting continued pressures from imported steel, particularly in the Gulf Coast and West Coast markets. However, there is a growing shift in demand toward higher-quality rolled products.

Sales of wire products increased significantly during the year in response to strength in the home building and agricultural markets that offset continued heavy competition from Canadian and Japanese imports.

Facilities

CF&I continued its aggressive facilities improvement program during 1978, investing $45,000,000 in major construction and expansion projects. Approximately one-third of these outlays represented expenditures to improve the company's rail-producing facilities.

The three-year, $85,000,000 program to expand and modernize CF&I's rail mill is scheduled for completion by mid-1979. Because the program provides for expansion of the existing facility and construction of the new mill while the plant continues to operate, production has been adversely affected, with higher costs reflected in the installation and start-up of new equipment. When the program is completed, CF&I will have the most modern rail-producing facility in North America.

During the year, a new 45-inch blooming mill was installed and brought on stream. Other improvements made in the rail-rolling facility include installation of a new intermediate mill, hot saw and associated equipment. In the final phase of the program, a new 36-inch roughing mill will be installed. When this step is completed, the rail-producing capacity of the Pueblo plant will have been increased 50 percent to 550,000 tons per year.

CF&I continued to make improvements and replace outmoded equipment in other areas. This included expansion of its capability to produce special high-quality bar products, purchase of a new carbide threader for seamless casing, a rotary car dumper for handling raw materials in the receiving area and a new 175-ton hot metal charging crane in the basic oxygen furnace melt shop.

The Maxwell coal mine in southern Colorado, opened in late 1977, came into full production last year. This makes the company completely self-sufficient in the high-volatile metallurgical coal required in steelmaking. Leases on coal properties in La Flore County, Oklahoma were approved by the Bureau of Land Management in 1978, making it possible to begin development of a new mine for low-volatile metallurgical coal. Mining equipment is on order, and outlays for the Bokoshe mine's development are expected to total $13.5 million between 1979 and 1982, when the mine will be fully operational.

At the Sunrise mine in southern Wyoming, a major source of iron ore, the beneficiation plant's operation in upgrading ore resulted in improved blast furnace operations at the mill. Pueblo's full requirement for molten iron now can be produced by three blast furnaces rather than four as previously required. This has made it possible to have one blast furnace completely relined and in standby condition while the other three furnaces are operated to maximum lining life. Operations can proceed without interruption, and with extended lining life of each furnace, important cost savings are realized.

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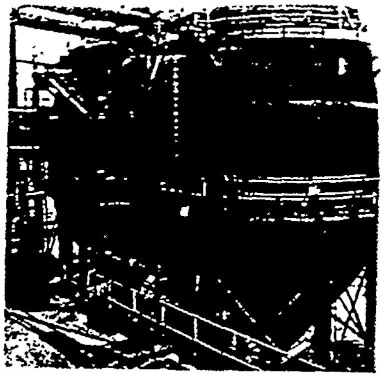
During 1978, reliance on natural gas was reduced with the installation of a mixing station in the coke oven gas distribution system to insure maximum use of this gas as a heating furnace fuel. Expanded fuel oil facilities on the steam generating boilers also reduced their dependence on natural gas.

CF&I's 1978 facilities improvement program included expenditures of $8,900,000 for air and water pollution control. The basic oxygen furnace precipitators were replaced with new, advanced equipment to bring the facility into compliance with state and federal pollution control requirements. Equipment also was installed to control emissions during the charging and tapping of the BOF furnaces, making the facility the first in the United States to be thus retrofitted.

Several smaller projects also were undertaken to control emissions at the lime plant and in handling raw materials. In addition, a major project scheduled for completion by mid-1979 will control the emissions generated when hot coke is pushed from the coke ovens.

The Colorado & Wyoming Railway Company expanded its rail car fleet in 1978 with the addition of 60 low-side gondola cars. Further improvements included an expanded computer system, scale and the reballasting, tamping and lining of the main line, Northern Division in Wyoming.

CF&I Energy Resources Company, established in 1977 to develop resources of the company and those of others, conducted exploration drilling on CF&I properties in Fremont and Huerfano Counties, Colorado to evaluate reserves of steam coal.



(Top) The water treatment system in a steel mill under construction in Ontario contains Crane filters, softeners and sedimentation tanks as well as Crane valves.

(Bottom) Huttig branch office and warehouse in Louisville, Kentucky.

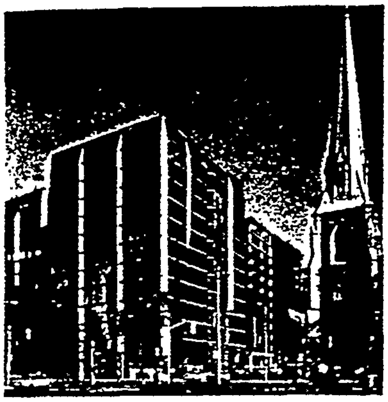
Huttig manufactures and distributes millwork and allied building products, primarily to residential construction markets. Its branches are concentrated in the South, Southeast, Southwest and Midwest, encompassing the nation's fastest growing residential construction areas.

Huttig set a new performance record for the third consecutive year in 1978 as single-family home construction continued at a high level despite climbing mortgage interest rates.

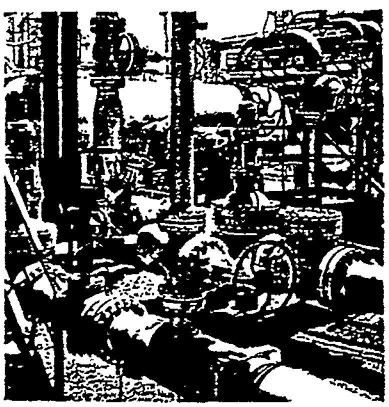
Construction activity was strong in the Southeast, particularly in Florida where four strategically located distribution warehouses serve all sections of that state's booming housing industry. The year's gains reflect Huttig's concentration of operations in the thriving Sunbelt states.

Rising utility costs have forced homeowners to be more energy conscious. Sales of insulating entrance door systems and Huttig insulated glass window units rose one-third over the 1977 level. Home remodeling, including the strong do-it-yourself market, also contributed to Huttig's outstanding performance.

In early 1978, the company opened new branch operations in Champaign, Illinois, in Kernersville, North Carolina and in the Tri-Cities area of Johnson City, Bristol and Kingsport, Tennessee. The Des Moines, Iowa and Lexington, Kentucky operations moved into new larger facilities, enabling Huttig to expand its markets and offer



Crane plumbing fixtures were chosen for the new Bank of Canada complex in Ottawa.



Crane steel valves are used throughout this Australian refinery.

better service to the customers in those areas. The Charlotte Glazing Division doubled its size and production capacity during 1978 because of the increase in demand for Huttig Arma-Seal Insulator window units.

Although 1979 residential construction is expected to decline from the two million starts of 1977 and 1978, it should remain at a comparatively high level assuming some decline in mortgage rates. The five-year forecast for residential construction is encouraging but, as in the past, will depend heavily upon the availability of home mortgage funds. Huttig plans to continue expanding existing facilities and opening new ones to improve its sales and services.

Crane Canada Limited manufactures and distributes valves, industrial pumps and plumbing fixtures for the construction industry, and water and waste treatment equipment for basic industrial applications. Primary Canadian markets parallel those of the United States.

The prolonged weakness of the Canadian economy continued to have an adverse effect on Crane Canada's operations. However, 1978 performance showed an improvement over the prior year despite the declining value of the Canadian dollar, high inflation and unemployment rates, and political uncertainties that lowered business confidence and reduced capital spending.

Fluid and Pollution Control

Valve sales lagged slightly because of slow markets due to cuts in government spending, supply problems and import competition. A generally flat economy in Canada and low construction levels are forecast for 1979, and overcapacity in the petroleum refining industry is expected to worsen. Nevertheless, the valve and industrial division forecasts stronger sales to the important pulp and paper industry that is updating its processes to meet export demand. Over the next several years, the proposed cross-Canada pipeline to Alaska and investment in the nation's thermal power stations are expected to boost steel valve sales.

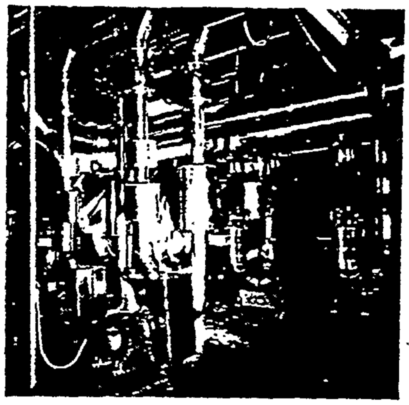
The markets for water treatment products and pumps were down sharply in 1978 due to widespread cutbacks by industrial and governmental customers. Stronger demand is expected in 1979.

Building Products

The 1978 decline in Canada's housing industry, the prime market for plumbing fixtures and related products, limited sales. Little improvement is expected in 1979. Plans are being developed, however, to use presently idle capacity to capitalize on overseas markets that have opened as a result of the Canadian dollar's devaluation. Domestically, new and redesigned products in residential lines, including the new acrylic sunken bathtub for the custom-made market, are expected to be well received.

Wholesaling Operations

Crane Supply Division, which distributes the company's products and other manufacturers' related items, had a better year in 1978. While the residential market is expected to remain static, construction in western Canada's petrochemical industry should continue at 1978's high level, particularly with the impending startup of the Alaska pipeline and development of heavy crude extraction projects. The improved demand for forest products and such major projects as a planned copper smelter and expanded zinc plant in northern Ontario are expected to generate stronger demand through 1979.



Crane centrifugal pumps and valves are used in the heating system in this U.K. headquarters and laboratory complex.

Through its European operations, Crane supplies valves, fittings and pumps to international chemical, petroleum, power and other industrial markets. The company also manufactures valves in Australia and pumps in Mexico.

Many of the economic problems that influenced results in the United States were encountered worldwide in 1978. Inflationary pressures, price controls and tight money, often coupled with an uncertain political climate, held back capital spending. Despite this, the performance of several operations was ahead of the prior year.

In the United Kingdom, Crane Ltd. showed a significant improvement in operating results. Though demand was static in the construction, mechanical services and petrochemical industries to which Crane sells, gains were achieved through greater market penetration. The company expanded its export sales, including major contracts to supply malleable fittings to Iraq, bronze valves to the Philippines, and pumps to Yugoslavia.

In 1979, growth of the United Kingdom's economy is again expected to be limited, and Crane Ltd. will continue to look to exports of its products to achieve further gains.

Crane Nederland N.V. had a good year. The company manufactures valves and pipe fittings as well as central heating products for residential, commercial and light industrial construction, where it has the largest share of the domestic market.

In spite of the slow domestic economy and the fact that the relative strength of the Dutch currency limits exports, the outlook for 1979 is promising. The order intake that began to improve in late 1978 is expected to continue rising and, with new products in its line, Crane Nederland is expected to achieve better results.

Crane Australia Pty. Limited continued to perform well, although the market for cast steel valves remained highly competitive. The Australian economy improved during 1978 and is expected to remain strong in 1979. This should be reflected in Crane Australia's performance.

Crane-Deming de Mexico, S.A., which manufactures pumps for industrial and agricultural markets, had a very good year in 1978. Its success was supported by the nation's political stability and reducing rate of inflation. During the year, the company introduced new pumps for industrial applications. Further broadening of the industrial line is planned for 1979. A good agricultural irrigation market and Mexico's developing oil and gas industries offer strong growth potential for Crane.

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