In the opinion of management, the production capacities in Koppers various business segments are adequate to operate at a significantly higher volume than in 1978. Koppers estimates of market requirements indicate that there is no material excess capacity in the Company's facilities, although the utilization of each is subject to changes in customers' demands.

**Foreign Operations**
As of December 31, 1978, the Company's investments in operations located in foreign countries totaled $18.7 million, of which $11 million represented investments in nonconsolidated foreign affiliates. In 1978, the Company's consolidated financial reports included: Revenues (net sales) from operations located in foreign countries of $99.8 million, representing 6.3% of total consolidated revenues (with $71.9 million, or more than 72%, of such foreign revenues from operations located in Canada); and income (after foreign income taxes and applicable U.S. income taxes) from operations located in foreign countries of $5.7 million, or about 8% of total consolidated net income (with about $5.2 million, or 91%, of such foreign income from operations located in Canada).

**Research and Development**
The Company conducts its research activities at two locations in suburban Pittsburgh, Pennsylvania. The corporate research laboratories perform studies aimed at the development of new products and the improvement of manufacturing processes. Special services, such as pollution control and analytical and engineering support, are provided to all operations of the Company. Development laboratories at several locations support each of the Company's business segments. The amount spent on research and development activities was approximately $12.3 million in 1978 and $11.5 million in 1977. There were 411 employees engaged in research and development in 1978 and 393 in 1977.

**Patents and Licensing**
Koppers owns more than 1,000 existing United States patents and a large number of foreign patents covering many products and processes. Some of the Company's patents and technology are licensed to other companies. The Company makes few of its products under licenses from other companies with respect to patents they own or technology they have supplied. No single patent or license is considered material in relation to the Company's over-all performance.

**Employment**
The average number of persons employed by the Company was 20,858 in 1978 and 18,168 in 1977.

Approximately 8,000 of the Company's employees are covered by 150 different collective bargaining agreements, scheduled to expire at various times during the course of the next three years.

Successful labor contract negotiations were completed at 39 locations in 1978.

**Indemnification of Directors and Officers**
Koppers bylaws provide that the Company shall indemnify any director or officer of the Company and may indemnify any employee or agent of the Company against expense, judgments, fines and settlements incurred in connection with any action, suit or proceeding arising from his or her office or employment by the Company. The indemnity requires that the director, officer, employee or agent shall have acted in good faith; and (with respect to criminal proceeding) shall have had no reasonable cause to believe his or her conduct was unlawful; and (with respect to derivative action) shall have acted, without negligence or misconduct, in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the Company. The bylaws provide that indemnification is proper.

The Company has, at its expense, obtained Directors and Officers Liability Insurance to protect the directors and officers of the Company against the risks usually insured by such policies.

**Environmental, Occupational Health And Safety Regulations**
The Company is subject to environmental regulations on solid waste disposal, toxic substance control and air and water quality, as well as occupational health and safety rules by Federal, state and local authorities. About 9% of Koppers capital investments for plant and equipment in 1978 went to eliminate pollution or to bring it within satisfactory levels. Environmental improvements are expected to account for a comparable proportion of the total funds invested in new facilities in the future. Although environmental regulations have not yet had a material adverse effect on operations, future governmental action may require the Company to modify, supplement, replace or abandon equipment and facilities and may delay or impede construction and operation of new facilities. The potential costs cannot be forecast with any precision.

Koppers, in common with many other enterprises, is subject to evolving regulations under the Federal Occupational Safety and Health Act. Health and safety regulations have not materially affected the Company's operations in the past. If the standards applicable to chemical processors continue to be made more stringent, these regulations could affect certain of Koppers businesses more significantly in the future.

Some aspects of the Company's business will be affected by new U.S. Environmental Protection Agency regulations requiring premarket disclosure of the potential health and environmental impact of new chemicals and by evolving hazardous waste disposal provisions of the Resource Conservation and Recovery Act of 1976.

As part of its continuing review of all pesticides, the EPA has issued "Rebuttable Presumption Against Re-registration" notice against three wood preservatives used or produced by Koppers—creosote, pentachlorophenol and arsenicals. The review process is expected to take considerable time.

Industry's responsibility is to substantiate the safety of these products. If the EPA concludes from the review that Koppers wood preservatives should not be re-registered, thereby prohibiting their use, it could have a material adverse effect on the Company's earnings.

However, Koppers believes that it and other producers and users will be successful in showing that the benefits of continued use of the wood preservatives outweigh any associated risks.