

Rockwood Holdings, Inc.  
Form 424B4  
August 18, 2005

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Filed Pursuant To Rule 424(b)(4)  
Registration No. 333-122764

20,408,163 Shares

## Rockwood Holdings, Inc.

### Common Stock

This is an initial public offering of shares of common stock of Rockwood Holdings, Inc. All of the 20,408,163 shares of common stock are being sold by Rockwood Holdings, Inc.

Prior to this offering, there has been no public market for the common stock. Our common stock has been approved for listing on the New York Stock Exchange under the symbol "ROC."

*See "Risk Factors" beginning on page 18 to read about factors you should consider before buying shares of the common stock.*

**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

	<u>Per Share</u>	<u>Total</u>
Initial public offering price	\$ 20.00	\$ 408,163,260.00
Underwriting discount	\$ 1.05	\$ 21,428,571.15
Proceeds, before expenses, to Rockwood Holdings, Inc.	\$ 18.95	\$ 386,734,688.85

To the extent that the underwriters sell more than 20,408,163 shares of common stock, the underwriters have the option to purchase up to an additional 3,061,224 shares from Rockwood Holdings, Inc. at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on August 22, 2005.

**Goldman, Sachs & Co.**

**Credit Suisse First Boston**

**Lehman Brothers**

**UBS Investment Bank**

**Deutsche Bank Securities**

**First Analysis Securities Corporation**

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Prospectus dated August 16, 2005.

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## PROSPECTUS SUMMARY

*This summary may not contain all of the information that may be important to you. You should read the entire prospectus, including the historical and pro forma financial data and related notes, before making an investment decision. This summary contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements as a result of certain factors, including those set forth in "Risk Factors" and "Forward-Looking Statements."*

*In this prospectus, unless we indicate otherwise or the context otherwise requires, any references to "we," "our," and "us" refer to Rockwood Holdings, Inc. and its consolidated subsidiaries, and any references to the "issuer" refers to Rockwood Holdings, Inc. In addition, when the context so requires, we use the term "Rockwood" to refer to our historical operations prior to the Dynamit Nobel acquisition (described below) and the term "Dynamit Nobel" to refer to the historical operations of the businesses of Dynamit Nobel AG that we acquired from mg technologies ag in July 2004. Other than our financial statements as of and for the periods ended subsequent to July 31, 2004, which include the results of operations of the acquired Dynamit Nobel businesses subsequent to July 31, 2004, the historical financial statements and related notes presented in this prospectus are separate financial statements and related notes of Rockwood and Dynamit Nobel.*

### Our Company

We are a leading global developer, manufacturer and marketer of technologically advanced, high value-added specialty chemicals and advanced materials. We believe we have leading market positions in most of our businesses, including lithium compounds, fiber anatase titanium dioxide, color pigments and services, ceramic-on-ceramic components used in hip joint prostheses systems and next generation wood protection products.

We have a number of higher growth businesses such as Advanced Ceramics, Specialty Chemicals and Performance Additives, which are complemented by a diverse portfolio of businesses that historically have generated predictable, stable revenues. Our margins, strong cash flow generation, capital discipline and ongoing productivity improvements provide us with a platform to capitalize on the market growth opportunities.

We operate globally, manufacturing our products in 100 manufacturing facilities in 25 countries and selling our products and providing our services to more than 60,000 customers, including some of the world's preeminent companies. Our products, consisting primarily of inorganic chemicals and solutions and engineered materials, are often customized to meet the complex needs of our customers and to enhance the value and performance of their end products.

We generally compete in niche markets in a wide range of end-use markets, including construction, life sciences (including pharmaceutical and medical markets), electronics and telecommunications, metal treatment and general industrial and consumer products markets. No single end-use market accounted for more than 19% of our \$2,913.0 million 2004 pro forma net sales.

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Following the acquisition of Dynamit Nobel in July 2004, we operate our business through seven segments:

Segment	% of 2004 Pro Forma Net Sales
Performance Additives	23%
Specialty Compounds	7
Electronics	6
Specialty Chemicals	26
Titanium Dioxide Pigments	14
Advanced Ceramics	12
Groupe Novasep	12

### Our Competitive Strengths

**Leading market positions.** We believe that we hold leading market positions within most of our businesses, including, based on our 2004 pro forma net sales:

Segment	Products	Market Position
Performance Additives	synthetic iron oxide pigments wood protection products	one of top 3 globally one of top 3 globally
Specialty Chemicals	lithium compounds and chemicals metal surface treatment chemicals and related services	#1 globally #2 globally
Titanium Dioxide Pigments	anatase titanium dioxide pigment for the synthetic fiber manufacturing industry	#1 globally
Advanced Ceramics	ceramic-on-ceramic ball head and liner components used in hip joint prostheses systems ceramics cutting tools	#1 globally #1 in Europe

**Specialty businesses in niche markets with significant barriers to entry.** We believe that nearly all of our businesses operate in niche markets protected by significant barriers to entry. We believe that many of our customers would experience significant disruption and costs if they were to switch to another supplier.

**Diverse customer and end-use market base.** We operate a diverse portfolio of distinct specialty chemicals and advanced materials businesses that cover a wide variety of industries and geographic areas. Of our 2004 pro forma net sales, 50% were shipments to Europe, 34% to North America and 16% to the rest of the world. No customer accounted for more than 2% of such net sales, and our top ten customers represented only approximately 11% of such net sales.

**Limited exposure to raw materials and energy prices.** We have a broad raw material base consisting primarily of inorganic (non-petrochemical) materials, most of which are readily available and whose prices follow their own individual supply and demand relationships and have historically shown little correlation to each other. Our exposure to energy prices is limited.

**Leading technologies and strong brand names.** We believe we are recognized for our use of our technological know-how and expertise to improve, develop and manufacture customized product and process innovations that meet specific customers' performance requirements.

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***Experienced and proven management team with significant equity interests.*** Since joining us in 2001, Seifi Ghasemi, our chairman and chief executive officer, and Robert Zatta, our senior vice president and chief financial officer, together with other members of our senior management team, have implemented a series of improvement initiatives designed to increase sales, improve productivity, reduce costs and expand margins. These initiatives have had a positive impact on the cash flow and profitability of Rockwood's historic businesses.

### **Our Business Strategy**

Building on these strengths, we plan to continue our existing strategy to grow revenue and cash flow and increase profitability as follows:

***Capitalize on expected market growth opportunities.*** We expect our businesses to benefit from a number of growth trends, including:

Advanced Ceramics a growing trend toward replacing plastics and metals with high-performance ceramics.

Specialty Chemicals increased demand for lithium-based batteries for mobile electronic applications.

Performance Additives a growing trend toward the use of color in concrete paving stones and other home remodeling.

Titanium Dioxide Pigments sales of newly-introduced nano-particle titanium dioxide pigments that are used to provide ultraviolet light protection for plastics and coatings.

***Achieve profitable growth through selective acquisitions.*** We intend to continue to selectively pursue cash flow accretive acquisitions and strategic alliances in order to strengthen and expand our existing business lines and enter into complementary business lines. Although we are not subject to any agreement or binding letter of intent with respect to potential acquisitions, we are engaged in acquisition discussions with other parties.

***Apply our proven improvement initiatives to the Dynamit Nobel businesses.*** We are currently in the process of applying the management initiatives successfully applied to Rockwood's historic businesses to the acquired Dynamit Nobel businesses. Among other improvements, we expect that we will achieve total annual cost savings of approximately \$17.0 million, of which we have already realized approximately \$7.0 million through March 31, 2005, in connection with cost-reducing measures.

***Reduce financial leverage.*** We intend to reduce our financial leverage by using a significant portion of the net proceeds from this offering and a significant portion of cash flow from operations after required capital expenditures and payments to service our debt. We believe that our strong cash flow generation will be further strengthened by organic growth opportunities within our existing markets, cost-reduction programs applied to the Dynamit Nobel businesses and improved working capital management.

### **Risks Relating to Our Business Strategy**

We may not be able to continue our product innovation, demand for our products may not develop as expected, and regulation of our raw materials, products and facilities may change in a way that is detrimental to our business. We incurred net losses of \$68.2 million, \$91.7 million and \$216.1 million in 2002, 2003 and 2004, respectively, and \$159.7 million in 2004 on a pro forma as adjusted basis after giving effect to the Transactions (as defined below).

In addition, we have a substantial amount of indebtedness. As of March 31, 2005, on an actual basis, we had approximately \$3,497.0 million of long-term debt outstanding and total stockholders' equity of approximately \$561.8 million, and on a pro forma as adjusted basis after giving effect to the offering, we would have had approximately \$3,184.7 million of long-term debt outstanding and total stockholders' equity of approximately \$915.9 million. This substantial indebtedness may adversely affect our cash flow and our ability to remain in compliance with our debt covenants, make payments on our indebtedness and operate our business. Any of these factors or other factors described in this prospectus under "Risk Factors" may limit our ability to successfully execute our business strategy.

### Acquisitions

On April 19, 2004, we entered into a sale and purchase agreement with mg technologies ag to acquire its wholly-owned specialty chemicals and advanced materials business, Dynamit Nobel. We paid approximately \$2,274.0 million (based on the July 31, 2004 exchange rate of €1.00=\$1.2040), including assumed debt of \$315.1 million and cash acquired of \$9.6 million, for the businesses acquired. On July 6, 2005, we paid \$16.1 million (based on the July 6, 2005 exchange rate of €1.00=\$1.1927) in post-closing adjustments. The acquisition was consummated on July 31, 2004.

In connection with the Dynamit Nobel acquisition, we received an equity contribution of \$425.0 million from affiliates of KKR and DLJ Merchant Banking Partners III, L.P. and its affiliated funds, or DLJMB. In addition, members of our management and certain other employees made cash equity investments of approximately \$7.0 million from September 2004 to December 2004. In this prospectus, we refer to this investment as the 2004 management equity program.

In September 2004, one of our subsidiaries acquired the pigments and dispersions business of Johnson Matthey Plc. for a purchase price of approximately \$47.1 million and in connection with this acquisition borrowed \$50.4 million (based on the September 27, 2004 exchange rate of €1.00=\$1.2029) under a term loan of the senior secured credit facilities.

In December 2004, in connection with the combination of the three business lines of our Custom Synthesis segment (now known as our Groupe Novasep segment) with Groupe Novasep SAS, one of our subsidiaries acquired 69.4% of the stock of Groupe Novasep SAS for a total purchase price of approximately \$139.7 million, including assumed debt of \$48.6 million, cash acquired of \$14.6 million and the exchange of the remaining 30.6% of the stock of Groupe Novasep SAS for stock in our acquiring subsidiary. As a result of this transaction, we own approximately 79% of the new Groupe Novasep. We used cash on hand to finance this transaction.

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In this prospectus, we refer to the Dynamit Nobel acquisition and related equity and debt financings and Fall 2004 debt refinancings, the pigments and dispersions acquisition and related financing, the Groupe Novasep combination and this offering collectively as the Transactions.

### Recent Developments

Although our results of operations for the three months ended June 30, 2005 are not currently available, the following information reflects our expectations with respect to such results based on currently available information.

We expect our net sales to be \$817.4 million and operating income to be \$102.6 million for the three months ended June 30, 2005. Consistent with trends on a historical and pro forma basis, we expect our operating results and margins for the second quarter of 2005 to exceed the first quarter of 2005 mainly due to seasonal patterns experienced in the ordinary course of some of our businesses. In addition, we expect our operating results and margins for the second quarter of 2005 to match or exceed our operating results and margins for the second quarter of 2004 on a pro forma basis. Furthermore, we expect our operating margins for the second quarter of 2005 to match or marginally exceed our operating margins for 2004 on a pro forma basis.

Pro forma net sales for the Performance Additives segment for the second quarter of 2005 are expected to be relatively flat compared to pro forma net sales for this segment for the second quarter of 2004, with generally higher selling prices offset by lower volume. Operating margins for Performance Additives are expected to be slightly below operating margins for this segment for the second quarter of 2004. Net sales for the Specialty Compounds and Electronics segments for the

second quarter of 2005 are expected to be higher than net sales for these segments for the second quarter of 2004, primarily due to price increases to offset escalating raw material costs. In addition, we have announced a restructuring program for our Wafer Reclaim business in our Electronics segment and will record a charge for this program in the second quarter of 2005. Operating margins for Specialty Compounds and Electronics are expected to be below operating margins for these segments for the second quarter of 2004 due to higher raw material costs and, in the case of Electronics, the restructuring program.

Pro forma net sales for the Specialty Chemicals segment for the second quarter of 2005 are expected to exceed pro forma net sales for this segment for the second quarter of 2004, primarily due to higher volume and favorable foreign exchange rates. Operating margins for Specialty Chemicals are expected to exceed operating margins for this segment for the second quarter of 2004. Pro forma net sales for the Titanium Dioxide Pigments segment for the second quarter of 2005 are expected to be higher than pro forma net sales for this segment for the second quarter of 2004, primarily due to favorable foreign exchange. Operating margins for Titanium Dioxide Pigments are expected to marginally exceed operating margins for this segment for the second quarter of 2004.

Pro forma net sales for the Advanced Ceramics segment for the second quarter of 2005 are expected to exceed pro forma net sales for this segment for the second quarter of 2004 due to a combination of favorable volume, mix and foreign exchange rates more than offsetting lower prices with respect to certain products. Operating margins for Advanced Ceramics are expected to exceed operating margins for this segment for the second quarter of 2004. Pro forma net sales for the Groupe Novasep segment for the second quarter of 2005 are expected to exceed pro forma net sales for this segment for the second quarter of 2004, but were driven by lower margin business. As a result, operating margins for Groupe Novasep are expected to be below operating margins for this segment for the second quarter of 2004.

On a consolidated basis, we expect operating income for the second quarter of 2005 to be higher than the first quarter of 2005. In addition, we expect depreciation and amortization for the second quarter of 2005 to be in the same range as the first quarter of 2005, which was approximately \$53 million. We also expect capital expenditures for the second quarter of 2005 to be slightly higher than capital expenditures for the first quarter of 2005, which were approximately \$36 million.

As of June 30, 2005, we expect debt less cash and cash equivalents of approximately \$82.0 million will be approximately \$3.2 billion. In June 2005, we fully repaid our revolving credit facility. As of March 31, 2005, outstanding borrowings under our revolving credit facility had been \$175 million.

We expect to record a significant mark to market foreign exchange gain on our euro denominated debt in the second quarter of 2005. The exchange rate was €1.00=\$1.2996 at March 31, 2005 compared to €1.00=\$1.2106 at June 30, 2005. In the first quarter of 2005, we recorded a mark to market foreign exchange gain on our euro denominated debt of approximately \$47 million, as the exchange rate moved from €1.00=\$1.3593 at December 31, 2004 to €1.00=\$1.2996 at March 31, 2005.



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Rockwood Holdings, Inc. is a Delaware corporation that was formed in September 2000. On November 20, 2000, an entity controlled by affiliates of KKR acquired certain specialty chemicals business lines from Laporte plc, which was subsequently acquired by Degussa AG. Total cash consideration paid was \$1,175.0 million, plus a post-closing adjustment of \$5.6 million. The purchase price and related fees and expenses were financed by borrowings under senior secured credit facilities and a senior subordinated loan facility that have been repaid, borrowings under the pay-in-kind loans that are expected to be repaid with a portion of the net proceeds of this offering, and a \$282.0 million common equity investment by affiliates of KKR. KKR acquired these specialty chemicals business lines from Laporte because it believed they would create an attractive business with which it could work to develop and implement value creating strategies.

Our principal executive offices are located at 100 Overlook Center, Princeton, New Jersey 08540. Our telephone number is (609) 514-0300. Our website address is [www.rocksp.com](http://www.rocksp.com). Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information on our website as part of this prospectus.

**The Offering**

Common Stock Offered	20,408,163 shares
Common Stock Outstanding After the Offering	70,717,702 shares
Percentage of Common Stock Represented by Shares of Common Stock Offered	28.9%
Use of Proceeds	<p>We estimate that our net proceeds from this offering, after deducting underwriting discounts and estimated offering expenses, will be approximately \$377.8 million.</p> <p>We intend to use:</p> <ul style="list-style-type: none"> <li>approximately \$59.9 million of the net proceeds to repay the outstanding principal amount of the 15% pay-in-kind loans due 2011 and pay a prepayment premium, and approximately \$120.7 million of the net proceeds to redeem the outstanding principal amount of the 15% pay-in-kind notes due 2015 and pay a redemption premium;</li> <li>approximately \$85.2 million of the net proceeds to redeem the outstanding principal amount of the 12% senior discount notes due 2011, which are held by an affiliate of KKR;</li> <li>approximately \$60.7 million of the net proceeds to redeem up to approximately \$52.5 million, or up to 14%, of the 10<sup>5</sup>/<sub>8</sub>% senior subordinated notes due 2011, which we refer to as the 2011 notes, and pay a redemption premium and accrued and unpaid interest;</li> <li>approximately \$36.7 million of the net proceeds to redeem all outstanding shares of our 15% redeemable convertible preferred stock, which are held by an affiliate of KKR, and pay a redemption premium and accumulated and unpaid dividends; and</li> <li>\$10.0 million of the net proceeds to terminate the management services agreement with affiliates of KKR and DLJ Merchant Banking III, Inc., or DLJMB III.</li> </ul> <p>These amounts are based on the accreted value, the outstanding principal amount, the accrued and unpaid interest and the accumulated and unpaid dividends on the applicable securities being repaid or redeemed as of March 31, 2005. The actual amounts we pay to repay or redeem the securities will increase from the amounts shown above. Except with respect to the pay-in-kind loans and notes, each of these repayments and redemptions is voluntary.</p>

\$131.9 million, or approximately 35%, of the net proceeds will be paid to our affiliates that are affiliates of KKR and DLJMB. This amount does not include underwriting discounts and commissions to be received by CSFB, an affiliate of DLJMB, in its capacity as underwriter. Five of the eight members of our board of directors that approved the offering are affiliated with KKR; two are affiliated with DLJMB; one, our chairman, is our chief executive officer. That eight member board of directors voted unanimously to approve the offering.

We intend to use any net proceeds we receive from any shares sold pursuant to the underwriters' over-allotment option, after deducting underwriting discounts and commissions, to redeem additional 2011 notes and pay a redemption premium and accrued and unpaid interest.

Dividend Policy

We do not anticipate paying any periodic dividends on our common stock in the foreseeable future. See "Dividend Policy."

New York Stock Exchange Symbol

ROC

Unless we specifically state otherwise, all information in this prospectus:

assumes no exercise by the underwriters of their over-allotment option to purchase 3,061,224 additional shares; if the underwriters exercise their over-allotment option, common stock outstanding after the offering will be 73,778,926;

excludes 9,121,469 shares of common stock that are reserved for issuance under the 2005 Amended and Restated Stock Purchase and Option Plan of Rockwood Holdings, Inc. and Subsidiaries (which we refer to in this prospectus as the stock plan), including approximately 3,879,785 shares of common stock issuable upon the exercise of outstanding stock options at an exercise price of \$14.61 per share, of which approximately 931,077 are vested, 12,500 shares of common stock issuable upon the exercise of outstanding stock options at an exercise price of \$20.00 per share, of which none are vested, and 68,452 shares of common stock underlying vested restricted stock units held by our chairman and chief executive officer, Seifi Ghasemi;

excludes 958,315 shares of common stock issuable upon the exercise of warrants held by an affiliate of KKR at an exercise price of \$14.61 per share; and

reflects a 34.22553019 for 1 stock split of our outstanding shares of common stock effected on July 18, 2005.

**Risk Factors**

Investing in our common stock involves substantial risk. You should carefully consider all of the information set forth in this prospectus and, in particular, should evaluate the specific factors set forth under "Risk Factors" in deciding whether to invest in our common stock.

**Rockwood Summary Historical and Pro Forma Financial Data**

Set forth below is summary historical financial and summary pro forma financial data of Rockwood, in each case, at the dates and for the periods indicated. The summary historical financial data presented below for the years ended December 31, 2002 and 2003 and as of and for the year ended December 31, 2004 have been derived from our and Rockwood's audited consolidated financial statements included elsewhere in this prospectus. The summary financial data presented below for the three months ended March 31, 2004 have been derived from Rockwood's unaudited condensed consolidated financial statements, and the summary financial data presented below as of and for the three months ended March 31, 2005 have been derived from our unaudited condensed consolidated financial statements, in each case, included elsewhere in this prospectus. In the opinion of management, the unaudited condensed consolidated financial statements for the three months ended March 31, 2004 and March 31, 2005 have been prepared on a basis consistent with the audited consolidated financial statements. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments, which are normally recurring adjustments, necessary for a fair presentation of the results of operations for the periods presented. Results of operations for the interim periods are not necessarily indicative of the results that might be expected for any other interim period or for an entire year.

The summary unaudited pro forma condensed combined balance sheet data is presented to illustrate the estimated effects of the offering as if it had occurred on March 31, 2005 and is based on the exchange rate on March 31, 2005 of €1.00=\$1.2996. The summary unaudited pro forma condensed combined statement of operations data and other pro forma financial data is presented to illustrate the estimated effects of the Transactions on our historical results of operations and financial condition as if they had occurred on January 1, 2004 and is based on the weighted average exchange rate of €1.00=\$1.2669.

As described above, the Transactions include, among other things, the equity and debt financings and Fall 2004 debt refinancings related to the Dynamit Nobel acquisition. Specifically, in connection with the Dynamit Nobel acquisition, in addition to the equity investments from KKR and DLJMB of \$425.0 million in July 2004 and members of our management and certain other employees of \$7.0 million from September 2004 to December 2004, certain of our subsidiaries, including Rockwood Specialties Group, Inc. (which we refer to as Group), entered into senior secured credit facilities and a senior subordinated loan facility. In addition, our direct wholly-owned subsidiary exchanged its outstanding dollar-denominated pay-in-kind notes for euro-denominated pay-in-kind notes. In this prospectus, we refer to these related financings collectively as the acquisition financings.

In October 2004, Group refinanced a portion of its borrowings under the senior subordinated loan facility with additional term loan borrowings under an amendment to the senior secured credit facilities. In November 2004, Group refinanced the remaining borrowings under the senior subordinated loan facility with proceeds from the issuance of senior subordinated notes due 2014, which we refer to as the 2014 notes. In December 2004, Group refinanced all of its borrowings under one tranche of term loans under its senior secured credit facilities with borrowings under a new tranche of term loans of the same aggregate principal amount bearing a lower interest rate in order to reduce its interest expense. In this prospectus, we refer to these three refinancings collectively as the Fall 2004 debt refinancings.

The summary unaudited pro forma condensed combined financial information is based on the audited and unaudited consolidated financial statements of Rockwood, our audited and unaudited consolidated financial statements and the audited and unaudited combined financial statements of Dynamit Nobel, in each case, included elsewhere in this prospectus, as adjusted to illustrate the estimated pro forma effects of the Transactions.

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The summary unaudited pro forma condensed combined financial information is for illustrative purposes only. Such information is not intended to be indicative of the financial condition and the results of operations that would have been achieved had the Transactions for which we are giving pro forma effect actually occurred on the dates referred to above or the financial condition and the results of operations that may be expected in the future. The unaudited pro forma condensed combined financial information has been prepared based upon currently available information and assumptions that we believe are reasonable. Such currently available information and assumptions may prove to be inaccurate over time.

The summary historical and pro forma financial data presented below should be read together with "Selected Financial Data," "Unaudited Pro Forma Condensed Combined Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," Rockwood's consolidated financial statements and the notes to those statements, our consolidated financial statements and the notes to those statements and Dynamit Nobel's combined financial statements and the notes to those statements, in each case, included elsewhere in this prospectus.

(\$ in millions, except per share amounts; shares in thousands)	Year Ended December 31,			Three Months Ended March 31,		Pro Forma As Adjusted for	Pro Forma As Adjusted for
	2002	2003(8)	2004	2004	2005	Year Ended December 31, 2004	Three Months Ended March 31, 2005
(As restated)							
<b>Statement of operations data:</b>							
Net sales:							
Performance Additives	\$ 443.8	\$ 477.3	\$ 630.9	\$ 139.1	\$ 159.5	\$ 674.8	\$ 159.5
Specialty Compounds	168.8	176.4	200.4	47.9	58.1	200.4	58.1
Electronics	147.3	143.6	168.1	40.4	42.8	168.1	42.8
Specialty Chemicals			321.1		220.0	759.6	220.0
Titanium Dioxide Pigments			175.7		104.5	422.0	104.5
Advanced Ceramics			146.3		91.9	349.5	91.9
Groupe Novasep			101.0		92.9	338.6	92.9
<b>Total net sales</b>	<b>759.9</b>	<b>797.3</b>	<b>1,743.5</b>	<b>227.4</b>	<b>769.7</b>	<b>2,913.0</b>	<b>769.7</b>
<b>Cost of products sold</b>	<b>542.5</b>	<b>581.4</b>	<b>1,267.6</b>	<b>165.0</b>	<b>544.1</b>	<b>2,008.8</b>	<b>544.1</b>
<b>Gross profit</b>	<b>217.4</b>	<b>215.9</b>	<b>475.9</b>	<b>62.4</b>	<b>225.6</b>	<b>904.2</b>	<b>225.6</b>
Selling, general and administrative expenses	112.9	118.0	327.7	35.1	150.2	615.9	149.7
Impairment charges(1)	50.0	35.0	11.0			11.0	
Restructuring charges	1.2	1.8	1.1		2.9	1.1	2.9
<b>Operating income</b>	<b>53.3</b>	<b>61.1</b>	<b>136.1</b>	<b>27.3</b>	<b>72.5</b>	<b>276.2</b>	<b>73.0</b>
Other income (expenses):							
Interest expense, net(2)	(108.2)	(112.3)	(162.1)	(25.1)	(57.3)	(198.6)	(46.1)
Foreign exchange (loss) gain(3)	(24.6)	(18.5)	(126.4)	12.2	47.2	(125.7)	47.2
Refinancing expenses(4)		(38.3)	(27.1)			(27.1)	
Loss on receivables sold	(1.2)						
Stamp duty tax and other(5)			(4.3)			(0.9)	
<b>(Loss) income before taxes and other adjustments</b>	<b>(80.7)</b>	<b>(108.0)</b>	<b>(183.8)</b>	<b>14.4</b>	<b>62.4</b>	<b>(76.1)</b>	<b>74.1</b>
Income tax (benefit) provision	(12.5)	(16.3)	32.3	5.5	24.9	83.6	29.0
<b>Net (loss) income before minority interest</b>	<b>(68.2)</b>	<b>(91.7)</b>	<b>(216.1)</b>	<b>8.9</b>	<b>37.5</b>	<b>(159.7)</b>	<b>45.1</b>
Minority interest					(0.8)		(0.8)
<b>Net (loss) income</b>	<b>\$ (68.2)</b>	<b>\$ (91.7)</b>	<b>\$ (216.1)</b>	<b>\$ 8.9</b>	<b>\$ 38.3</b>	<b>\$ (159.7)</b>	<b>\$ 45.9</b>
<b>Net (loss) income applicable to common stockholders basic(6)</b>	<b>\$ (68.2)</b>	<b>\$ (102.9)</b>	<b>\$ (220.3)</b>	<b>\$ 7.9</b>	<b>\$ 37.2</b>	<b>\$ (161.0)</b>	<b>\$ 45.9</b>
<b>Net (loss) income applicable to common stockholders diluted(6)</b>	<b>\$ (68.2)</b>	<b>\$ (102.9)</b>	<b>\$ (220.3)</b>	<b>\$ 8.9</b>	<b>\$ 38.3</b>	<b>\$ (161.0)</b>	<b>\$ 45.9</b>

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							<b>Pro Forma As Adjusted for Year Ended December 31, 2004</b>	<b>Pro Forma As Adjusted for Three Months Ended March 30, 2005</b>
<b>Net (loss) income per share data (unaudited)(7):</b>								
Basic net (loss) income per common share:								
Net (loss) income per common share	\$	(3.29)	\$	(4.96)	\$	(6.66)	\$	0.38
Weighted average shares		20,746		20,739		33,054		20,740
Diluted net income (loss) per common share:								
Net income (loss) per common share					\$	0.38	\$	0.73
Weighted average shares						20,740		52,732
							\$	(2.28)
								0.64
								70,718
								71,700
								10
								\$
								)
								\$

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(\$ in millions, except per share amounts; shares in thousands)	Year Ended December 31,			Three Months Ended March 31,		Pro Forma As Adjusted for Year Ended December 31, 2004	Pro Forma As Adjusted for Three Months Ended March 31, 2005
	2002	2003(8)	2004	2004	2005		

(As restated)

**Cash flow data:**

Net cash (used in) provided by operating activities	\$ (4.1)	\$ 42.6	\$ 179.3	\$ 1.3	\$ (7.4)		
Net cash used in investing activities	(30.4)	(48.5)	(2,249.9)	(6.7)	(35.5)		
Net cash (used in) provided by financing activities	(18.9)	(1.7)	2,134.4	(3.8)	169.1		
Effect of exchange rate changes on cash	2.6	3.8	5.6	(0.4)	(0.4)		
Net (decrease) increase in cash and cash equivalents	\$ (50.8)	\$ (3.8)	\$ 69.4	\$ (9.6)	\$ 125.8		

**Other financial data:**

Depreciation and amortization	\$ 46.3	\$ 52.4	\$ 115.2	\$ 13.8	\$ 53.2	\$ 179.8	\$ 53.2
Capital expenditures	36.0	34.3	112.8	6.7	35.7	211.5	35.7
EBITDA(9)	73.8	56.7	93.5	53.3	173.7	302.3	174.2
Non-cash charges and gains included in EBITDA(10)	74.6	90.4	151.6	(12.2)	(47.2)	150.9	(47.2)
Other special charges and gains included in EBITDA(11)	2.0	2.4	87.3		6.7	86.7	6.7

(\$ in millions)	As of December 31, 2004(14)	As of March 31, 2005	Pro Forma As Adjusted as of March 31, 2005
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(As restated)

**Balance sheet data:**

Cash and cash equivalents	\$ 111.3	\$ 237.1	\$ 231.0
Working capital(12)(13)	493.0	454.7	458.1
Property, plant and equipment, net	1,566.8	1,520.8	1,520.8
Total assets(1)	5,399.5	5,316.8	5,321.1
Long-term debt(13)	3,380.6	3,497.0	3,184.7
Redeemable convertible preferred stock	34.3	35.4	
Stockholders' equity	624.0	561.8	915.9

- (1) As part of our impairment testing in late 2002, 2003 and 2004, we determined that there were goodwill impairments of \$50.0 million, \$19.3 million and \$4.0 million, respectively, in our Electronics segment. We also determined that there was a property, plant and equipment impairment of \$15.7 million and \$7.0 million in 2003 and 2004, respectively, in our Electronics segment.
- (2) For the years ended December 31, 2002, 2003 and 2004, and the three months ended March 31, 2004 and March 31, 2005, interest expense, net included (losses) gains of \$(11.6) million, \$(6.0) million, \$6.0 million, \$2.3 million and \$7.6 million, respectively, representing the movement in the mark-to-market valuation of our interest rate derivative instruments for the periods. In addition, interest expense, net for the years ended December 31, 2003 and 2004 are mark-to-market (loss) gain of \$(10.5) million and \$0.8 million, respectively, related to cross-currency interest rate swaps entered into in connection with the July 2003 debt refinancing. Interest expense, net also includes \$8.0 million, \$6.1 million \$7.4 million, \$0.9 million and \$2.9 million for the years ended December 31, 2002, 2003 and 2004 and the three months ended March 31, 2004 and March 31, 2005, respectively, of amortization expense related to deferred financing costs.
- (3) Represents the non-cash translation impact on our euro-denominated debt resulting from the (strengthening) weakening of the euro against the U.S. dollar during the applicable periods. In the year ended December 31, 2004, this amount also included a \$10.9 million mark-to-market realized loss on foreign currency derivative agreements that we entered into in connection with the Dynamit Nobel

acquisition.

(4)

In July 2003, we wrote off \$36.9 million of deferred debt issuance costs relating to our previous long-term debt that was repaid as part of the July 2003 debt refinancing. In December 2003, we expensed \$1.4 million of investment banking and professional fees in connection with the December 2003 refinancing of borrowings under the then new senior credit facilities. In July 2004, we wrote off \$2.8 million of deferred debt issuance costs relating to our previous long-term debt that was repaid as part of the acquisition financings. In October 2004, we wrote



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off \$6.1 million of deferred financing costs in connection with the first amendment of the senior secured credit agreement. In November 2004, we wrote off \$17.2 million of deferred financing costs in connection with the repayment of the senior subordinated loan facility with the proceeds of the offering of the 2014 notes. In December 2004, we expensed \$1.0 million in connection with the second amendment of the senior secured credit agreement.

- (5) Represents the tax on certain assets transferred in the United Kingdom in connection with the KKR acquisition of \$4.0 million plus \$0.3 million related to disposal of property, plant and equipment.
- (6) Represents the net (loss) income applicable to common shareholders after reducing net (loss) income by the amount of accumulated and unpaid dividends and the accretion to the redemption value of the redeemable convertible preferred stock for the respective periods.
- (7) Net (loss) income per common share is calculated by dividing net (loss) income applicable to common shares by the weighted average shares outstanding. Unaudited pro forma basic and diluted net (loss) income per common share has been calculated in accordance with the SEC rules for initial public offerings. These rules require that the weighted average share calculation give retroactive effect to any changes in our capital structure as well as the number of shares whose sale proceeds will be used to repay any debt as reflected in the pro forma adjustments. Therefore, pro forma weighted average shares for purposes of the unaudited pro forma as adjusted basic net (loss) income per common share calculation, adjusted for the 34,225,301 for 1 stock split effected on July 18, 2005, are comprised of approximately 50.3 million shares of our common stock outstanding prior to this offering and 20.4 million shares of our common stock being offered in this offering.
- (8) See discussion of the restatement in Note 20 Restatement to our and Rockwood's consolidated financial statements included elsewhere in this prospectus.
- (9) EBITDA is defined as net income plus interest expense, net, income tax provision (benefit) and depreciation and amortization. EBITDA is not a recognized term under U.S. GAAP and is not intended to be an alternative to net (loss) income as an indicator of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements.

The amounts shown for EBITDA in this prospectus differ from the amounts calculated under the definition of EBITDA used in our debt agreements. The definition of EBITDA used in our debt agreements permits further adjustments for certain cash and non-cash charges and gains; the indentures governing the 2011 notes and the 2014 notes exclude certain adjustments permitted under the senior secured credit agreement. EBITDA as adjusted is used in our debt agreements to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain payments. In addition to covenant compliance, our management also uses EBITDA as adjusted, calculated using the same definition as used in our senior secured credit agreement, to assess our operating performance, and to calculate performance-based cash bonuses and determine whether certain performance-based stock options vest, as both such bonuses and options are tied to EBITDA as adjusted targets. For a discussion of the adjustments, uses and the limitations on the use of EBITDA as adjusted, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Special Note Regarding Non-GAAP Financial Measures."

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The following table sets forth a reconciliation of net (loss) income to EBITDA for the periods indicated.

(\$ in millions)	Year Ended December 31,			Three Months Ended March 31,		Pro Forma As Adjusted for Year Ended December 31, 2004	Pro Forma As Adjusted for Three Months Ended March 31, 2005
	2002	2003	2004	2004	2005		
Net (loss) income	\$ (68.2)	\$ (91.7)	\$ (216.1)	\$ 8.9	\$ 38.3	\$ (159.7)	\$ 45.9
Interest expense, net	108.2	112.3	162.1	25.1	57.3	198.6	46.1
Income tax (benefit) provision	(12.5)	(16.3)	32.3	5.5	24.9	83.6	29.0
Depreciation and amortization	46.3	52.4	115.2	13.8	53.2	179.8	53.2
EBITDA	73.8	56.7	93.5	53.3	173.7	302.3	174.2
Minority interest					(0.8)		(0.8)
EBITDA (before minority interest)	\$ 73.8	\$ 56.7	\$ 93.5	\$ 53.3	\$ 172.9	\$ 302.3	\$ 173.4

(10)

EBITDA, as defined above, contains the following non-cash charges and gains for which we believe adjustment is permitted under our senior secured credit agreement, each of which is described under "Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Which Affect Our Results of Operations Special Charges":

(\$ in millions)	Year Ended December 31,			Three Months Ended March 31,		Pro Forma As Adjusted for Year Ended December 31, 2004	Pro Forma As Adjusted for Three Months Ended March 31, 2005
	2002	2003	2004	2004	2005		
Impairment charges	\$ 50.0	\$ 35.0	\$ 11.0	\$	\$	\$ 11.0	\$
Write-off of deferred debt issuance costs		36.9	25.1			25.1	
Foreign exchange loss (gain)	24.6	18.5	115.5	(12.2)	(47.2)	114.8	(47.2)
	\$ 74.6	\$ 90.4	\$ 151.6	\$ (12.2)	\$ (47.2)	\$ 150.9	\$ (47.2)

(11)

In addition to non-cash charges and gains, EBITDA contains the following other special charges and gains for which we believe adjustment is permitted under our senior secured credit agreement, each of which is described under "Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Which Affect Our Results of Operations Special Charges":

(\$ in millions)	Year Ended December 31,			Three Months Ended March 31,		Pro Forma As Adjusted for Year Ended December 31, 2004	Pro Forma As Adjusted for Three Months Ended March 31, 2005
	2002	2003	2004	2004	2005		
Systems/organization establishment expenses	\$ 1.5	\$ 1.6	\$ 4.8	\$	\$ 1.2	\$ 4.8	\$ 1.2
Inventory write-up reversal		0.2	61.1		2.8	61.1	2.8

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					Pro Forma As Adjusted for Year Ended December 31, 2004	Pro Forma As Adjusted for Three Months Ended March 31, 2005
Stamp duty tax			4.0		4.0	
Business interruption costs and insurance recovery	(2.2)	(4.5)				
Costs incurred related to debt modifications		1.4	2.0		2.0	
Cancelled acquisition and disposition costs	0.3	1.9	0.5	0.2	0.5	0.2
Loss on receivables sold	1.2					
Loss on disposed businesses			0.8		0.8	
Restructuring and related charges	1.2	1.8	1.1	2.9	1.1	2.9
Foreign exchange loss on foreign currency derivatives			10.9		10.9	
Minority interest				(0.8)		(0.8)
CCA litigation defense costs				0.4		0.4
Other			2.1		1.5	
	<u>\$ 2.0</u>	<u>\$ 2.4</u>	<u>\$ 87.3</u>	<u>\$ 6.7</u>	<u>\$ 86.7</u>	<u>\$ 6.7</u>

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- (12) Working capital is defined as current assets less current liabilities. As of March 31, 2005, on a pro forma as adjusted basis, current assets were \$1,308.0 million and current liabilities were \$849.9 million.
- (13) Includes the current portion of long-term debt of \$47.2 million and \$242.4 million on an actual basis and on a pro forma as adjusted basis as of December 31, 2004 and March 31, 2005, respectively. The current portion of our long-term debt outstanding as of March 31, 2005 includes \$175.0 million outstanding under our revolving credit facility, which we are not contractually obligated to repay until July 30, 2010; as of August 5, 2005, borrowings under our revolving credit facility equaled \$24.0 million.
- (14) See discussion of the restatement in Note 20 Restatement to our and Rockwood's consolidated financial statements included elsewhere in this prospectus.

## Dynamit Nobel Summary Financial Data

The summary financial data of Dynamit Nobel presented below as of and for the years ended September 30, 2001 and 2002, and the three months ended December 31, 2002 and the year ended December 31, 2003 have been derived from its audited combined financial statements included elsewhere in this prospectus. The summary financial data of Dynamit Nobel presented below for the six months ended June 30, 2003 and as of and for the six months ended June 30, 2004 have been derived from its unaudited condensed combined financial statements, included elsewhere in this prospectus. In the opinion of our management, the unaudited financial statements have been prepared on a basis consistent with the audited financial statements and include all adjustments, which are normally recurring adjustments, necessary for a fair presentation of the results of operations for the periods presented. Results of operations for the interim periods are not necessarily indicative of the results that might be expected for any other interim period or for an entire year.

In September 2002, Dynamit Nobel changed its fiscal year end from September 30 to December 31, which resulted in a short financial year from October 1, 2002 to December 31, 2002.

The summary financial data presented below should be read together with Dynamit Nobel's combined financial statements and the notes to those statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations Dynamit Nobel" included elsewhere in this prospectus.

(\$ in millions)	Year Ended September 30,		Three Months Ended December 31, 2002	Year Ended December 31, 2003	Six Months Ended June 30,	
	2001	2002			2003	2004
<b>Statement of operations data:</b>						
Net sales	\$ 1,446.5	\$ 1,421.9	\$ 336.9	\$ 1,595.9	\$ 800.0	\$ 885.5
Cost of sales	(949.5)	(914.7)	(219.3)	(1,060.0)	(524.9)	(587.0)
Gross profit	497.0	507.2	117.6	535.9	275.1	298.5
Operating expenses(a)	(286.4)	(300.9)	(84.6)	(353.2)	(171.3)	(194.3)
Operating income	210.6	206.3	33.0	182.7	103.8	104.2
Other income, net(a)	4.9	3.8	2.2	5.8	0.8	0.5
Interest expense, net	(24.2)	(22.8)	(6.9)	(25.2)	(13.6)	(14.4)
Income before taxes and other adjustments	191.3	187.3	28.3	163.3	91.0	90.3
Income tax provision	94.1	80.4	11.8	61.7	34.2	32.1
Other adjustments(1)	1.3	3.4	0.3	(0.7)	1.1	
Net income	\$ 98.5	\$ 110.3	\$ 16.8	\$ 100.9	\$ 57.9	\$ 58.2
<b>Cash flow data:</b>						
Net cash provided by (used in) operating activities	\$ 128.0	\$ 142.1	\$ 42.1	\$ 267.0	\$ 57.6	\$ (18.2)
Net cash used in investing activities(2)	(60.3)	(62.5)	(23.8)	(102.7)	(9.0)	(45.0)
Net cash (used in) provided by financing activities(3)	(82.3)	(95.9)	(30.9)	(196.8)	(56.6)	71.7
Exchange-rate-related change in cash and cash equivalents	8.3	15.1	10.2	33.3	6.1	(6.9)
Net (decrease) increase in cash and cash equivalents	\$ (6.3)	\$ (1.2)	\$ (2.4)	\$ 0.8	\$ (1.9)	\$ 1.6
<b>Other financial data:</b>						
Depreciation and amortization	\$ 103.3	\$ 83.1	\$ 21.1	\$ 94.6	\$ 45.7	\$ 52.0
Capital expenditures	125.1	112.0	26.3	122.0	39.4	58.2
EBITDA(4)	320.1	295.8	56.6	282.7	151.7	156.7
Non-cash charges and gains included in EBITDA(5)	(2.7)	(3.4)	(1.6)	(2.4)	(6.0)	(1.1)
	(58.2)	(20.4)	2.6	31.8	8.3	2.7

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	<u>Year Ended September 30,</u>	<u>Three Months Ended December 31, 2002</u>	<u>Six Months Ended June 30,</u>
Other special charges and gains included in EBITDA(6)		15	

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(\$ in millions)	As of September 30,		As of December 31,		As of June 30, 2004
	2001	2002	2002	2003	
<b>Balance sheet data:</b>					
Cash and cash equivalents	\$ 10.7	\$ 9.5	\$ 7.0	\$ 7.8	\$ 9.5
Working capital deficiency(7)	(67.9)	(139.6)	(56.2)	(103.6)	(153.2)
Property, plant and equipment	663.3	723.9	766.2	918.2	886.2
Total assets	1,596.7	1,732.5	2,144.7	2,431.6	2,430.7
Long-term debt(8)	137.9	94.1	201.6	231.6	203.3
Investment by mg technologies ag	599.8	602.6	966.3	1,036.7	1,037.8

- (a) Certain amounts have been reclassified to conform to Rockwood's historical presentation.
- (1) Other adjustments include earnings (loss) from discontinued operations, cumulative effects from changes in accounting principles and minority interest.
- (2) Net cash used in investing activities primarily represents capital expenditures, net of proceeds from dispositions of businesses and fixed assets.
- (3) Net cash (used in) provided by financing activities primarily represents net changes in external debt and the net change in intercompany balances with Dynamit Nobel's parent, mg technologies ag.
- (4) EBITDA is defined as net income plus interest expense, net, income tax provision (benefit) and depreciation and amortization. EBITDA is not a recognized term under U.S. GAAP and is not intended to be an alternative to net (loss) income as an indicator of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements.

The amounts shown for EBITDA in this prospectus differ from the amounts calculated under the definition of EBITDA used in our debt agreements. The definition of EBITDA used in our debt agreements permits further adjustments for certain cash and non-cash charges and gains; the indentures governing the 2011 notes and 2014 notes exclude certain adjustments permitted under the senior secured credit agreement. EBITDA as adjusted is used in our debt agreements to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain payments. In addition to covenant compliance, our management also uses EBITDA as adjusted, calculated using the same definition as used in our senior secured credit agreement, to assess our operating performance, and to calculate performance-based cash bonuses and determine whether certain performance-based stock options vest, as both such bonuses and options are tied to EBITDA as adjusted targets. For a discussion of the adjustments, uses and the limitations on the use of EBITDA as adjusted, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Special Note Regarding Non-GAAP Financial Measures."

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The following is a reconciliation of Dynamit Nobel's net income to EBITDA:

(\$ in millions)	Year Ended September 30,		Three Months Ended December 31, 2002	Year Ended December 31, 2003	Six Months Ended June 30,	
	2001	2002			2003	2004
Net income	\$ 98.5	\$ 110.3	\$ 16.8	\$ 100.9	\$ 57.9	\$ 58.2
Interest expense, net	24.2	22.8	6.9	25.2	13.6	14.4
Income tax provision	94.1	80.4	11.9	61.7	34.2	32.1
Depreciation and amortization	103.3	83.1	21.1	94.6	45.7	52.0
EBITDA	320.1	296.6	56.7	282.4	151.4	156.7
Minority interest		(0.8)	(0.1)	0.3	0.3	
EBITDA (before minority interest)	\$ 320.1	\$ 295.8	\$ 56.6	\$ 282.7	\$ 151.7	\$ 156.7

(5)

EBITDA, as defined above, contains the following non-cash charges and gains for which we believe adjustment is permitted under our senior secured credit agreement, which are described under "Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Which Affect Our Results of Operations Special Charges":

(\$ in millions)	Year Ended September 30,		Three Months Ended December 31, 2002	Year Ended December 31, 2003	Six Months Ended June 30,	
	2001	2002			2003	2004
Earnings from discontinued operations	\$ (1.3)	\$ (2.6)	\$ (0.2)	\$ (1.4)	\$ (1.4)	\$
Cumulative effect of change in accounting principle				1.8		
Foreign exchange loss (gain)	(1.4)	(0.8)	(1.4)	(2.8)	(4.6)	(1.1)
	\$ (2.7)	\$ (3.4)	\$ (1.6)	\$ (2.4)	\$ (6.0)	\$ (1.1)

(6)

In addition to non-cash charges and gains for which we believe adjustment is permitted under our senior secured credit agreement, our EBITDA contains the following other special charges and gains, which are described under "Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Which Affect Our Results of Operations Special Charges":

(\$ in millions)	Year Ended September 30,		Three Months Ended December 31, 2002	Year Ended December 31, 2003	Six Months Ended June 30,	
	2001	2002			2003	2004
Non-recurring charges	\$ (0.3)	\$ (1.9)	\$	\$ 12.6	\$ 5.6	\$ 2.3
Restructuring and closure charges	2.4	3.3	2.6	14.6	2.2	0.4



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Adjustment related to divested businesses	Year Ended September 30,		Six Months Ended June 30,			
	(60.3)	(21.8)	4.6		0.5	
	\$ (58.2)	\$ (20.4)	\$ 2.6	\$ 31.8	\$ 8.3	\$ 2.7

(7) Working capital is defined as current assets less current liabilities.

(8) Excludes the current portion of long-term debt.

## RISK FACTORS

*An investment in our common stock involves a high degree of risk. You should consider carefully the following factors and the other information in this prospectus before deciding to purchase any shares of our common stock.*

### **Risk Factors Relating to Our Business**

***Substantial Leverage*** *Our available cash and access to additional capital may be limited by our substantial leverage.*

We are highly leveraged and have significant debt service obligations. As of March 31, 2005, on a pro forma as adjusted basis after giving effect to the offering, we would have had approximately \$3,184.7 million of long-term debt outstanding and total stockholders' equity of approximately \$915.9 million.

This high level of indebtedness could have important negative consequences to us and you, including:

we may have difficulty obtaining financing in the future for working capital, capital expenditures or acquisitions;

we will need to use a substantial portion of our available cash flow to pay interest and principal on our debt, which will reduce the amount of money available to finance our operations and other business activities;

some of our debt, including borrowings under the senior secured credit facilities, will have variable rates of interest, which will expose us to the risk of increased interest rates;

our debt level increases our vulnerability to general economic downturns and adverse industry conditions;

our debt level could limit our flexibility in planning for, or reacting to, changes in our business and in our industry in general;

our substantial amount of debt and the amount we need to pay to service our debt obligations could place us at a competitive disadvantage compared to our competitors that have less debt; and

our failure to comply with the financial and other restrictive covenants in our debt instruments which, among other things, require us to maintain specified financial ratios and limit our ability to incur debt and sell assets, could result in an event of default that, if not cured or waived, could cause our lenders to terminate commitments under our debt agreements, declare all amounts, including accrued interest, due and payable, and enforce their rights in respect of collateral.

Our pro forma cash interest expense for the year ended December 31, 2004 and the three months ended March 31, 2005 was \$193.1 million and \$45.4 million, respectively. At March 31, 2005, on an actual basis, we had \$1,831.7 million of variable rate debt. After including the notional amounts of variable to fixed interest rate swaps, the variable amount was \$549.1 million. A 1% increase in the average interest rate would increase future interest expense by approximately \$5.5 million per year. Our debt service for 2005 is expected to be \$236.9 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity Contractual Obligations" for years beyond 2005.

***Additional Borrowings Available*** *Despite our substantial leverage, we and our subsidiaries will be able to incur more indebtedness. This could further exacerbate the risks described above, including our ability to service our indebtedness.*

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. Although Group's senior secured credit facilities and indentures governing the 2011 notes and 2014 notes contain restrictions on the incurrence of additional indebtedness, such restrictions are subject to a number of qualifications and exceptions, and under certain circumstances, indebtedness incurred in compliance with such restrictions could be substantial. As of August 5, 2005, the revolving credit facility under the senior secured credit facilities provided for additional borrowings of up to \$207.1 million, after giving effect to \$24.0 million of borrowings and \$18.9 million of letters of credit issued on our behalf. To the extent new debt is added to our debt levels, the substantial leverage risks described above would increase.

***Restrictive Covenants in Our Debt Instruments*** *Our debt instruments contain a number of restrictive covenants which may limit our ability to finance future operations or capital needs or engage in other business activities that may be in our interest.*

Group's senior secured credit agreement and indentures governing the 2011 notes and 2014 notes impose, and the terms of any future indebtedness may impose, operating and other restrictions on us. Such restrictions will affect, and in many respects limit or prohibit, among other things, our ability to take certain actions. See "Description of Indebtedness Senior Secured Credit Facilities Negative Covenants," "2011 Notes Negative Covenants" and "2014 Notes Negative Covenants." In addition, Group's senior secured credit facilities also require us to achieve certain financial and operating results and maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control. The restrictions and financial covenants contained in Group's senior secured credit agreement and indentures governing the 2011 notes and 2014 notes could adversely affect our ability to finance our operations, acquisitions, investments or strategic plans or other capital needs or to engage in other business activities that would be in our interest.

A breach of any of these covenants or our inability to comply with the required financial ratios could result in a default under the senior secured credit facilities and/or the indentures. If an event of default occurs under the senior secured credit facilities, which includes an event of default under the indentures, the lenders could elect to:

declare all borrowings outstanding, together with accrued and unpaid interest, to be immediately due and payable;

require us to apply all of our available cash to repay the borrowings; or

prevent us from making debt service payments on the 2011 notes and 2014 notes;

any of which would result in an event of default under the 2011 notes and 2014 notes. The lenders will also have the right in these circumstances to terminate any commitments they have to provide further financing. If we were unable to repay or otherwise refinance these borrowings when due, our lenders could sell the collateral securing the senior secured credit facilities, which constitutes substantially all of our and our subsidiaries' assets.

***Structural Subordination*** *Because the issuer does not conduct any business operations of its own, it depends upon the performance of its subsidiaries and their ability to make distributions to it. Accordingly, in the event of the issuer's dissolution, bankruptcy, liquidation or reorganization, you will not be entitled to receive ratably any assets available for distribution to our stockholders until after the payment in full of the claims of the creditors of these subsidiaries.*

The issuer is a holding company that does not conduct any business operations of its own. The issuer's principal asset is common stock of its subsidiary, Rockwood Specialties Consolidated, Inc., which, indirectly through other subsidiaries, owns operating subsidiaries. As a result, the issuer is dependent upon cash dividends and distributions or other transfers from its subsidiaries to make dividend payments on its common stock and to meet any obligations. The ability of the issuer's subsidiaries to pay dividends and make payments to the issuer will depend on their operating results and may be restricted by, among other things, applicable corporate, tax and other laws and regulations, agreements of those subsidiaries, such as the senior secured credit agreement, the indentures governing the 2011 notes and 2014 notes and agreements governing any future indebtedness the issuer or its subsidiaries may incur.

In addition, because the issuer is a holding company, your claims as stockholders will be structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of its subsidiaries, including obligations under Group's senior secured credit facilities and indentures. Accordingly, in the event of the issuer's dissolution, bankruptcy, liquidation or reorganization, the issuer's assets and those of its subsidiaries will be available for distribution to our stockholders only after all of the issuer's and its subsidiaries' liabilities and obligations have been paid in full. The issuer would not be able to make distributions to its stockholders until after the payment in full of the claims of the creditors of its subsidiaries.

***Risks Associated with Acquisitions*** *We may not be able to successfully integrate Dynamit Nobel, Groupe Novasep SAS or other acquisitions we may make in the future.*

The process of combining the businesses of Dynamit Nobel or any of our recent acquisitions or combinations, including Groupe Novasep SAS, or any other future acquisitions, and Rockwood involves risks. We are currently in the process of integrating the businesses of Dynamit Nobel and Groupe Novasep SAS. We may face difficulty completing the integration of the new operations, technologies, products and services of Dynamit Nobel or any of our recent acquisitions or combinations, including Groupe Novasep, or any other future acquisition, and may incur unanticipated expenses related to those integrations. The difficulties of combining operations may be magnified by integrating personnel with differing business backgrounds and corporate cultures. Completion of the Dynamit Nobel acquisition required, and the continuing integration of Dynamit Nobel with Rockwood requires, a substantial amount of management's time. Failure to successfully manage and integrate these acquisitions with our existing operations could lead to the potential loss of customers of the acquired business, the potential loss of employees who may be vital to the new operations, the potential loss of business opportunities or other adverse consequences that could affect our financial condition and results of operations. Even if integration occurs successfully, failure of the Dynamit Nobel acquisition, the Groupe Novasep combination or any future acquisition to achieve levels of anticipated sales growth, profitability or productivity comparable with those achieved by our existing operations, or otherwise not perform as expected, may adversely impact our financial condition and results of operations. We have incurred, and will continue to incur, certain liabilities and expenses in connection with the Dynamit Nobel acquisition, the Groupe Novasep combination, our recent acquisitions or combinations or any future acquisitions or combinations.

***Limited Relevance of Financial Information*** Our historical and pro forma financial information may not be representative of our results as a combined company.

Other than our financial information as of and for the periods ended subsequent to July 31, 2004, which include the results of operations of the acquired Dynamit Nobel businesses subsequent to July 31, 2004, the historical financial information included in this prospectus is derived from separate financial statements of Rockwood and Dynamit Nobel for periods prior to the consummation of the Dynamit Nobel acquisition. Furthermore, the historical financial statements of Dynamit Nobel are derived from the historical accounting records of mg technologies ag and are presented on a "carve-out" basis to include the historical operations applicable to Dynamit Nobel as operated under mg technologies ag. The historical financial information of Dynamit Nobel includes all revenues and costs directly attributable to Dynamit Nobel as operated under mg technologies ag, including compensation for executives of Dynamit Nobel, costs for facilities, functions and services used by Dynamit Nobel at mg technologies ag's sites and costs for certain functions and services performed by centralized mg technologies ag's financial and cash management systems. In addition, the pro forma financial information presented in this prospectus is based on certain assumptions regarding the integration of Dynamit Nobel, as well as the other components of the Transactions, that we believe are reasonable. Our assumptions may prove to be inaccurate over time. Accordingly, the historical and pro forma financial information included in this prospectus may not reflect what our results of operations and financial condition would have been had we been a combined entity during the periods presented, or what our results of operations and financial condition will be in the future.

***Net Loss*** We have a history of losses and may experience losses in the future and we cannot be certain that our net operating loss carryforwards will continue to be available to offset our tax liability.

We have incurred net losses in the past and we may incur net losses in the future. We incurred net losses of \$68.2 million, \$91.7 million and \$216.1 million in 2002, 2003 and 2004, respectively, and \$159.7 million in 2004 on a pro forma as adjusted basis after giving effect to the Transactions.

We may not achieve profitability in the future and we may not generate cash flow sufficient to make dividend payments or meet debt service obligations and other capital requirements, such as working capital and maintenance capital expenditures.

As of December 31, 2004, we had deferred tax assets of \$136.4 million related to worldwide net operating loss carryforwards for which we had valuation allowances of \$86.6 million and an additional valuation allowance of \$34.1 million for the net United States deferred tax assets including interest on the pay-in-kind loans and notes and senior discount notes. If our operating performance deteriorates in the future in the relevant tax jurisdictions, we may be unable to realize these net operating loss carryforwards and we may be required to record an additional valuation allowance.

***Currency Fluctuations*** Because a significant portion of our operations is conducted in foreign currencies, fluctuations in currency exchange rates may adversely impact our financial condition and results of operations and may affect the comparability of our results between financial periods.

Our operations are conducted by subsidiaries in many countries. The results of their operations and financial condition are reported in the local currency and then translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements. The exchange rates between some of these currencies and the dollar in recent years have fluctuated significantly and may continue to do so in the future. As a result of the Dynamit Nobel acquisition, a significantly

larger portion of our net sales and cost of products sold is now denominated in euros. Approximately 40% of our 2004 pro forma net sales would have been derived from subsidiaries whose sales are denominated in euros. This increases the impact of the fluctuation of the euro against the U.S. dollar.

Furthermore, because a portion of our debt is denominated in euros, which as of March 31, 2005 equaled an aggregate of €1,061.5 million (\$1,379.5 million based on the March 31, 2005 exchange rate of €1.00=\$1.2996), we are subject to fluctuation in the exchange rate between the U.S. dollar and the euro. For example, the dollar-euro noon buying rate announced by the Federal Reserve Bank of New York decreased from \$1.00=€1.065 on December 31, 2000 to \$1.00=€0.7357 on December 31, 2004. Being subject to this currency fluctuation may have an adverse effect on the carrying value of our debt and may also affect the comparability of our results of operations between financial periods. As of March 31, 2005, a weakening or strengthening of the euro against the U.S. dollar by \$0.01 would decrease or increase, respectively, by \$10.6 million the U.S. dollar equivalent of our total euro-denominated debt of €1,061.5 million. In addition, because our financial statements are reported in U.S. dollars, the translation effect of such fluctuations has in the past significantly impacted, and may in the future, significantly impact the carrying value of our debt and results of operations and may affect the comparability of our results between financial periods. We also incur currency transaction risk whenever we enter into either a purchase or sale transaction using a currency other than the local currency of the transacting entity.

We may not be able to effectively manage our currency translation and/or transaction risks and volatility in currency exchange rates may have a material adverse effect on the carrying value of our debt and results of operations.

***Regulation of Our Raw Materials, Products and Facilities*** *Our business could be adversely affected by regulation to which our raw materials, products and facilities are subject.*

Some of the raw materials we handle, and our products and facilities, are subject to government regulation. These regulations affect the manufacturing processes, uses and applications of our products.

In addition, some of our subsidiaries' products contain raw materials, such as arsenic pentoxide, carbon disulfide, lithium carbonate, tetrahydrofuran, copper, chromic acid, silica, zinc chromate and lead, that are deemed hazardous materials in certain situations. The use of these materials is regulated and some of these regulations require product registrations, which also are subject to renewal and potential revocation. These regulations may affect our ability to market certain chemicals we produce.

There is also a risk that other key raw materials or one or more of our products may be found to have, or be recharacterized as having, a toxicological or health-related impact on the environment or on our customers or employees. If such a discovery or recharacterization occurs, the relevant materials, chemicals or products, including products of our customers incorporating our materials or chemicals, may be recalled or banned or we may incur increased costs in order to comply with new regulatory requirements. Change in regulations, or their interpretation, may also affect the marketability of certain of our products.

***Manufacturing Hazards*** *Hazards associated with chemical manufacturing could adversely affect our results of operations.*

Due to the nature of our business, we are exposed to the hazards associated with chemical manufacturing and the related storage and transportation of raw materials, products and wastes in our manufacturing facilities or our distribution centers, such as fires, explosions and accidents. These hazards could lead to an interruption or suspension of operations and have an adverse effect

on the productivity and profitability of a particular manufacturing facility or on our company as a whole. Other hazards include:

    piping and storage tank leaks and ruptures;

    mechanical failure;

    employee exposure to hazardous substances;

    chemical spills and other discharges or releases of toxic or hazardous substances or gases; and

    inclement weather and natural disasters.

These hazards may cause personal injury and loss of life, damage to property and contamination of the environment, which could lead to government fines or work stoppage injunctions and lawsuits by injured persons. For example, our subsidiaries had been named as defendants in a wrongful death suit filed by the family of an employee who was fatally injured in an accident in our Clay-based Additives facility in Gonzales, Texas. While we are unable to predict the outcome of this case and other such cases, if determined adversely to us, we may not have adequate insurance to cover such claims and, if not, we may not have sufficient cash flow to pay for such claims. Such outcomes could adversely affect our customer goodwill, cash flow and results of operations.

***Raw Materials Fluctuations in costs of our raw materials or our access to supplies of our raw materials could adversely affect our results of operations.***

Although no single raw material represented more than 5% of our pro forma cost of products sold in 2004, raw material costs generally account for a high percentage of our total costs of products sold. In 2004, raw materials constituted approximately 48% of our pro forma cost of products sold. We generally purchase raw materials based on supply agreements linked to market prices and therefore our results of operations are subject to short-term fluctuations in raw materials prices. These fluctuations limit our ability to accurately forecast future raw material costs and hence our profitability.

Many of the raw materials we use are commodities, and the price of each can fluctuate widely for a variety of reasons, including changes in availability, major capacity additions or reductions or significant facility operating problems. Historically, there have been some price increases we have not been able to pass through to our customers. This trend may continue in the future.

In addition, titanium-bearing slag used in our Titanium Dioxide Pigments segment is our largest raw material (in terms of dollars) and is sourced primarily from one supplier in Canada. If our supplier is unable to meet its obligations under our present supply agreement or we are unable to enter into new supply arrangements on competitive terms when our existing short-term supply arrangements expire, we may be forced to pay higher prices to obtain these necessary raw materials. Furthermore, certain of our raw materials, such as cesium and lithium salts, are sourced from countries where political, economic and social conditions may be subject to instability. In addition, one of our raw materials, lithium brine, requires a period of gestation before it can be used to produce lithium compounds. In the event there is an increase in market demand for lithium products, we may not be able to respond to such market demand on a timely basis. Any interruption of supply or any price increase of raw materials could result in our inability to meet demand for our products, loss of customer goodwill and higher costs of producing our products.

***Energy Costs*** *Fluctuations in energy costs could have an adverse effect on our results of operations.*

Energy purchases in 2004 constituted approximately 4% of Rockwood's historical cost of products sold and 5% of Dynamit Nobel's historical cost of products sold. Fluctuations in the price of energy limit our ability to accurately forecast future energy costs and consequently our profitability. For example, in 2004, natural gas prices were volatile in North America and have been increasing in the first quarter of 2005. Energy costs increases have been mainly due to global political conditions and extreme weather conditions. Rising energy costs may also increase our raw material costs. If energy prices fluctuate significantly, our business, in particular, our Titanium Dioxide Pigments segment, or results of operations may be adversely affected. In addition, rising energy costs also negatively impact our customers and the demand for our products. These risks will be heightened if our customers or production facilities are in locations experiencing severe energy shortages.

***Environmental, Health and Safety Regulation*** *Compliance with extensive environmental, health and safety laws could require material expenditures or changes in our operations.*

Our operations are subject to extensive environmental, health and safety laws and regulations at national, international and local levels in numerous jurisdictions. In addition, our production facilities and a number of our distribution centers require operating permits that are subject to renewal and, in some circumstances, revocation. The nature of the chemicals industry exposes us to risks of liability under these laws and regulations due to the production, storage, transportation, disposal and sale of chemicals and materials that can cause contamination or personal injury if released into the environment. In 2004, on a pro forma basis, our capital expenditures for safety, health and environmental matters was approximately \$23.9 million. We expect such capital expenditures to be approximately \$25.0 million in 2005. We may be materially impacted in the future by the Registration, Evaluation and Authorization of Chemicals, or REACH, program proposed by the European Union.

Compliance with environmental laws generally increases the costs of registration/approval requirements, the costs of transportation and storage of raw materials and finished products, as well as the costs of the storage and disposal of wastes, and could have a material adverse effect on our results of operations. We may incur substantial costs, including fines, damages, criminal or civil sanctions and remediation costs, or experience interruptions in our operations, for violations arising under these laws or permit requirements. Furthermore, environmental laws are subject to change and have tended to become stricter over time. Such changes in environmental laws or their interpretation, or the enactment of new environmental laws, could result in materially increased capital expenditures and compliance costs.

In addition, the discovery of contamination arising from historical industrial operations at some of our former and present properties has exposed us, and in the future may continue to expose us, to cleanup obligations and other damages. For example, soil and groundwater contamination is known to exist at several of our facilities, including some that we acquired in the Dynamit Nobel acquisition. At March 31, 2005, we had approximately \$51.2 million in reserves for estimated environmental liabilities, of which approximately \$44.7 million is for estimated liabilities related to environmental matters in connection with the Dynamit Nobel acquisition.

Under the sale and purchase agreement, mg technologies ag is required to indemnify us for certain environmental matters, subject to certain limitations. See "Dynamit Nobel Acquisition Sale and Purchase Agreement Indemnity for Breaches of Representations and Warranties Environmental Indemnity." However, mg technologies ag may not adhere to its indemnity obligations to us and the indemnity may not adequately cover any related environmental matters,



and we may have to institute proceedings to pursue recovery for such matters. Such legal proceedings may be costly and may require a substantial amount of management attention.

***Environmental Indemnities*** *We may be subject to environmental indemnity claims relating to properties we have divested.*

The discovery of contamination arising from properties that we have divested may expose us to indemnity obligations under the sale agreements with the buyers of such properties or cleanup obligations and other damages under applicable environmental laws. For example, we have obligations to indemnify the buyers of the former explosives business and automotive ignition systems business of Dynamit Nobel for certain environmental matters. Under such sale agreements, these indemnities are not limited as to amount. Furthermore, we have an obligation to indemnify the buyer of our former manufacturing sites at Troisdorf, Germany, for which we have reserved approximately \$13.9 million, and Greenville, South Carolina where there has been a discovery of groundwater and soil contamination. We may not have adequate insurance coverage or cash flows to make such indemnity payments. Such payments may be costly and may adversely affect our financial condition and results of operations.

***Product Liability*** *Due to the nature of our business and products, we may be liable for damages arising out of product liability claims.*

The sale of our products involves the risk of product liability claims. For example, some of the chemicals or substances that are used in our businesses, such as arsenic pentoxide, have been alleged to represent potentially significant health and safety concerns. Class action suits had been filed in Louisiana, Florida and Arkansas, for example, naming one of our subsidiaries and a number of competitors of our Timber Treatment Chemicals business line in our Performance Additives segment, as well as treaters and retailers, as defendants. In addition, our subsidiary has been named as a defendant in personal injury suits in several jurisdictions with retailers and treaters named as other defendants. Furthermore, there are other similar suits, including putative class actions, pending against retailers, treaters and other formulators to which we may be eventually named as a defendant. These suits allege, among other things, product liability claims in connection with the use of timber products treated with CCA, which utilizes arsenic pentoxide as a raw material. In addition, a subsidiary in our Advanced Ceramics segment has been named as a defendant in several product liability lawsuits in Europe and in one product liability lawsuit in the United States relating to broken artificial hip joints, which allege negligent manufacturing by our subsidiary of ceramic components used in the production of artificial hip joints. Further, a subsidiary in our Specialty Chemicals segment has been named as a defendant in several lawsuits in the United States regarding exposure to solvents and other chemicals contained in some of our products. We are unable to estimate our exposure, if any, to these lawsuits at this time.

We may be subject to future claims with regard to these suits or others like them and we may not be able to avoid significant product liability exposure. A successful product liability claim or series of claims against us for which we are not otherwise indemnified or insured could materially increase our operating costs or prevent such operating subsidiary from satisfying its financial obligations. For example, for policies renewed on or after November 2002, our insurers excluded CCA from our insurance coverage under our general liability policies. We may not have sufficient cash flow from operations or assets to pay a judgment resulting from a product liability claim, if any, for which there is no or inadequate insurance coverage. Any such judgment could materially increase our operating costs or prevent such operating subsidiary from satisfying its financial obligations.

***Product Liability Due to the nature of our business and products, we may be liable for damages arising out of certain indemnity claims.***

We may be subject to indemnity claims for product liability lawsuits relating to products we have sold. For example, our Timber Treatment Chemicals business has entered into indemnity agreements with various customers who purchased CCA-based wood protection products. Pursuant to those agreements, one of our subsidiaries agreed to defend and hold harmless those customers for certain causes of action, based on domestic mammalian, and in some cases, human, toxicity, caused by our CCA-based wood protection products, subject to certain conditions. Our Timber Treatment Chemicals business, and several of our customers were named as defendants in several suits, including putative class actions, relating to CCA-based wood protection products. Our Timber Treatment Chemicals business has received and may in the future receive claims for indemnity from customers in connection with litigation relating to CCA-based wood protection products and may be required to pay indemnity claims under such agreements to one or more of its customers. If our Timber Treatment Chemicals business is required to pay one or more indemnity claims, insurance or indemnity arrangements from Degussa (the successor to Laporte, from which the specialty chemicals business lines that formed Rockwood in the KKR acquisition were acquired) may not cover such claims and, if not, our subsidiary may not have sufficient free cash flow to pay such claims. We are unable to estimate our exposure, if any, to these claims and lawsuits at this time.

In addition, our Specialty Chemicals segment's subsidiary that formerly manufactured insulating glass sealants has been named as a defendant in several product liability lawsuits relating to alleged negligent manufacturing of these sealants. Pursuant to the sale and purchase agreement, one of our Specialty Chemicals' subsidiaries may be required to pay indemnity claims for a limited number of years. If such subsidiary is required to pay indemnity claims, our insurance may not cover such claims and, if not, our subsidiary may not have sufficient cash flow to pay such claims. One or more of these claims could adversely affect our financial condition or results of operations.

***Cyclical Downturns in cyclical industries and general economic conditions could adversely affect our profitability.***

Our products are used in certain industries that are cyclical in nature, such as the automotive, data and communications and electronics industries. In addition, sales to the construction market are driven by trends in commercial and residential construction, housing starts and trends in residential repair and remodeling. Downturns in one or more of these industries could severely reduce demand for our products. For example, the telecommunications market has experienced a similar downturn, which has affected the results of operations of our Specialty Compounds segment, and in recent years the semiconductor market has experienced a severe downturn, which has affected the results of operations of our Electronics segment.

In addition, downturns in general economic conditions, whether in a particular region or globally, could reduce demand for our products. An economic downturn in one or more of the markets or geographic regions in which we sell our products may result in a decline in our net sales.

***Pharmaceutical Industry We may not be able to renew our contracts with Groupe Novasep's pharmaceutical customers due to their manufacturing strategy, which may adversely affect our results of operations.***

Net sales of pharmaceutical intermediates or active ingredients by our Groupe Novasep segment, which accounted for approximately 12% of our 2004 pro forma net sales, may be adversely impacted by the manufacturing strategy of our customers in the pharmaceutical industry. Pharmaceutical companies may establish back-up production facilities through a second supplier or

manufacture these intermediates on their own if they have hazardous chemical production expertise in-house or are willing to make capital investments. Consequently, while we typically enter into long-term, requirement-based supply contracts with our pharmaceutical customers, we may not be able to renew these contracts upon expiration.

***FDA Regulation*** *Some of our manufacturing processes and facilities, pharmaceutical customers and medical device customers are subject to regulation by the FDA or similar foreign agencies. These events could adversely affect our results of operations.*

The manufacturing processes and facilities of our Novasep Synthesis business line of our Groupe Novasep segment, which specializes in commercial production of pharmaceutical intermediates, are subject to regulatory requirements of the FDA, including current Good Manufacturing Practice regulations or other applicable foreign regulatory agencies such as the central European agency for medicines. In addition, certain lithium compounds manufactured by our Fine Chemicals business line of our Specialty Chemicals segment are also subject to FDA regulation. Furthermore, the manufacture and supply of ceramic-on-ceramic ball head and liner components for hip joint prostheses systems by our Advanced Ceramics segment may also be subject to the FDA's Quality System Regulation, which imposes current Good Manufacturing Practice requirements on the manufacture of medical devices.

Pharmaceutical customers of our Groupe Novasep segment to whom we supply our pharmaceutical intermediates and medical device customers of our Advanced Ceramics segment to whom we supply our ceramic-on-ceramic ball head and liner components are subject to FDA regulation, including premarket approval of their products and post market compliance requirements. The FDA may take three years or longer to grant premarket approval, if at all. Once approved, our customers' pharmaceutical products and total hip prostheses systems may be withdrawn from the market either voluntarily by our customers or as a result of the FDA's or a foreign equivalent's withdrawal of marketing approval or removal of such products for a number of reasons including safety, current Good Manufacturing Practice or Quality System Regulation problems with our products or our customers' final products. These factors relating to our customers in the pharmaceutical industry and medical devices industry could significantly limit our net sales generated by our Groupe Novasep segment and Advanced Ceramics segment, respectively, and may have a material adverse effect on our financial condition and results of operations.

Regulatory requirements of the FDA are complex, and any failure to comply with them could subject us and/or our customers to fines, injunctions, civil penalties, lawsuits, recall or seizure of products, total or partial suspension of production, denial of government approvals, withdrawal of marketing approvals and criminal prosecution and could adversely impact our net sales, undermine goodwill established with our customers, damage commercial prospects for our products and materially adversely affect our results of operations.

***Competition*** *Our industry is highly competitive. The end-use markets in which we compete are also highly competitive. This competition may adversely affect our results of operations.*

We face significant competition from major international producers as well as smaller regional competitors. Our most significant competitors include major chemicals and materials manufacturers and diversified companies, a number of which have revenues and capital resources exceeding ours.

In addition, within the end-use markets in which we compete, competition between products is intense. Substitute products also exist for many of our products. Therefore, we face substantial risk that certain events, such as new product development by our competitors, changing customer needs, production advances for competing products, price changes in raw materials, our failure to

secure patents or the expiration of patents, could result in declining demand for our products as our customers switch to substitute products or undertake manufacturing of such products on their own. If we are unable to develop and produce or market our products to effectively compete against our competitors, our results of operations may materially suffer.

We believe that our customers are increasingly looking for strong, long-term relationships with a few key suppliers that help them improve product performance, reduce costs, or support new product development. To satisfy these growing customer requirements, our competitors have been consolidating within product lines through mergers and acquisitions. We may also need to invest and spend more on research and development and marketing costs to strengthen existing customer relationships, as well as attract new customers. As a result, our substantial debt level could limit our flexibility to react to these industry trends and our ability to remain competitive.

***Product Innovation*** *If we are not able to continue our technological innovation and successful commercial introduction of new products, our profitability could be adversely affected.*

Our industries and the end-use markets into which we sell our products experience periodic technological change and product improvement. Manufacturers periodically introduce new generations of products or require new technological capacity to develop customized products. Our future growth will depend on our ability to gauge the direction of the commercial and technological progress in all key end-use markets and upon our ability to fund and successfully develop, manufacture and market products in such changing end-use markets. We will have to continue to identify, develop and market innovative products on a timely basis to replace or enhance existing products in order to maintain our profit margins and our competitive position. We may not be successful in developing new products and/or technology, either alone or with third parties, or licensing intellectual property rights from third parties on a commercially competitive basis. Our new products may not be accepted by our customers. If we fail to keep pace with the evolving technological innovations in our end-use markets on a competitive basis, our business, financial condition and results of operations could be adversely affected.

***Dependence on Intellectual Property*** *If our intellectual property were copied by competitors, or if they were to develop similar intellectual property independently, our results of operations could be negatively affected.*

Our success depends to a significant degree upon our ability to protect and preserve our intellectual property rights, which rights we own or use pursuant to licenses granted to us by third parties. The confidentiality and patent assignment agreements we enter into with most of our key employees and third parties to protect the confidentiality, ownership and use of intellectual property may be breached, may not be enforceable, may provide for joint ownership or ownership by a third party. In addition, we may not have adequate remedies for a breach by the other party, which could adversely affect our intellectual property rights.

The use of our intellectual property rights or intellectual property similar to ours by others or our failure to protect such rights could reduce or eliminate any competitive advantage we have developed, adversely affecting our net sales. If we must sue to protect, defend or enforce our intellectual property rights, any suits or proceedings could result in significant costs and diversion of company resources and management attention, and we may not prevail in such action.

We conduct research and development activities with third parties and license certain intellectual property rights from third parties and we plan to continue to do so in the future. For example, in our Timber Treatment Chemicals business, we developed the technology to produce ACQ pursuant to a license agreement with Domtar Inc. and through the acquisition of the Kemwood business from Kemira OY. We endeavor to license or otherwise obtain intellectual property rights on

terms favorable to us. However, we may not be able to license or otherwise obtain intellectual property rights on such terms or at all. Our inability to license or otherwise obtain such intellectual property rights could have a material adverse effect on our ability to create a competitive advantage and create innovative solutions for our customers, which will adversely affect our net sales and our relationships with our customers.

The steps we take to protect our intellectual property may not provide us with any competitive advantage and may be challenged by third parties. We have been and currently are subject to oppositions of our patents and trademarks by third parties before regulatory bodies in certain jurisdictions. Our failure to defend these patents or registered trademarks may limit our ability to protect the intellectual property rights that these applications were intended to cover. In addition, a failure to obtain and defend our trademark registrations may impede our marketing and branding efforts and competitive position. A failure to protect our intellectual property rights could have a material adverse effect on demand for our products and our net sales.

***Risk of Intellectual Property Litigation*** *Our products or processes may infringe the intellectual property rights of others, which may cause us to pay unexpected litigation costs or damages or prevent us from selling our products.*

Although it is our intention to avoid infringing or otherwise violating the intellectual property rights of others, our processes and products may infringe or otherwise violate the intellectual property rights of others. We may be subject to legal proceedings and claims, including claims of alleged infringement by us or our licensees of the patents, trademarks and other intellectual property rights of third parties. Intellectual property litigation is expensive and time-consuming, regardless of the merits of any claim, and could divert our management's attention from operating our businesses.

If we were to discover or be notified that our processes or products potentially infringe or otherwise violate the intellectual property rights of others, we may need to obtain licenses from these parties or substantially re-engineer our products and processes in order to avoid infringement. We might not be able to obtain the necessary licenses on acceptable terms, or at all, or be able to re-engineer our products successfully. Moreover, if we are sued for infringement and lose the suit, we could be required to pay substantial damages and/or be enjoined from using or selling the infringing products or technology. Any of the foregoing could cause us to incur significant costs and prevent us from selling our products.

***International Operations*** *As a global business, we are exposed to local and global business risks in different countries which could have a material adverse effect on our financial condition, results of operations and reputation and the value of our common stock.*

We have significant operations in many countries, including manufacturing facilities, research and development facilities, sales personnel and customer support operations. Currently, we operate, or others operate on our behalf, facilities in countries such as, among others, Brazil, Chile, China, Czech Republic, Malaysia, Poland, Portugal, Singapore, South Africa, South Korea, Taiwan and Turkey. 66% of our pro forma net sales in 2004 were shipments to countries outside North America. Our operations are affected directly and indirectly by global regulatory, economic and political conditions, including:

new and different legal and regulatory requirements in local jurisdictions;

managing and obtaining support and distribution for local operations;

increased costs of, and availability of, transportation or shipping;

credit risk and financial conditions of local customers and distributors;

potential difficulties in protecting intellectual property;

risk of nationalization of private enterprises by foreign governments;

potential imposition of restrictions on investments;

potentially adverse tax consequences, including imposition or increase of withholding and other taxes on remittances and other payments by subsidiaries;

capital controls; and

local political, economic and social conditions, including the possibility of hyperinflationary conditions and political instability in certain countries.

In addition, our facilities may be targets of terrorist activities that could result in full or partial disruption of the activities of such facilities.

Furthermore, our subsidiaries are subject to the export controls and economic embargo rules and regulations of the United States, violations of which may carry substantial penalties. These regulations limit the ability of our subsidiaries to market, sell, distribute or otherwise transfer their products or technology to prohibited countries or persons. Certain of our subsidiaries acquired in the Dynamit Nobel acquisition conduct business in, and with entities owned by the government of Iran, which is a nation subject to U.S. economic sanctions and identified by the U.S. government as a state sponsor of terrorism. While our subsidiaries conduct their operations in Iran in accordance with current U.S. rules and regulations, they will cease conducting business in Iran upon fulfillment of outstanding purchase orders and obligations under two license agreements. Failure to comply with these regulations could subject our subsidiaries to fines, enforcement actions and/or have an adverse affect on our reputation and the value of our common stock.

We may not succeed in developing and implementing policies and strategies to counter the foregoing factors effectively in each location where we do business. Our failure to do so could limit our ability to sell products, compete or receive payments for products sold in such locations.

***Retention of Key Personnel*** *If we lose certain key personnel or are unable to hire additional qualified personnel, we may not be able to execute our business strategy.*

Our success depends, in part, upon the continued services of our highly skilled personnel involved in management, research, production, sales and distribution, and, in particular, upon the efforts and abilities of our executive officers and key employees. Although we believe that we are adequately staffed in key positions and that we will be successful in retaining key personnel, we may not be able to retain such personnel on acceptable terms or at all. Furthermore, if we lose the service of any executive officers or key employees, we may not be able to execute our business strategy. We do not have key-person life insurance covering any of our employees.

***Relations with Employees*** *We are subject to stringent labor and employment laws in certain jurisdictions in which we operate, and our relationship with our employees could deteriorate, which could adversely impact our operations.*

A majority of our full-time employees are employed outside the United States, particularly in Germany where many of our Dynamit Nobel businesses are located. In certain jurisdictions where we operate, particularly in Germany, labor and employment laws are relatively stringent and, in many cases, grant significant job protection to certain employees, including rights on termination of employment. In addition, in certain countries where we operate, including Germany, our employees are members of unions or are represented by a works council as required by law. We are often required to consult and seek the consent or advice of these unions and/or respective works' councils. These regulations and laws coupled with the requirement to consult with the relevant unions or works' councils could significantly limit our flexibility in managing costs and responding to market changes.

Furthermore, with respect to our employees that are subject to collective bargaining arrangements or similar arrangements (approximately 34% of our full-time employees as of March 31, 2005), we may not be able to negotiate labor agreements on satisfactory terms and actions by our employees may disrupt our business. If these workers were to engage in a strike, work stoppage or other slowdown, we could experience a significant disruption of our operations and/or higher ongoing labor costs. In addition, if our other employees were to become unionized, we could experience a significant disruption of our operations and/or higher ongoing labor costs.

***Tax Liabilities As a result of mg technologies ag's tax restructuring program in December 2002, we may incur tax liabilities.***

Prior to the Dynamit Nobel acquisition, mg technologies ag implemented a tax restructuring program in Germany. In the event that the resulting structure is challenged by the German tax authorities, we may be required to refund all or a portion of the benefits obtained by mg technologies ag and/or incur additional tax liabilities for current and future periods. Although under the sale and purchase agreement, mg technologies ag has agreed to substantially indemnify us for any such tax liabilities, a successful challenge by the German tax authorities combined with mg technologies ag's failure or inability to satisfy its indemnity obligations may result in our having to pay such tax liabilities.

***Anticipated Capital Expenditures Our required capital expenditures may exceed our estimates.***

Total combined capital expenditures of Rockwood, Dynamit Nobel and Groupe Novasep SAS for 2004 were \$211.5 million, which consisted of maintenance expenditures and substantial investments in new equipment. Future capital expenditures may be significantly higher, depending on the investment requirements of each of our business lines. Future capital expenditures may also vary substantially if we are required to undertake certain actions to compete with new technologies in our industry. We may not have the capital necessary to undertake these capital investments. If we are unable to do so, we may not be able to effectively compete in some of our markets.

***Control Affiliates of KKR and DLJMB control us and may have conflicts of interest with us or you.***

Upon the closing of this offering, affiliates of KKR and DLJMB (which is affiliated with CSFB) will beneficially own approximately 68.4% of our common stock (or 65.6% if the underwriters exercise in full their over-allotment option) on an undiluted basis. In addition, representatives of KKR and DLJMB will occupy a majority of the seats on our board of directors. As a result, affiliates of KKR and DLJMB have control over our decisions to enter into any corporate transaction and will have the ability to prevent any transaction that requires the approval of our board of directors or the stockholders regardless of whether or not other members of our board of directors or stockholders believe that any such transactions are in their own best interests. For example, affiliates of KKR and DLJMB could cause us to sell revenue-generating assets, which could impair our long-term ability to declare dividends or grow our business. Additionally, KKR and DLJMB are in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. They may also pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. So long as affiliates of KKR and DLJMB continue to hold a majority of our outstanding common stock, they will be entitled to nominate a majority of our board of directors, and will have the ability to control the vote in any election of directors. See "Related Party Transactions Agreements with KKR, DLJMB and/or Management Stockholders' Agreement with Affiliates of KKR and DLJMB."

\$131.9 million, or approximately 35%, of the net proceeds will be paid to affiliates of KKR and DLJMB III in connection with the redemption of the senior discount notes and the redeemable convertible preferred stock and the termination of the management services agreement.

*We are a "controlled company" within the meaning of the New York Stock Exchange rules and, as a result, will qualify for, and intend to rely on, exemptions from certain corporate governance requirements.*

Upon the closing of this offering, affiliates of KKR and DLJMB will continue to control a majority of our outstanding common stock. As a result, we are a "controlled company" within the meaning of the New York Stock Exchange corporate governance standards. Under the New York Stock Exchange rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a "controlled company" and may elect not to comply with certain New York Stock Exchange corporate governance requirements, including:

the requirement that a majority of the board of directors consist of independent directors;

the requirement that we have a nominating/corporate governance committee that is composed entirely of independent directors;

the requirement that we have a compensation committee that is composed entirely of independent directors; and

the requirement for an annual performance evaluation of the nominating/corporate governance and compensation committees.

Following this offering, we intend to utilize these exemptions. As a result, we will not have a majority of independent directors nor will our nominating/corporate governance and compensation committees consist entirely of independent directors. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

*Effectiveness of Internal Controls Our internal controls over financial reporting are currently not effective in certain areas, which could have a significant and adverse effect on our business and reputation.*

We have identified a material weakness in internal controls within the financial reporting process with respect to the timely analyses and reporting of income tax provisions and pensions and other post-retirement benefits related to our newly acquired businesses mainly due to our dependence on external resources for data accumulation and analysis, and within the design and operation of our purchase accounting review procedures.

The material weakness regarding the timely analyses and reporting of income tax provisions and pensions and other post-retirement benefits related to our newly acquired businesses resulted in our inability to timely file Group's annual report on Form 10-K. We originally filed this registration statement on Form S-1 with the SEC in February 2005 and we decided to incorporate into Group's annual report on Form 10-K all relevant information obtained as a result of this registration process. Additionally, we entered into several significant transactions during 2004, most notably the acquisition of the Dynamit Nobel businesses, along with the acquisition of the pigments and dispersions business of Johnson Matthey plc and the Groupe Novasep combination. These transactions substantially expanded the scope of our business operations, which in turn significantly increased the complexity of our financial reporting obligations. As a result of this significantly increased complexity, we were unable to incorporate into Group's annual report on Form 10-K in a timely manner certain information, principally related to our newly acquired businesses, and information that we obtained as a result of the registration process.



The material weakness within the design and operation of our purchase accounting review procedures resulted in certain purchase accounting errors in connection with the Dynamit Nobel acquisition and the Groupe Novasep combination that required adjustment. These errors consisted of a mathematical error in the determination of the minority interest attributable to the Groupe Novasep combination and an error in the determination of the Groupe Novasep SAS purchase price, certain mathematical errors contained in the valuation report prepared by our independent valuation specialists in conjunction with the Dynamit Nobel acquisition and an error in the determination of the fair value of deferred income and restructuring reserves related to the former corporate offices of Dynamit Nobel.

As a result of these errors, we restated our consolidated balance sheet as of December 31, 2004 and consolidated statement of changes in stockholders' equity for the year then ended, and Group's consolidated balance sheet as of December 31, 2004 and consolidated statement of changes in stockholders' equity for the year then ended in Group's annual report on Form 10-K and Group's consolidated balance sheet as of March 31, 2005 in Group's quarterly report on Form 10-Q.

The errors related to the Groupe Novasep combination involved isolated manual calculations performed outside of our electronic consolidation system. As a result of these errors, we are in the process of implementing additional detailed review procedures of these calculations, including additional levels of review by our existing corporate accounting staff, as part of our quarter- and year-end close process beginning in the second quarter. We also recently hired an assistant controller responsible solely for external financial reporting and technical accounting matters and plan to hire an additional employee with technical accounting and external financial reporting expertise to further strengthen our corporate accounting staff.

The Dynamit Nobel purchase accounting errors, specifically related to the appraisal calculations, also occurred outside of our electronic consolidation system and involved calculations outside the normal year-end closing process. As a result of these errors, we are in the process of implementing similar additional review procedures related to Dynamit Nobel purchase accounting activity as part of our quarter- and year-end close process beginning in the second quarter, and are utilizing the additional financial reporting resources identified above to strengthen our review process of significant and complex financial reporting areas, including purchase accounting.

We are also in the process of creating and staffing a global tax department at our corporate headquarters to, among other matters, strengthen the income tax accounting function. We expect this department to be in place in the third quarter of 2005. We have also engaged a global coordinating actuary to enhance the internal controls over the accounting for pensions. Furthermore, we have engaged external consultants to review our closing process and systems and make recommendations which we hope to implement during the fourth quarter of 2005.

Given that the remediation process has not been fully completed, the material weakness still exists. Because the material weakness exists, the risk of relying on our financial statements is increased. In addition, the remediation steps we have taken, are taking, or plan to take may not effectively remediate the material weakness, in which case our internal controls in these particular areas will continue to be ineffective. In that event, there could be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

*If we are unable to implement the requirements of Section 404 in a timely manner or if we conclude our internal controls are not effective in other areas, we may be subject to sanctions or investigation by regulatory authorities and incur additional compliance costs and the financial markets may react negatively.*

We are currently performing the system and process evaluation of our internal controls over financial reporting in order to allow management to report on, and our independent auditors to attest to, our internal controls over financial reporting, as required by Section 404 of the Sarbanes- Oxley Act of 2002, which we refer to as Section 404. The requirements of Section 404 will initially apply to us in connection with our annual report on Form 10-K for the year ended December 31, 2006. In connection with our preliminary evaluation, we have identified other areas of internal controls that may need improvement, such as internal controls related to the segregation of duties at certain smaller locations, system access and user security profiles, operating policies and procedures and in each case particularly with respect to newly acquired businesses. We plan to begin in late 2005 the testing necessary to permit the management certification and auditor attestation required to comply with Section 404. As we complete the evaluation and testing required by Section 404, we may identify conditions that may be categorized as significant deficiencies or material weaknesses in the future.

During 2004 and the first quarter of 2005, we incurred \$2.8 million in professional fees in connection with our initial implementation of the systems and internal control documentation required pursuant to Section 404. We have previously estimated an additional \$2.6 million would be required to complete initial Section 404 compliance. Given the extension of the compliance deadline from the year ended December 31, 2005 to the year ended December 31, 2006, and the expectations articulated in the SEC Release that announced the extension, we are reevaluating the scope of our initial compliance plan, including documentation, and are currently unable to estimate the additional costs we will incur implementing the requirements of Section 404.

If we are not able to implement the requirements of Section 404 in a timely manner, management will not be able to certify as to the effectiveness of our internal control over financial reporting and we may be subject to sanctions or investigation by regulatory authorities, such as the SEC. As a result, there could be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. If we continue to conclude that our internal controls are not effective, there could similarly be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. In addition, we may be required to incur additional costs in improving our internal control system and/or the hiring of additional personnel. Any such action could adversely affect our results of operations.

#### **Risk Factors Relating to This Offering**

*Absence of a Public Market There is no existing market for our common stock, and an active trading market may not develop.*

Prior to this offering, there has been no public market for our common stock. An active trading market may not develop and continue upon closing of this offering. The market price for our common stock may decline below the initial public offering price. The initial public offering price of our common stock has been determined through negotiations among the underwriters and us and was based on numerous factors and may not be indicative of the market price for our common stock after the initial public offering. Variations in our actual or anticipated operating results, changes in, or failure to meet, earnings estimates of securities analysts, regulatory actions and general economic and securities market conditions, among other factors, could cause the market price of our common stock to decline below the initial public offering price.

***Future Sales*** *Future sales of shares of our common stock in the public market, or the possibility or perception of such future sales, could adversely affect the market price of our common stock.*

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market after this offering or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

Sales of our common stock will be restricted by lock-up agreements that all of our directors and executive officers and affiliates of KKR and DLJMB will enter into with the underwriters, which will restrict them, subject to specified exceptions, from selling or otherwise disposing of any shares of our common stock for a period of 180 days after the date of this prospectus without the prior written consent of Goldman, Sachs & Co. and Credit Suisse First Boston LLC. Although there is no present intent or arrangement to do so, all or any portion of the shares may be released from the restrictions in the lock-up agreements and those shares would then be available for resale in the market.

After this offering, we will have 70,717,702 shares of common stock outstanding. Of those shares, the 20,408,163 shares we are offering will be freely tradeable. The 50,309,539 shares that were outstanding immediately prior to this offering will be eligible for resale from time to time after the expiration of the 180-day lock-up period, subject to contractual restrictions and restrictions under the Securities Act of 1933, as amended. Approximately 1,036,114 of those shares may be sold freely pursuant to Rule 144(k), approximately 48,626,600 of those shares may be sold subject to the volume, manner of sale and other conditions of Rule 144 and approximately 646,825 of those shares may be sold freely pursuant to Rule 144(k) once they have been held until the fifth anniversary of the investment date set forth in the applicable management stockholder's agreement, which in some instances is February 2006.

Under the registration rights agreement, affiliates of KKR, which will beneficially own 37,485,510 shares after this offering, and DLJMB, which will beneficially own 10,909,384 shares after this offering, will have the right to request us to register the resale of their respective shares. In addition, affiliates of KKR, DLJMB, management stockholders and other stockholders can exercise certain piggyback registration rights in connection with other registered offerings.

In addition, 9,121,469 shares have been reserved for future issuance under the stock plan, including approximately 3,892,285 shares issuable upon the exercise of presently outstanding stock options (approximately 931,077 of which are currently vested), and 68,452 shares of common stock underlying vested restricted stock units held by our chairman and chief executive officer, Seifi Ghasemi. Furthermore, warrants to purchase 958,315 shares of common stock which are exercisable at any time have been issued to an affiliate of KKR and are presently outstanding. Following the closing of this offering, we intend to file one or more registration statements on Form S-8 under the Securities Act to register the sale of shares issued or issuable upon the exercise of outstanding stock options. Subject to the exercise of issued and outstanding options and contractual restrictions, shares registered under the registration statement on Form S-8 will be available for sale into the public market after the expiration of the 180-day lock-up agreements.

In the future, we may issue our common stock in connection with acquisitions, repayment of our debt or for other general corporate purposes. The amount of such common stock issued could constitute a material portion of our then outstanding common stock.

***Anti-takeover measures*** *Certain provisions in our amended and restated certificate of incorporation and amended and restated bylaws may prevent another party's ability to acquire us without approval by our board of directors, which may deprive you of the opportunity to obtain a takeover premium for your shares.*

Our amended and restated certificate of incorporation and our amended and restated bylaws contain a number of anti-takeover measures. For example, our amended and restated certificate of incorporation provides for a classified board of directors, limitations on the removal of directors, the inability of stockholders to act by written consent (subject to certain exceptions), call special meetings or fill vacancies on our board of directors; requires stockholders to give advance notice for stockholder proposals and director nominations; and authorizes the issuance of preferred stock without shareholder approval and upon such terms as our board of directors may determine.

These provisions may discourage potential acquisition proposals and may delay, deter or prevent a change of control of our company, including through transactions, and, in particular, unsolicited transactions, that some or all of our stockholders might consider to be desirable and through which some or all of our stockholders may obtain a premium for their shares. They may also adversely affect the prevailing market price of the common stock.

***Absence of Dividends*** *We may not pay dividends on our common stock at any time in the foreseeable future.*

We are a holding company, and our ability to pay dividends may be limited by restrictions upon transfer of funds by our subsidiaries, including those which are contained in Group's senior secured credit facilities, indentures governing the 2011 notes and 2014 notes and those of any future outstanding indebtedness we or our subsidiaries may incur. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions and other factors that our board of directors may deem relevant. We currently have no intention to pay dividends on our common stock at any time in the foreseeable future.

***Volatility of Market Price*** *The market price of our common stock may be volatile, which could cause the value of your investment to decline.*

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of our common stock in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors, and in response, the market price of our common stock could decrease significantly. You may be unable to resell your shares of our common stock at or above the initial public offering price.

***Dilution*** *Public investors will suffer immediate and substantial dilution in the book value of the shares purchased in this offering.*

The initial public offering price per share of our common stock is higher than our pro forma net tangible book value per share. Accordingly, if you purchase common stock in this offering, you will suffer immediate dilution of approximately \$40.64 in the pro forma net tangible book value per share if you purchase shares in this offering (or approximately \$38.99 per share if the underwriters' over-allotment option is exercised in full). We also have a large number of outstanding stock options and warrants with an exercise price that is below the initial public offering price of the common stock. To the extent that these options and/or warrants are exercised, there will be further dilution.

### FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. Forward-looking statements are not statements of historical fact and may involve a number of risks and uncertainties. Forward-looking statements give our current expectations or forecasts of future events and estimates of amounts not yet determinable. We have used the words "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "predict," "could," "may" and other words and terms of similar meaning, including references to assumptions, in this prospectus to identify forward-looking statements. These forward-looking statements are made based on expectations and beliefs concerning future events affecting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matter expressed in or implied by these forward-looking statements. In particular, these statements include, among other things, statements relating to:

our business strategies;

changes in demand for our products;

fluctuations in interest rates, exchange rates and currency values;

availability and pricing of raw materials;

fluctuations in energy prices;

changes in the end-use markets in which our products are sold;

changes in the general economic conditions in North America and Europe and in other locations in which we currently do business;

technological changes affecting production of our materials;

our high level of indebtedness;

governmental and environmental regulations and changes in those regulations;

hazards associated with chemicals manufacturing;

risks associated with negotiating, consummating and integrating acquisitions, especially relating to the Dynamit Nobel acquisition;

risks associated with competition and the introduction of new competing products, especially in the Asia-Pacific region; and

risks associated with international sales and operations.

You should keep in mind that any forward-looking statements made by us in this prospectus or elsewhere speak only as of the date on which we make it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in this prospectus after the date of this prospectus.



## USE OF PROCEEDS

We estimate that our net proceeds from the sale of 20,408,163 shares of common stock being offered in this offering, after deducting underwriting discounts and commissions and estimated offering expenses, will be approximately \$377.8 million.

We intend to use:

approximately \$59.9 million of the net proceeds to repay the outstanding principal amount of the pay-in-kind loans and pay a prepayment premium, and approximately \$120.7 million of the net proceeds to redeem the outstanding principal amount of the pay-in-kind notes and pay a redemption premium;

approximately \$85.2 million of the net proceeds to redeem the outstanding principal amount of the senior discount notes, which are held by an affiliate of KKR;

approximately \$60.7 million of the net proceeds to redeem up to approximately \$52.5 million, or up to 14%, of the 2011 notes and pay a redemption premium and accrued and unpaid interest;

approximately \$36.7 million of the net proceeds to redeem all outstanding shares of our redeemable convertible preferred stock, which are held by an affiliate of KKR, and pay a redemption premium and accumulated and unpaid dividends; and

\$10.0 million of the net proceeds to terminate the management services agreement with affiliates of KKR and DLJMB III.

These amounts are based on the accreted value, the outstanding principal amount, the accrued and unpaid interest and the accumulated and unpaid dividends on the applicable securities being repaid or redeemed as of March 31, 2005. The actual amounts we pay to repay or redeem the securities will increase from the amounts shown above. Except with respect to the pay-in-kind loans and notes, each of these repayments and redemptions is voluntary.

\$131.9 million, or approximately 35%, of the net proceeds will be paid to our affiliates that are affiliates of KKR and DLJMB III. This amount consists of approximately \$85.2 million to redeem the 12% senior discount notes held by an affiliate of KKR, approximately \$36.7 million to redeem the 15% redeemable convertible preferred stock held by an affiliate of KKR and \$10.0 million to terminate the management services agreement with affiliates of KKR and DLJMB III. This amount does not include underwriting discounts and commissions to be received by CSFB, an affiliate of DLJMB III, in its capacity as underwriter. Five of the eight members of our board of directors that approved the offering are affiliated with KKR; two are affiliated with DLJMB III; one, our chairman, is our chief executive officer. That eight member board of directors voted unanimously to approve the offering.

We intend to use any net proceeds we receive from any shares sold pursuant to the underwriters' over-allotment option, after deducting the underwriting discounts and commissions, to redeem additional 2011 notes and pay a redemption premium and accrued and unpaid interest.

The pay-in-kind loans and pay-in-kind notes, which were incurred and issued by our direct subsidiary Rockwood Specialties Consolidated, Inc., accrue interest at the rate of 15% per year and mature on November 20, 2011 and January 31, 2015, respectively. Interest is paid on the pay-in-kind loans and pay-in-kind notes by increasing the principal amount outstanding rather than making cash payments. The senior discount notes, which were issued by our indirect subsidiary Rockwood Specialties International, Inc., accrue interest at the rate of 12% per year, but do not require cash interest payment until 2007, and mature on August 15, 2011. The 2011 notes, which were issued by Group, accrue interest at the rate of 10<sup>5</sup>/<sub>8</sub>% per year and mature on May 15, 2011. The redeemable convertible preferred stock accumulates dividends at 15% per year of the sum of (i) \$1,000 original issue price per share and (ii) accumulated and unpaid dividends on such share from the original issue date.

**DIVIDEND POLICY**

We do not currently intend to pay any periodic cash dividends on our common stock, and instead intend to retain earnings, if any, for future operation and expansion and debt repayment. We are a holding company that does not conduct any business operations of our own. As a result, we are dependent upon cash dividends and distributions and other transfers from our subsidiaries to make dividend payments on our common stock. The amounts available to us to pay cash dividends are restricted by our subsidiaries' debt agreements. Under Group's senior secured credit facilities and indentures governing the 2011 notes and 2014 notes, Group is generally restricted from making dividends or other distributions to us. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our board of directors may deem relevant.



## CAPITALIZATION

The following table sets forth our cash and cash equivalents and consolidated capitalization as of March 31, 2005:

on an actual basis;

on a pro forma basis to give effect to the offering.

This table should be read together with "Use of Proceeds," "Unaudited Pro Forma Condensed Combined Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes to those statements, in each case, included elsewhere in this prospectus.

(\$ in millions, except per share data)	As of March 31, 2005	
	Actual	Pro Forma As Adjusted
Cash and cash equivalents	\$ 237.1	\$ 231.0
Long-term debt, including current portion:		
Senior secured credit facilities:		
Revolving credit facility(1)	175.0	175.0
Tranche A-1 and A-2 term loans(2)(7)	272.3	272.3
Tranche C term loans(3)(7)	357.1	357.1
Tranche D term loans	1,145.0	1,145.0
2011 notes	375.0	322.5
2014 notes(4)(7)	687.4	687.4
Assumed long-term debt(5)(7)	225.4	225.4
Pay-in-kind loans and notes(6)(7)	174.6	
Senior discount notes	85.2	
Total long-term debt	\$ 3,497.0	\$ 3,184.7
Redeemable convertible preferred stock (\$.01 par value; \$32.0 aggregate liquidation preference, 50,000 shares authorized, 25,000 shares issued and outstanding on an actual basis; no shares issued and outstanding on a pro forma basis)(8)	35.4	
Stockholders' equity:		
Common stock, \$.01 par value (75,296,166 shares authorized, 50,403,659 shares issued and 50,309,539 shares outstanding on an actual basis; 400,000,000 shares authorized, 70,811,822 shares issued and 70,717,702 shares outstanding on a pro forma basis)(9)	0.5	0.7
Additional paid-in capital	717.5	1,095.1
Accumulated other comprehensive income	271.0	271.0
Accumulated deficit	(425.1)	(448.8)
Treasury stock, at cost	(1.4)	(1.4)
Other	(0.7)	(0.7)
Total stockholders' equity	561.8	915.9
Total capitalization	\$ 4,094.2	\$ 4,100.6

(1)

Does not include \$19.0 million of letters of credit issued at March 31, 2005. At March 31, 2005, the revolving credit facility had approximately \$56.0 million of remaining availability. The loans

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borrowed under the revolving credit facility may be denominated in dollars, euro or pounds sterling. See "Description of Indebtedness Senior Secured Credit Facilities."

- (2) Represents the approximate aggregate U.S. dollar equivalent of €39.1 million of borrowings under the tranche A-1 term loan and €170.4 million of borrowings under the tranche A-2 term loan (based on the March 31, 2005 exchange rate of €1.00=\$1.2996).
- (3) Represents the approximate U.S. dollar equivalent of €274.8 million of borrowings under the tranche C term loans (based on the March 31, 2005 exchange rate).
- (4) Represents the approximate aggregate U.S. dollar equivalent of €375.0 million of 2014 euro notes and \$200.0 million of 2014 dollar notes (based on the March 31, 2005 exchange rate).
- (5) Represents the approximate U.S. dollar equivalent of long-term debt which was assumed in connection with the Dynamit Nobel acquisition and the Groupe Novasep combination and remains outstanding under the existing arrangements, including \$144.5 million denominated in euros (€111.2 million). See "Description of Indebtedness Other Long-Term Debt."
- (6) Represents the approximate U.S. dollar equivalent of €91.0 million under the pay-in-kind notes and \$56.3 million of pay-in-kind loans.
- (7) The approximate U.S. dollar equivalent of our total euro-denominated debt of €1,061.5 million is \$1,379.5 million (based on the March 31, 2005 exchange rate). A weakening or strengthening of the euro against the U.S. dollar by \$0.01 would decrease or increase, respectively, by \$10.6 million the U.S. dollar equivalent of our total euro-denominated debt of €1,061.5 million. Based on the exchange rate of €1.00=\$1.2137 as of June 20, 2005, the approximate U.S. dollar equivalent of this €1,061.5 million euro-denominated debt would be \$1,288.3 million.
- (8) The redeemable convertible preferred stock accumulates dividends at 15% per year of the sum of (a) \$1,000 original issue price per share and (b) accumulated and unpaid dividends on such share from the original issue date. When the redeemable convertible preferred stock is redeemed, the holder will receive in cash, in addition to the \$25.0 million aggregate issue price, all accumulated and unpaid dividends and 1% of the aggregate value of our common stock (other than excluded shares, as defined under "Description of Capital Stock Preferred Stock Redeemable Convertible Preferred Stock"). As of March 31, 2005, the redemption price was \$35.4 million on a historical basis and \$36.7 million on a pro forma as adjusted basis.
- (9) The amount does not include 9,121,469 shares of our common stock that are reserved for issuance under the stock plan, under which options to purchase approximately 3,879,785 shares (of which approximately 931,077 are vested) and 68,452 shares underlying restricted stock units (all of which are vested) were outstanding as of March 31, 2005, and 958,315 shares of our common stock issuable upon the exercise of warrants outstanding as of March 31, 2005.

**DILUTION**

Dilution is the amount by which the offering price paid by the purchasers of the common stock to be sold in this offering will exceed the pro forma net tangible book value per share of common stock after the offering. The pro forma net tangible book value per share is equal to the amount of our total tangible assets (total assets less intangible assets) less total liabilities and minority interest, divided by the number of shares of our common stock outstanding as of March 31, 2005, after giving effect to this offering. The net tangible book value per share is equal to the amount of our total tangible assets less total liabilities, minority interest and redeemable convertible preferred stock.

After giving effect to the sale of 20,408,163 shares of common stock in this offering, and after deducting underwriting discounts and estimated offering expenses and applying the net proceeds as described in "Use of Proceeds," our pro forma net tangible book value as of March 31, 2005 would have been \$(1,459.3) million, or \$(20.64) per share of common stock. This represents an immediate increase in net tangible book value of \$15.08 per share to existing stockholders and an immediate dilution in net tangible book value of \$40.64 per share to new investors.

The following table illustrates this per share dilution:

Initial public offering price per share		\$	20.00
Net tangible book value per share at March 31, 2005		\$	(35.72)
Increase in net tangible book value per share attributable to this offering			15.08
Pro forma net tangible book value per share after this offering			(20.64)
Dilution per share to new investors		\$	40.64
Pro forma net tangible book value per share after this offering assuming full exercise of the underwriters' over-allotment option			(18.99)
Dilution per share to new investors assuming full exercise of the underwriters' over-allotment option		\$	38.99

The following table summarizes, on a pro forma as adjusted basis as of March 31, 2005, the total number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by the existing stockholders and by new investors purchasing shares in this offering:

(in millions, except per share data)	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	50.3	71.1%	\$ 735.0	64.3%	\$ 14.61
New investors	20.4	28.9	408.2	35.7	20.00
Total	70.7	100.00%	\$ 1,143.2	100.00%	

The tables and calculations above assume no exercise of outstanding options and warrants and no issuance of shares of common stock underlying vested restricted stock units. As of March 31, 2005, there were approximately 3,879,785 shares of our common stock issuable upon exercise of outstanding options at an exercise price of \$14.61 per share, 958,315 shares of our common stock issuable upon exercise of outstanding warrants at an exercise price of \$14.61 per share and 68,452 shares underlying vested restricted stock units. To the extent that these options and warrants are exercised and shares underlying restricted stock units are issued, there will be dilution to new investors of \$38.36 per share (\$36.91 per share after giving effect to the underwriters' over-allotment option).

**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

The following unaudited pro forma consolidated balance sheet as of March 31, 2005 is presented to illustrate the estimated effects of this offering and the application of the net proceeds as set forth under "Use of Proceeds" as if this offering had occurred on March 31, 2005 and is based on the exchange rate at March 31, 2005 of €1.00=\$1.2996. No adjustment was required for the Dynamit Nobel acquisition and related equity and debt financing and Fall 2004 debt refinancings, the pigments and dispersions acquisition and related financing and the Groupe Novasep combination because they occurred prior to March 31, 2005 and therefore are already reflected in the March 31, 2005 balance sheet.

The following unaudited pro forma condensed combined statements of operations for the three month period ended March 31, 2005 and for the year ended December 31, 2004 are presented to illustrate the estimated effects of the Transactions (which include the Dynamit Nobel acquisition and related equity and debt financings and Fall 2004 debt refinancings, the pigments and dispersions acquisition and related financing, the Groupe Novasep combination and this offering) on our historical financial condition and our results of operations as if the Transactions had occurred on January 1, 2004 and is based on a weighted average exchange rate of €1.00=\$1.2669.

The following unaudited pro forma condensed combined financial information is based on the audited and unaudited consolidated financial statements of Rockwood, our audited and unaudited consolidated financial statements and the audited and unaudited combined financial statements of Dynamit Nobel, in each case, included elsewhere in this prospectus, as adjusted to illustrate the estimated pro forma effects of the Transactions. The unaudited pro forma condensed combined financial information should be read together with "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," our and Rockwood's consolidated financial statements and the notes to those statements and Dynamit Nobel's combined financial statements and the notes to those statements included elsewhere in this prospectus.

The following unaudited pro forma condensed combined financial information has been prepared based upon currently available information and assumptions that we believe are reasonable. Such currently available information and assumptions may prove to be inaccurate over time.

The following unaudited pro forma condensed combined financial information is for illustrative purposes only. Such information is not intended to be indicative of the financial condition and the results of operations that would have been achieved had the Transactions for which we are giving pro forma effect actually occurred on the dates referred to above or the financial condition and the results of operations that may be expected in the future.

**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**  
**Unaudited Pro Forma Condensed Combined Balance Sheet**  
**as of March 31, 2005**

(\$ in millions)	Rockwood Historical	Adjustments	Pro Forma As Adjusted
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 237.1	\$ 10.0 (a)	\$ 231.0
		(16.1)(i)	
Accounts receivable, net	497.8		497.8
Inventories	473.8		473.8
Other current assets	98.0	7.4 (h)	105.4
<b>Total current assets</b>	<b>1,306.7</b>	<b>1.3</b>	<b>1,308.0</b>
PROPERTY, PLANT AND EQUIPMENT, NET	1,520.8		1,520.8
GOODWILL	1,738.1	16.1 (i)	1,754.2
OTHER INTANGIBLE ASSETS, NET	621.0		621.0
OTHER ASSETS	130.2	(13.1)(g)	117.1
<b>TOTAL ASSETS</b>	<b>\$ 5,316.8</b>	<b>\$ 4.3</b>	<b>\$ 5,321.1</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>			
Other current liabilities, excluding current portion of long-term debt	\$ 609.6	\$ (2.1)(a)	\$ 607.5
<b>LONG-TERM DEBT, INCLUDING CURRENT PORTION:</b>			
Senior secured credit facilities:			
Revolving credit facility	175.0		175.0
Tranche A-1 and A-2 term loans	272.3		272.3
Tranche C term loans	357.1		357.1
Tranche D term loans	1,145.0		1,145.0
2011 notes	375.0	(52.5)(a)	322.5
2014 notes	687.4		687.4
Assumed long-term debt and other debt	225.4		225.4
Pay-in-kind loans and notes	174.6	(56.3)(a)	
		(118.3)(a)	
Senior discount notes	85.2	(85.2)(a)	
<b>Total long-term debt</b>	<b>3,497.0</b>	<b>(312.3)</b>	<b>3,184.7</b>
OTHER LIABILITIES	584.0		584.0
<b>TOTAL LIABILITIES</b>	<b>4,690.6</b>	<b>(314.4)</b>	<b>4,376.2</b>
MINORITY INTEREST	29.0		29.0
REDEEMABLE CONVERTIBLE PREFERRED STOCK	35.4	(35.4)(a)	
<b>STOCKHOLDERS' EQUITY</b>			
Common stock	0.5	0.2 (b)	0.7
Paid-in capital	717.5	408.0 (b)	1,095.1
		(21.4)(d)	
		(9.0)(e)	
Accumulated other comprehensive income	271.0		271.0
Accumulated deficit	(425.1)	(10.0)(c)	(448.8)
		(8.0)(f)	
		(13.1)(g)	
		7.4 (h)	
Treasury stock, at cost	(1.4)		(1.4)
Other	(0.7)		(0.7)

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(\$ in millions)	Rockwood Historical	Adjustments	Pro Forma As Adjusted
Total stockholders' equity	561.8	354.1	915.9
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 5,316.8</b>	<b>\$ 4.3</b>	<b>\$ 5,321.1</b>

*See accompanying notes to unaudited pro forma condensed combined balance sheet*

**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES****Notes to Unaudited Pro Forma Condensed Combined Balance Sheet**

- (a) Use of proceeds of this offering as follows (in millions):

Proceeds from this offering		\$ 408.2
Repayment of pay-in-kind loans	\$ (56.3)	
Repayment of pay-in-kind notes	(118.3)	
Prepayment penalty on the pay-in-kind notes	(2.4)	
Redemption of senior discount notes	(85.2)	
Partial redemption of the 2011 notes	(52.5)	
Accrued interest on the 2011 notes to be redeemed	(2.1)	
Redemption premium on the 2011 notes to be redeemed	(5.6)	
Redemption of redeemable convertible preferred stock	(35.4)	
	<u>                    </u>	(357.8)
Fee for termination of management services agreement		(10.0)
Estimated fees and expenses associated with this offering		(30.4)
		<u>                    </u>
		<u>\$ 10.0</u>

We expect to use the remaining proceeds to:

pay accreted value of \$3.6 million, which represents accretion on the pay-in-kind loans from January 1, 2005 through November 20, 2005 calculated on a discount basis;

pay \$0.5 million related to 30 days of accrued interest on the 2011 notes to be redeemed; and

pay an additional \$1.3 million in connection with the redemption of the redeemable convertible preferred stock.

- (b) Equity to be issued in this offering.
- (c) Fee for termination of management services agreement.(1)
- (d) Estimated underwriters' fees.
- (e) Estimated other fees and expenses related to this offering.
- (f) Pre-tax charges related to prepayment penalties and redemption premiums to be paid.(1)
- (g) Pre-tax charges related to the write-off of deferred financing costs associated with the debt to be repaid with the proceeds from this offering.(1)



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- (h) Deferred tax impact of the pre-tax charges described in (f) and (g) above, consisting of \$2.8 million related to the prepayment penalties and redemption premiums paid and \$4.6 million related to the deferred financing costs associated with the debt repaid with the proceeds from this offering.(1)
- (i) On July 6, 2005, we settled post-closing adjustments in connection with the purchase price of the Dynamit Nobel acquisition by paying mg technologies €13.5 million (\$16.1 million based on the July 6, 2005 exchange rate of €1.00=\$1.1927).
- 
- (1) Similar adjustments were not made to the pro forma statement of operations as the adjustments are non-recurring in nature. These adjustments will be included in the statement of operations once the offering is complete.

**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**  
**Unaudited Pro Forma Condensed Combined Statement of Operations**  
**for the Three Months Ended March 31, 2005**

(\$ in millions except per share amounts)	Rockwood Historical	Adjustments for This Offering	Pro Forma
<b>Statement of operations data:</b>			
NET SALES	\$ 769.7	\$	\$ 769.7
COST OF PRODUCTS SOLD	544.1		544.1
GROSS PROFIT	225.6		225.6
OPERATING EXPENSES	153.1	(0.5)(h)	152.6
OPERATING INCOME (LOSS)	72.5	0.5	73.0
OTHER INCOME (EXPENSES):			
Interest expense, net	(57.3)	11.2 (b)	(46.1)
Other income	47.2		47.2
Total other income (expenses), net	(10.1)	11.2	1.1
INCOME BEFORE TAXES	62.4	11.7	74.1
INCOME TAX PROVISION (BENEFIT)	24.9	4.1 (g)	29.0
Net income before minority interest	37.5	7.6	45.1
Minority interest	(0.8)		(0.8)
NET INCOME	\$ 38.3	\$ 7.6	\$ 45.9
Redeemable convertible preferred stock dividends	(1.1)		
Net income applicable to common shareholders basic	\$ 37.2		\$ 45.9
Add: Redeemable convertible preferred stock dividends	1.1		
Net income applicable to common shareholders diluted	\$ 38.3		\$ 45.9
Basic:			
Net earnings per common share	\$ 0.74		\$ 0.65
Weighted average number of common shares(i)	50,309,539		70,717,702
Diluted:			
Net earnings per common share	\$ 0.73		\$ 0.64
Effect of dilutive convertible preferred stock	\$ 0.01		
Weighted average number of common shares and common stock equivalents(i)	52,731,471		71,700,103

*See accompanying notes to unaudited pro forma condensed combined information.*

**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**  
**Unaudited Pro Forma Condensed Combined Information**  
**for the Year Ended December 31, 2004**

(\$ in millions except per share amounts)	Rockwood Historical(1)	January 1, 2004 thru July 31, 2004 Dynamit Nobel Historical	Adjustments (excluding this offering)		Pro Forma Total Prior to Offering	This Offering	Pro Forma As Adjusted
			Other Acquisitions(2)	Dynamit Nobel			
<b>Statement of operations data:</b>							
NET SALES	\$ 1,743.5	\$ 1,030.3	\$ 137.9	\$	\$ 1.3(d)	\$ 2,913.0	\$ 2,913.0
COST OF PRODUCTS SOLD	1,267.6	674.7	91.4	(25.1)(a)	0.2(e)	2,008.8	2,008.8
GROSS PROFIT	475.9	355.6	46.5	25.1	1.1	904.2	904.2
OPERATING EXPENSES	339.8	239.7	32.9	16.4(a)	0.4(e)	629.2	(1.2)(h) 628.0
OPERATING INCOME (LOSS)	136.1	115.9	13.6	8.7	0.7	275.0	1.2 276.2
OTHER INCOME (EXPENSES):							
Interest expense, net	(162.1)	(17.0)	(0.7)	(60.5)(b)	(4.0)(f)	(244.3)	45.7(b) (198.6)
Other income (expenses)	(157.8)	3.4	0.7			(153.7)	(153.7)
Total other income (expenses), net	(319.9)	(13.6)		(60.5)	(4.0)	(398.0)	45.7 (352.3)
(LOSS) INCOME BEFORE TAXES	(183.8)	102.3	13.6	(51.8)	(3.3)	(123.0)	46.9 (76.1)
INCOME TAX PROVISION (BENEFIT)	32.3	25.9	3.5	6.7(c)	(1.2)(g)	67.2	16.4(g) 83.6
NET (LOSS) INCOME	\$ (216.1)	\$ 76.4	\$ 10.1	\$ (58.5)	\$ (2.1)	\$ (190.2)	\$ 30.5 (159.7)
Redeemable convertible preferred stock dividends	(4.2)						
Accretion of redeemable convertible preferred stock to redemption value							(1.3) (1.3)
Net loss applicable to common shareholders	\$ (220.3)						\$ (161.0)
Basic and diluted net loss per common share data(i):							
Net loss per common share	\$ (6.66)						\$ (2.28)
	33,053,981						70,717,702

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	<b>January 1, 2004 thru July 31, 2004</b>	<b>Adjustments (excluding this offering)</b>
<b>Weighted average shares</b>	<b>Dynamit Nobel Historical</b>	

- (1) Includes the operations of Dynamit Nobel for the period from August 1, 2004 to December 31, 2004 and the operations of the pigments and dispersions business from September 2, 2004 to December 31, 2004.
- (2) Represents the historical operations of the pigments and dispersions business from January 1, 2004 to September 1, 2004 and the historical operations of Groupe Novasep for the year ended December 31, 2004.

*See accompanying notes to unaudited pro forma condensed combined information.*

## ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

## Notes to Unaudited Pro Forma Condensed Combined Information

(a)

The pro forma adjustment effect related to the Dynamit Nobel acquisition of depreciation and amortization expense was calculated as follows:

(\$ in millions)	Fair Value	Average Useful Life	Annual Depreciation and Amortization Expense	7 Month Effect(2)
<b>Calculation of depreciation expense:</b>				
Land	\$ 155.6		\$	
Buildings and improvements, including land improvements	229.1	24.6	9.3	
Machinery and equipment	361.1	9.4	38.3	
Furniture and fixtures	7.9	4.9	1.6	
Mining rights	86.3	41.1	2.1	
Construction-in-progress	66.9			
Other tangible assets	8.4	6.0	1.4	
<b>Total</b>	<b>\$ 915.3</b>		<b>\$ 52.7</b>	<b>\$ 30.7</b>
<b>Calculation of amortization expense:</b>				
Patents and other intellectual property	\$ 273.5	12.6	\$ 21.7	
Customer relationships	160.2	12.2	13.1	
Trade names and trademarks	98.4	25.2	3.9	
<b>Total</b>	<b>\$ 532.1</b>	<b>13.6</b>	<b>\$ 38.7</b>	<b>\$ 22.6</b>

## Year Ended December 31, 2004

(\$ in millions)	7 Months Historical(1)	Pro Forma	Net Adjustment
<b>Cost of products sold:</b>			
Depreciation	\$ 58.6	\$ 30.7	
	90.0%	90.0%	
	52.7	27.6	\$ (25.1)
<b>Operating expenses:</b>			
Depreciation	58.6	30.7	
	10.0%	10.0%	
	5.9	3.1	(2.8)
Amortization	3.4	22.6	19.2
<b>Total operating expenses</b>	<b>\$ 9.3</b>	<b>\$ 25.7</b>	<b>\$ 16.4</b>

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(\$ in millions)	Fair Value	Average Useful Life	Annual Depreciation and Amortization Expense	7 Month Effect(2)
<hr/>				
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(1) Information obtained from the Dynamit Nobel financial statements as of July 31, 2004.

(2) Represents the pro rata depreciation expense for seven months based on the estimated annual depreciation expense.

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(b) The pro forma adjustment effect related to the Dynamit Nobel Acquisition of interest expense, net was calculated as follows:

	Period		Balance(3)	Average Annual Rate(4)	Interest Expense
<b>Pro forma adjustments excluding the offering</b>					
Additions to interest expense related to Dynamit Nobel Acquisition:					
Senior secured credit facilities(5)	January 1, 2004	July 31, 2004	\$ 1,464.0	5.559%	\$ 47.5
Senior subordinated loan facility(6)	January 1, 2004	July 31, 2004	865.1	9.158%	46.2
Exchange of pay-in-kind loans from dollar to euro denomination(7)	January 1, 2004	July 31, 2004	101.5	15.000%	8.9
Amortization of deferred debt issuance costs(8)	January 1, 2004	July 31, 2004			4.2
Decreases in interest expense related to Dynamit Nobel Acquisition:					
2003 senior secured credit facilities(9)	January 1, 2004	July 31, 2004	449.5	5.348%	(14.0)
Portion of pay-in-kind loans repaid(10)	January 1, 2004	July 31, 2004	20.0	15.000%	(1.8)
Portion of Dynamit Nobel assumed debt repaid and other(11)	January 1, 2004	July 31, 2004	129.0	4.630%	(3.5)
Exchange of pay-in-kind loans from dollar to euro denomination(8)	January 1, 2004	July 31, 2004	99.5	15.000%	(8.7)
Amortization of deferred debt issuance costs(12)	January 1, 2004	July 31, 2004			(0.9)
Net change related to Dynamit Nobel Acquisition					77.9
Debt refinancings:					
Additional senior secured credit facilities borrowings(5)	January 1, 2004	October 8, 2004	224.8	4.748%	8.2
Senior subordinated loan facility(6)	January 1, 2004	October 8, 2004	220.0	9.176%	(15.6)
Net change related to October 8, 2004 refinancing					(7.4)
2014 notes(13)	January 1, 2004	November 10, 2004	652.4	7.527%	42.3
Senior subordinated loan facility(6)	January 1, 2004	November 10, 2004	645.1	9.207%	(51.1)
Net change related to November 10, 2004 refinancing					(8.8)
Tranche D term loan under senior secured credit facility(7)	January 1, 2004	December 10, 2004	1,145.0	4.952%	53.5
Tranche B term loan under senior secured credit facility(7)	January 1, 2004	December 10, 2004	1,145.0	5.059%	(54.7)
Net change related to December 10, 2004 refinancing					(1.2)
Summary changes related to Dynamit Nobel Acquisition					77.9
Summary changes related to debt refinancings					(17.4)

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Period	Balance(3)	Average Annual Rate(4)	Interest Expense
			\$ 60.5
<b>Pro forma as adjusted</b>			
<b>Year ended December 31, 2004</b>			
Decrease to interest expense, net related to offering:			
2011 notes	\$ 52.5	10.625%	\$ 5.6
Pay-in-kind loans and notes	173.7	15.000%	26.1
Senior discount notes	82.8	12.000%	9.9
Amortization of deferred debt issuance costs			4.1
	<u>309.0</u>		<u>45.7</u>
Total pro forma as adjusted effect of offering on interest expense, net			
	<u>\$ 309.0</u>		<u>\$ 45.7</u>
<b>Three months ended March 31, 2005</b>			
Decrease to interest expense, net related to offering:			
2011 notes	\$ 52.5	10.625%	\$ 1.4
Pay-in-kind loans and notes	174.6	15.000%	6.5
Senior discount notes	85.2	12.000%	2.6
Amortization of deferred debt issuance costs			0.7
	<u>312.3</u>		<u>11.2</u>
Total pro forma as adjusted effect of offering on interest expense, net			
	<u>\$ 312.3</u>		<u>\$ 11.2</u>

(3) Balances represent average debt balances outstanding throughout the periods noted based on the applicable average exchange rates.

(4) For variable rate debt, represents the average variable rate over the applicable historical period.

(5) Includes the tranche A-1 and A-2 term loan facilities that have interest rates that are, at our option, either Adjusted LIBOR plus 2.50% or, in the case of loans denominated in U.S. dollars, ABR plus 1.25%. ABR is the alternate base rate, which is the higher of Credit Suisse First Boston's prime rate and the federal funds effective rate plus 0.5%. The interest



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rate per year under the tranche C term loan facility is Adjusted LIBOR plus 3.00%. Adjusted LIBOR is the London inter-bank offered rate, adjusted for statutory reserves. The interest rate per year under the tranche D term loan facilities is, at our option, either Adjusted LIBOR plus 2.25% or ABR plus 1.00%. In each case, the interest rates per year (other than under the tranche C term loan facility) are subject to step-downs based on attaining certain financial covenant levels. Includes the effect of interest rate swaps that effectively converted the euro tranches into fixed interest rates ranging from 5.576% to 7.029% and \$652.6 million of the dollar tranche into fixed rate debt of 5.894%.

After including the notional amounts of variable to fixed interest rate swaps, a 1% increase in the average interest rate would increase future interest expense by approximately \$5.6 million per year.

- (6) Interest rate equal to the greater of 9.0% and EURIBOR + 7.0% (in the case of euro borrowings) or LIBOR + 8.0% (in the case of dollar borrowings) annually with a 75 basis point increase every six months for the first 18 months.
- (7) Represents exchange of dollar-denominated pay-in-kind loans for euro-denominated loans.
- (8) Represents \$0.6 million per month of amortization on senior secured credit facilities.
- (9) Includes borrowings under the 2003 senior secured credit facilities of tranche A and tranche B at LIBOR plus 3.500% and tranche C at LIBOR plus 2.7500%.
- (10) Includes the effect of the repayment of a portion of the pay-in-kind loans.
- (11) Includes the effect of the repayment of a portion of the debt assumed.
- (12) Represents \$0.1 million per month of amortization on 2003 senior secured credit facilities.
- (13) Includes €375.0 million notes at 7.625% and \$200.0 million notes at 7.500%. Also includes the effect of the cross currency interest rate swap that converts the dollar fixed rate debt into €155.6 million euro fixed rate debt at 7.290%.
- (c) Represents the federal statutory rate of 35% on the incremental pre-tax effect of the pro forma adjustments offset by the impact of valuation allowances on certain jurisdictional pro forma losses, primarily in the United States.
- (d) Represents effect of change in pricing of certain contracts that were at below-market prices prior to the acquisition of the pigments and dispersions business. Such contracts are with divisions of the former owner and have been increased to market level upon consummation of the acquisition.
- (e) Represents change in depreciation and amortization based upon fair values and estimated useful lives of stepped-up values of property, plant and equipment and intangible assets other than goodwill, as determined by appraisal. Estimated useful lives are derived from the appraisal for major categories of property, plant and equipment (excluding land, which has no finite useful life and construction in progress which has not begun amortization) and intangible assets. In some cases, we have used shorter useful lives where management believes appropriate. Estimated average useful lives (in years) used for major categories are as follows:

### Property, Plant and Equipment

Machinery and equipment 7

Buildings 25

Mining rights 14-50

**Intangible assets other than goodwill**

Customer relationships 10

Intellectual property and patents 7-15

Trade names and marks 25

- (f) Represents estimated increase in interest expense resulting from the other acquisitions.
- (g) Assumes federal statutory rate of 35%.
- (h) Represents the elimination of the management services fee that is assumed to be terminated effective upon the closing of the offering.
- (i) Net loss per share is calculated by dividing net loss by the weighted average shares outstanding. Unaudited pro forma basic and diluted net loss per share has been calculated in accordance with the SEC rules for initial public offerings. These rules require that the weighted average share calculation give retroactive effect to any changes in our capital structure as well as the number of shares whose sale proceeds will be used to repay any debt as reflected in the pro forma adjustments. Below is a reconciliation between the historical and pro forma weighted average shares used in computing basic and diluted net earnings and net loss per common share:

	Three months ended March 31, 2005		Year ended December 31, 2004 Basic and Diluted
	Basic	Diluted	
Historical	50,309,539	52,731,471	33,053,981
Effect of 2004 net share issuances			17,255,558
Shares to be issued in this offering	20,408,163	20,408,163	20,408,163
Effect of redeemable convertible preferred stock dilutive in historical calculation but eliminated due to redemption in this offering		(2,421,933)	
Effect of utilization of treasury stock method for computing diluted earnings per share for common stock equivalents which were not dilutive on a historical basis but were dilutive after adjusting for the effects of this offering		982,402	
Pro Forma	70,717,702	71,700,103	70,717,702

**SELECTED FINANCIAL DATA**

**Rockwood Selected Financial Data**

The selected financial data of Rockwood presented below for the period from January 1, 2000 through November 20, 2000 have been derived from the audited combined financial statements of Rockwood's predecessor not included in this prospectus. The selected financial data of Rockwood presented below for the period from November 21, 2000 through December 31, 2000, as of December 31, 2000, 2001 and 2002 and for the year ended December 31, 2001 have been derived from Rockwood's audited consolidated financial statements not included in this prospectus. The selected financial data of Rockwood presented below as of December 31, 2003 and 2004 and for the years ended December 31, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements and Rockwood's audited consolidated financial statements included elsewhere in this prospectus.

The selected financial data of Rockwood presented below for the three months ended March 31, 2004 have been derived from Rockwood's unaudited consolidated financial statements included elsewhere in this prospectus. The selected financial data presented below as of and for the three months ended March 31, 2005 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. In the opinion of management, the unaudited financial statements for the three months ended March 31, 2004 and March 31, 2005, have been prepared on a basis consistent with the audited financial statements and include all adjustments, which are normally recurring adjustments, necessary for a fair presentation of the results of operations for the periods presented. Results of operations for the interim periods are not necessarily indicative of the results that might be expected for any other interim period or for an entire year.

The selected financial data presented below should be read together with our and Rockwood's consolidated financial statements and the notes to those statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

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(\$ in millions, except per share data; shares in thousands)	Year Ended December 31,							Three Months Ended March 31,	
	Predecessor	Successor or Rockwood							
	Period From January 1, 2000 Through November 20, 2000	Period From November 21, 2000 Through December 31, 2000	2000(1)	2001	2002	2003(11)	2004	2004	2005
	(As restated)								
<b>Statement of operations data:</b>									
Net sales:									
Performance Additives(2)	\$ 410.1	\$ 42.5	\$ 452.6	\$ 418.4	\$ 443.8	\$ 477.3	\$ 630.9	\$ 139.1	\$ 159.5
Specialty Compounds	188.2	19.8	208.0	171.7	168.8	176.4	200.4	47.9	58.1
Electronics	154.0	20.2	174.2	152.5	147.3	143.6	168.1	40.4	42.8
Specialty Chemicals							321.1		220.0
Titanium Dioxide Pigments							175.7		104.5
Advanced Ceramics							146.3		91.9
Groupe Novasep							101.0		92.9
Total net sales	752.3	82.5	834.8	742.6	759.9	797.3	1,743.5	227.4	769.7
Cost of products sold	534.4	69.7	604.1	546.5	542.5	581.4	1,267.6	165.0	544.1
Gross profit	217.9	12.8	230.7	196.1	217.4	215.9	475.9	62.4	225.6
Selling, general and administrative expenses	149.4	21.8	171.2	147.5	112.9	118.0	327.7	35.1	150.2
Impairment charges(3)					50.0	35.0	11.0		
Restructuring charges(4)	3.9		3.9	9.2	1.2	1.8	1.1		2.9
Operating income (loss)	64.6	(9.0)	55.6	39.4	53.3	61.1	136.1	27.3	72.5
Other income (expenses):									
Interest expense, net(5)	(45.4)	(10.9)	(56.3)	(107.0)	(108.2)	(112.3)	(162.1)	(25.1)	(57.3)
Foreign exchange (loss) gain(6)	(2.6)	(16.7)	(19.3)	9.6	(24.6)	(18.5)	(126.4)	12.2	47.2
Refinancing expenses(7)						(38.3)	(27.1)		
Gain on sale of investment(8)	1.0		1.0						
Loss on receivables sold				(1.2)	(1.2)				
Stamp duty tax and other(9)							(4.3)		
Income (loss) before taxes	17.6	(36.6)	(19.0)	(59.2)	(80.7)	(108.0)	(183.8)	14.4	62.4
Income tax provision (benefit)	9.9	(4.8)	5.1	(4.8)	(12.5)	(16.3)	32.3	5.5	24.9
Net income (loss) before minority interest	7.7	(31.8)	(24.1)	(54.4)	(68.2)	(91.7)	(216.1)	8.9	37.5
Minority interest									(0.8)
Net income (loss)	\$ 7.7	\$ (31.8)	\$ (24.1)	\$ (54.4)	\$ (68.2)	\$ (91.7)	\$ (216.1)	\$ 8.9	\$ 38.3
Net income (loss) applicable to common shareholders basic(10)	\$ 7.7	\$ (31.8)	\$ (24.1)	\$ (54.4)	\$ (68.2)	\$ (102.9)	\$ (220.3)	\$ 7.9	\$ 37.2
Net income (loss) applicable to common shareholders diluted(10)	\$ 7.7	\$ (31.8)	\$ (24.1)	\$ (54.4)	\$ (68.2)	\$ (102.9)	\$ (220.3)	\$ 8.9	\$ 38.3



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(\$ in millions, except per share data; shares in thousands)	Year Ended December 31,						Three Months Ended March 31,		
	Predecessor	Successor or Rockwood							
	Period From January 1, 2000 Through November 20, 2000	Period From November 21, 2000 Through December 31, 2000	2000(1)	2001	2002	2003	2004	2004	2005
<b>Net income (loss) per common share data (unaudited)(12):</b>									
Basic net income (loss) per common share:									
Net income (loss) per common share	\$ 0.38	\$ (1.57)	\$ (1.19)	\$ (2.63)	\$ (3.29)	\$ (4.96)	\$ (6.66)	\$ 0.38	\$ 0.74
Weighted average shares	20,319	20,319	20,319	20,701	20,746	20,739	33,054	20,740	50,310
Diluted net income (loss) per common share							\$ 0.38	\$ 0.73	
Weighted average shares							20,740	52,732	
<b>Cash flow data:</b>									
Net cash provided by (used in) operating activities	\$ 48.9	\$ (0.5)	\$ 48.4	\$ 113.8	\$ (4.1)	\$ 42.6	\$ 179.3	\$ 1.3	\$ (7.4)
Net cash provided by (used in) investing activities	9.9	(1,181.4)	(1,171.5)	(31.6)	(30.4)	(48.5)	(2,249.9)	(6.7)	(35.5)
Net cash (used in) provided by financing activities	(104.2)	1,207.2	1,103.0	(30.6)	(18.9)	(1.7)	2,134.4	(3.8)	169.1
Effect of exchange rate changes on cash	(11.4)	19.5	8.1	0.1	2.6	3.8	5.6	(0.4)	(0.4)
Net (decrease) increase in cash and cash equivalents	\$ (56.8)	\$ 44.8	\$ (12.0)	\$ 51.7	\$ (50.8)	\$ (3.8)	\$ 69.4	\$ (9.6)	\$ 125.8
<b>Other financial data:</b>									
Depreciation and amortization	\$ 61.6	\$ 10.6	\$ 72.2	\$ 74.7	\$ 46.3	\$ 52.4	\$ 115.2	\$ 13.8	\$ 53.2
Capital expenditures	45.0	6.5	51.4	34.5	36.0	34.3	112.8	6.7	35.7
EBITDA(13)	124.6	(15.1)	109.5	122.5	73.8	56.7	93.5	53.3	173.7
Non-cash charges and gains included in EBITDA(14)	2.6	16.7	19.3	(9.6)	74.6	90.4	151.6	(12.2)	(47.2)
Other special charges and gains included in EBITDA(15)	21.4	13.0	34.4	27.5	2.0	2.4	87.3		6.7

(\$ in millions)	Successor or Rockwood					As of March 31, 2005
	As of December 31,					
	2000	2001	2002	2003	2004(18)	
						(As restated)

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Successor or Rockwood

**Balance sheet data:**

Cash and cash equivalent	\$ 44.8	\$ 96.5	\$ 45.7	\$ 41.9	\$ 111.3	\$ 237.1
Working capital(16)	127.5	70.7	73.2	110.6	493.0	454.7
Property, plant and equipment, net	407.5	391.2	407.0	418.6	1,566.8	1,520.8
Total assets(3)	1,537.3	1,431.0	1,425.3	1,460.7	5,399.5	5,316.8
Long-term debt(17)	993.3	954.1	982.5	1,054.4	3,333.4	3,254.6
Redeemable convertible preferred stock				30.1	34.3	35.4
Stockholders' equity	274.4	205.2	172.9	126.1	624.0	561.8



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- (1) This column represents the sum of the financial results of Rockwood's predecessor for the period from January 1, 2000 through November 20, 2000 and the period after the KKR acquisition (or successor period) of Rockwood from November 21, 2000 through December 31, 2000. Periods after the KKR acquisition reflect the effects of purchase accounting applied as a result of such acquisition. This column is not representative of what Rockwood's financial results would have been had Rockwood's predecessor been a stand-alone entity for the entire year as these periods are prepared on two different basis of accounting.
- (2) Net sales for our Performance Additives segment include net sales from our U.K. and Irish water treatment business, which we sold in December 2000, of \$13.8 million in the full year 2000 on a combined basis.
- (3) As part of our impairment testing in late 2002, 2003 and 2004, we determined that there were goodwill impairments of \$50.0 million, \$19.3 million, and \$4.0 million, respectively, in our Electronics segment. We also determined that there was a property, plant and equipment impairment of \$15.7 million and \$7.0 million in 2003 and 2004, respectively, in our Electronics segment.
- (4) Restructuring charges include certain expenses incurred in connection with severance charges and asset write-offs related to consolidations and cessations of certain of our operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Which Affect Our Results of Operations Special Charges."
- (5) For the years ended December 31, 2002, 2003 and 2004 and the three months ended March 31, 2004 and 2005, interest expense, net included (losses) gains of \$(11.6) million, \$(6.0) million, \$6.0 million, \$2.3 million and \$7.6 million, respectively, representing the movement in the mark-to-market valuation of our interest rate derivative instruments for the periods. In addition, interest expense, net for the years ended December 31, 2003 and 2004 are mark-to-market (loss) gain of \$(10.5) million and \$0.8 million, respectively, related to cross-currency interest rate swaps entered into in connection with the July 2003 debt refinancing. Interest expense, net also includes \$8.0 million, \$6.1 million, \$7.4 million, \$0.9 million and \$2.9 million for the years ended December 31, 2002, 2003 and 2004 and the three months ended March 31, 2004 and 2005, respectively, of amortization expense related to deferred financing costs.
- (6) For the period from January 1, 2000 through November 20, 2000, represents losses (gains) incurred as a result of intercompany derivative contracts with Laporte. For the period from November 21, 2000 through December 31, 2000 and subsequent periods, represents the non-cash translation impact on our euro-denominated debt resulting from the strengthening (weakening) of the euro against the U.S. dollar during the applicable periods. In the year ended December 31, 2004, this amount also included a \$10.9 million mark-to-market realized loss on foreign currency derivative agreements that we entered into in connection with the Dynamit Nobel acquisition.
- (7) In July 2003, we wrote off \$36.9 million of deferred debt issuance costs relating to our previous long-term debt that was repaid as part of the July 2003 debt refinancing. In December 2003, we expensed \$1.4 million of investment banking and professional fees in connection with the December 2003 refinancing of borrowings under the then new senior credit facilities. In July 2004, we wrote off \$2.8 million of deferred debt issuance costs relating to our previous long-term debt that was repaid as part of the acquisition financings. In October 2004, we wrote off \$6.1 million of deferred financing costs in connection with the first amendment of the senior secured credit agreement. In November 2004, we wrote off \$17.2 million of deferred financing costs in connection with the repayment of the senior subordinated loan facility with the proceeds of the offering of the 2014 notes. In December 2004, we expensed \$1.0 million in connection with the second amendment under the senior secured credit agreement.
- (8) Represents gain from the sale of an investment purchased by Laporte in 1999 and sold in October 2000.
- (9) Represents the tax on certain assets transferred in the United Kingdom in connection with the KKR acquisition of \$4.0 million plus \$0.3 million related to disposal of property, plant and equipment.
- (10) Represents the net income (loss) applicable to common shareholders after reducing net income (loss) by the amount of accumulated and unpaid dividends and the accretion to the redemption value of the redeemable convertible preferred stock for the respective period.
- (11) See discussion of the restatement in Note 20 Restatement to our and Rockwood's consolidated financial statements included elsewhere in this prospectus.
- (12) Net income (loss) per share is calculated by dividing net income (loss) by the weighted average shares outstanding.
- (13) EBITDA is defined as net income plus interest expense, net, income tax provision (benefit) and depreciation and amortization. EBITDA is not a recognized term under U.S. GAAP and is not intended to be an alternative to net (loss) income as an indicator of operating performance or to cash

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flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements.

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The amounts shown for EBITDA in this prospectus differ from the amounts calculated under the definition of EBITDA used in our debt agreements. The definition of EBITDA used in our debt agreements permits further adjustments for certain cash and non-cash charges and gains; the indentures governing the 2011 notes and 2014 notes exclude certain adjustments permitted under the senior secured credit agreement. EBITDA as adjusted is used in our debt agreements to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain payments. In addition to covenant compliance, our management also uses EBITDA as adjusted, calculated using the same definition as used in our senior secured credit agreement, to assess our operating performance and to calculate performance-based cash bonuses and determine whether certain performance-based stock options vest, as both such bonuses and options are tied for EBITDA as adjusted targets. For discussion of the adjustments, uses and the limitations on the use of Adjusted EBITDA, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Special Note Regarding Non-GAAP Financial Measures."

The following table sets forth a reconciliation of net income (loss) to EBITDA for the periods indicated.

(\$ in millions)	Predecessor		Successor or Rockwood						
	Period from January 1, 2000 through November 20, 2000	Period from November 21, 2000 through December 31, 2000	Year Ended December 31,					Three Months Ended March 31,	
			2000	2001	2002	2003	2004	2004	2005
Net income (loss)	\$ 7.7	\$ (31.8)	\$ (24.1)	\$ (54.4)	\$ (68.2)	\$ (91.7)	\$ (216.1)	\$ 8.9	\$ 38.3
Interest expense, net	45.4	10.9	56.3	107.0	108.2	112.3	162.1	25.1	57.3
Income tax provision (benefit)	9.9	(4.8)	5.1	(4.8)	(12.5)	(16.3)	32.3	5.5	24.9
Depreciation and amortization	61.6	10.6	72.2	74.7	46.3	52.4	115.2	13.8	53.2
<b>EBITDA</b>	<b>124.6</b>	<b>(15.1)</b>	<b>109.5</b>	<b>122.5</b>	<b>73.8</b>	<b>56.7</b>	<b>93.5</b>	<b>53.3</b>	<b>173.7</b>
Minority interest									(0.8)
<b>EBITDA (before minority interest)</b>	<b>\$ 124.6</b>	<b>\$ (15.1)</b>	<b>\$ 109.5</b>	<b>\$ 122.5</b>	<b>\$ 73.8</b>	<b>\$ 56.7</b>	<b>\$ 93.5</b>	<b>\$ 53.3</b>	<b>\$ 172.9</b>

(14)

EBITDA, as defined above, contains the following non-cash charges and gains for which we believe adjustment is permitted under our senior secured credit agreement, each of which is described under "Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Which Affect Our Results of Operations Special Charges":

(\$ in millions)	Predecessor		Successor or Rockwood						
	Period from January 1, 2000 through November 20, 2000	Period from November 21, 2000 through December 31, 2000	Year Ended December 31,					Three Months Ended March 31,	
			2000	2001	2002	2003	2004	2004	2005
Impairment charges	\$	\$	\$	\$	\$ 50.0	\$ 35.0	\$ 11.0	\$	\$
Write-off of deferred debt issuance costs						36.9	25.1		
Foreign exchange loss (gain)	2.6	16.7	19.3	(9.6)	24.6	18.5	115.5	(12.2)	(47.2)

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Predecessor		Successor or Rockwood															
\$	2.6	\$	16.7	\$	19.3	\$	(9.6)	\$	74.6	\$	90.4	\$	151.6	\$	(12.2)	\$	(47.2)

(15)

In addition to non-cash charges and gains, our EBITDA contains the following other special charges and gains for which we believe adjustment is permitted under our senior secured credit agreement, each of which is described under

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"Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Which Affect Our Results of Operations Special Charges":

(\$ in millions)	Predecessor		Successor or Rockwood						
	Period from January 1, 2000 through November 20, 2000	Period from November 21, 2000 through December 31, 2000	Year Ended December 31,					Three Months Ended March 31,	
			2000	2001	2002	2003	2004	2004	2005
Systems/organization establishment expenses	\$	\$ 3.7	\$ 3.7	\$ 2.6	\$ 1.5	\$ 1.6	\$ 4.8	\$ 1.2	
Incentive plan expenses	9.4		9.4						
Inventory write-up reversal		8.8	8.8	9.0		0.2	61.1	2.8	
Stamp duty tax							4.0		
Business interruption costs and insurance recovery				1.3	(2.2)	(4.5)			
Costs incurred related to debt modifications						1.4	2.0		
Cancelled acquisition and disposition costs	0.9		0.9	1.2	0.3	1.9	0.5	0.2	
Loss on receivables sold				1.2	1.2				
Loss from disposed businesses							0.8		
Restructuring and related charges	5.1		5.1	9.7	1.2	1.8	1.1	2.9	
Foreign exchange loss on foreign currency derivatives							10.9		
Minority interest								(0.8)	
CCA litigation defense costs								0.4	
Patent litigation expense	6.0	0.5	6.5						
Other				2.5			2.1		
	\$ 21.4	\$ 13.0	\$ 34.4	\$ 27.5	\$ 2.0	\$ 2.4	\$ 87.3	\$ 6.7	

- (16) Working capital is defined as current assets less current liabilities.
- (17) Excludes the current portion of long-term debt.
- (18) See discussion of the restatement in Note 20 Restatement to our and Rockwood's consolidated financial statements included elsewhere in this prospectus.

### Dynamit Nobel Selected Financial Data

The selected financial data of Dynamit Nobel presented below for the years ended September 30, 2001 and 2002, and as of and for the three months ended December 31, 2002 and the year ended December 31, 2003 have been derived from Dynamit Nobel's audited combined financial statements included elsewhere in this prospectus. The selected financial data of Dynamit Nobel presented below for the six months ended June 30, 2003 and 2004 have been derived from Dynamit Nobel's unaudited combined financial statements included elsewhere in this prospectus.

In September 2002, Dynamit Nobel changed its fiscal year end from September 30 to December 31, which resulted in a short financial year from October 1, 2002 to December 31, 2002. In the opinion of our management, the unaudited financial statements have been prepared on a basis consistent with the audited financial statements and include all adjustments, which are normally recurring adjustments, necessary for a fair presentation of the results of operations for the periods presented. Results of operations for the interim periods are not necessarily indicative of the results that might be expected for any other interim period or for an entire year. The selected financial data presented below should be read together with Dynamit Nobel's combined financial statements and the



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notes to those statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Dynamit Nobel" included elsewhere in this prospectus.

(\$ in millions)	Year Ended September 30,		Three Months Ended December 31, 2002	Year Ended December 31, 2003	Six Months Ended June 30,	
	2001	2002			2003	2004
<b>Statement of operations data:</b>						
Net sales	\$ 1,446.5	\$ 1,421.9	\$ 336.9	\$ 1,595.9	\$ 800.0	\$ 885.5
Cost of sales	(949.5)	(914.7)	(219.3)	(1,060.0)	(524.9)	(587.0)
Gross profit	497.0	507.2	117.6	535.9	275.1	298.5
Operating expenses(a)	(286.4)	(300.9)	(84.6)	(353.2)	(171.3)	(194.3)
Operating income	210.6	206.3	33.0	182.7	103.8	104.2
Other income, net(a)	4.9	3.8	2.2	5.8	0.8	0.5
Interest expense, net	(24.2)	(22.8)	(6.9)	(25.2)	(13.6)	(14.4)
Income before taxes and other adjustments	191.3	187.3	28.3	163.3	91.0	90.3
Income tax provision	94.1	80.4	11.8	61.7	34.2	32.1
Other adjustments(1)	1.3	3.4	0.3	(0.7)	1.1	
Net income	\$ 98.5	\$ 110.3	\$ 16.8	\$ 100.9	\$ 57.9	\$ 58.2
<b>Cash flow data:</b>						
Net cash provided by (used in) operating activities	\$ 128.0	\$ 142.1	\$ 42.1	\$ 267.0	\$ 57.6	\$ (18.2)
Net cash used in investing activities(2)	(60.3)	(62.5)	(23.8)	(102.7)	(9.0)	(45.0)
Net cash (used in) provided by financing activities(3)	(82.3)	(95.9)	(30.9)	(196.8)	(56.6)	71.7
Exchange-rate-related change in cash and cash equivalents	8.3	15.1	10.2	33.3	6.1	(6.9)
Net (decrease) increase in cash and cash equivalents	\$ (6.3)	\$ (1.2)	\$ (2.4)	\$ 0.8	\$ (1.9)	\$ 1.6
<b>Other financial data:</b>						
Depreciation and amortization	\$ 103.3	\$ 83.1	\$ 21.1	\$ 94.6	\$ 45.7	\$ 52.0
Capital expenditures	125.1	112.0	26.3	122.0	39.4	58.2
EBITDA(4)	320.1	295.8	56.6	282.7	151.7	156.7
Non-cash charges and gains included in EBITDA(5)	(2.7)	(3.4)	(1.6)	(2.4)	(6.0)	(1.1)
Other special charges and gains included in EBITDA(6)	(58.2)	(20.4)	2.6	31.8	8.3	2.7
		<b>As of September 30,</b>		<b>As of December 31,</b>		<b>As of</b>
		<b>2001</b>	<b>2002</b>	<b>2002</b>	<b>2003</b>	<b>June 30,</b>
						<b>2004</b>
<b>Balance sheet data:</b>						
Cash and cash equivalents	\$ 10.7	\$ 9.5	\$ 7.0	\$ 7.8	\$ 9.5	
Working capital deficiency(7)	(67.9)	(139.6)	(56.2)	(103.6)	(153.2)	
Property, plant and equipment	663.3	723.9	766.2	918.2	886.2	
Total assets	1,596.7	1,732.5	2,144.7	2,431.6	2,430.7	
Long-term debt(8)	137.9	94.1	201.6	231.6	203.3	
Investment by mg technologies ag	599.8	602.6	966.3	1,036.7	1,037.8	

(a) Certain amounts have been reclassified to conform to Rockwood's historical presentation.

(1) Other adjustments include earnings (loss) from discontinued operations, cumulative effects from changes in accounting principles and minority interest.

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- (2) Net cash used in investing activities primarily represents capital expenditures, net of proceeds from dispositions of businesses and fixed assets.
- (3) Net cash used in financing activities primarily represents net changes in external debt and the net change in inter-company balances with Dynamit Nobel's former parent, mg technologies ag.
- (4) EBITDA is defined as net income plus interest expense, net, income tax provision (benefit) and depreciation and amortization. Our management believes EBITDA is not a recognized term under U.S. GAAP and is not intended to be an



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alternative to net (loss) income as an indicator of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements.

The amounts shown for EBITDA in this prospectus differ from the amounts calculated under the definition of EBITDA used in our debt agreements. The definition of EBITDA used in our debt agreements permits further adjustments for certain cash and non-cash charges and gains; the indentures governing the 2011 notes and 2014 notes exclude certain adjustments permitted under the senior secured credit agreement. EBITDA as adjusted is used in our debt agreements to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain payments. In addition to covenant compliance, our management also uses EBITDA as adjusted, calculated using the same definition as used in our senior secured credit agreement, to assess our operating performance and to calculate performance-based cash bonuses and determine whether certain performance-based stock options vest, as both such bonuses and options are tied to EBITDA as adjusted targets. For a discussion of the adjustments, uses and the limitations on the use of EBITDA as adjusted, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Special Note Regarding Non-GAAP Financial Measures."

The following table presents a reconciliation of Dynamit Nobel's net income to EBITDA:

(\$ in millions)	Year Ended September 30,		Three Months Ended December 31, 2002	Year Ended December 31, 2003	Six Months Ended June 30,	
	2001	2002			2003	2004
Net income	\$ 98.5	\$ 110.3	\$ 16.8	\$ 100.9	\$ 57.9	\$ 58.2
Interest expense, net	24.2	22.8	6.9	25.2	13.6	14.4
Income tax provision	94.1	80.4	11.9	61.7	34.2	32.1
Depreciation and amortization	103.3	83.1	21.1	94.6	45.7	52.0
<b>EBITDA</b>	<b>320.1</b>	<b>296.6</b>	<b>56.7</b>	<b>282.4</b>	<b>151.4</b>	<b>156.7</b>
Minority interest		(0.8)	(0.1)	0.3	0.3	
<b>EBITDA (before minority interest)</b>	<b>\$ 320.1</b>	<b>\$ 295.8</b>	<b>\$ 56.6</b>	<b>\$ 282.7</b>	<b>\$ 151.7</b>	<b>\$ 156.7</b>

(5)

EBITDA, as defined above, contains the following non-cash charges and gains for which we believe adjustment is permitted under our senior secured credit agreement, which are described under "Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Which Affect Our Results of Operations Special Charges":

(\$ in millions)	Year Ended September 30,		Three Months Ended December 31, 2002	Year Ended December 31, 2003	Six Months Ended June 30,	
	2001	2002			2003	2004
Earnings from discontinued operations	\$ (1.3)	\$ (2.6)	\$ (0.2)	\$ (1.4)	\$ (1.4)	\$
Cumulative effect of change in accounting principle				1.8		
Foreign exchange loss (gain)	(1.4)	(0.8)	(1.4)	(2.8)	(4.6)	(1.1)
	<b>\$ (2.7)</b>	<b>\$ (3.4)</b>	<b>\$ (1.6)</b>	<b>\$ (2.4)</b>	<b>\$ (6.0)</b>	<b>\$ (1.1)</b>

(6)

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In addition to non-cash charges and gains, our EBITDA contains the following other special charges and gains for which we believe adjustment is permitted under our senior secured credit agreement, which are described on "Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Which Affect Our Results of Operations Special Charges":

(\$ in millions)	Year Ended September 30,		Three Months Ended December 31, 2002	Year Ended December 31, 2003	Six Months Ended June 30,	
	2001	2002			2003	2004
Adjustment related to divested businesses	\$ (60.3)	\$ (21.8)	\$	\$ 4.6	\$ 0.5	\$
Restructuring and closure charges	2.4	3.3	2.6	14.6	2.2	0.4
Non-recurring charges	(0.3)	(1.9)		12.6	5.6	2.3
	<u>\$ (58.2)</u>	<u>\$ (20.4)</u>	<u>\$ 2.6</u>	<u>\$ 31.8</u>	<u>\$ 8.3</u>	<u>\$ 2.7</u>

(7) Working capital is defined as current assets less current liabilities.

(8) Excludes the current portion of long-term debt.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of our financial condition and results of operations covers periods prior and subsequent to the Dynamit Nobel acquisition consummated on July 31, 2004. We also provide a discussion of Dynamit Nobel's historical results of operations separately under "Dynamit Nobel." In connection with the Dynamit Nobel acquisition, we entered into new financing arrangements and significantly altered our capital structure. The historical financial information of Rockwood during the periods prior to the Dynamit Nobel acquisition included in this prospectus does not reflect the significant impact the Dynamit Nobel acquisition has had and will have on us. The results of operations of Dynamit Nobel for the periods ended subsequent to July 31, 2004 are included in our condensed consolidated financial statements for the year ended December 31, 2004 and the three months ended March 31, 2005.

The Groupe Novasep combination was completed on December 31, 2004 and is included in our consolidated balance sheet as of that date; however, no results of operations are reflected in our income statement for the year ended December 31, 2004.

The following management's discussion and analysis of financial condition and results of operations gives effect to the restatement as described in Note 20 Restatement to our and Rockwood's consolidated financial statements included elsewhere in this prospectus.

The following discussion contains forward-looking statements that involve numerous risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements as a result of these risks and uncertainties, including those set forth under "Risk Factors" and "Forward-Looking Statements." You should read the following discussion and analysis together with "Selected Financial Data," "Unaudited Pro Forma Condensed Combined Financial Information" and Rockwood's consolidated financial statements and the notes to those statements and Dynamit Nobel's combined financial statements and the notes to those statements included elsewhere in this prospectus.

Given the significance of the Dynamit Nobel acquisition, we have included a limited discussion of the results of our operations on a pro forma basis as if the Dynamit Nobel acquisition had occurred on January 1, 2004. See "Pro Forma Net Sales, Net Income (Loss) and Adjusted EBITDA" below. The results of operations on a pro forma basis also assumes the pigments and dispersions acquisition and the Groupe Novasep combination had occurred on January 1, 2004.

**General**

We are a global developer, manufacturer and marketer of technologically advanced, high value-added specialty chemicals and advanced materials. We serve more than 60,000 customers across a wide variety of industries and geographic areas. Since the completion of the Dynamit Nobel acquisition, we operate through seven business segments: (1) Performance Additives; (2) Specialty Compounds; (3) Electronics; (4) Specialty Chemicals; (5) Titanium Dioxide Pigments; (6) Advanced Ceramics; and (7) Groupe Novasep. Of these seven segments, we acquired Specialty Chemicals, Titanium Dioxide Pigments, Advanced Ceramics and Groupe Novasep (then known as Custom Synthesis) in the Dynamit Nobel acquisition.

Our net sales consist of sales of our products, net of sales discounts, product returns and allowances. Sales are primarily made on a purchase order basis.

Our cost of products sold consists of variable and fixed components. Our variable costs are proportional to volume and consist principally of raw materials, packaging and related supplies, certain energy costs, and certain distribution costs including inbound, outbound, and internal shipping and transfer costs. Our fixed costs are not significantly impacted by production volume

and consist principally of certain fixed manufacturing costs and other distribution network costs, including warehousing. Fixed manufacturing costs comprise headcount-related costs and overhead, including depreciation, periodic maintenance costs, purchasing and receiving costs, inspection costs and certain energy costs.

Our selling, general and administrative expenses include research and development costs, sales and marketing, divisional management expenses and corporate services including cash management, legal, benefit plan administration and other administrative and professional services.

We financed the Dynamit Nobel acquisition primarily through the proceeds of equity investments of \$425.0 million from KKR and DLJMB, term loans of approximately \$1,454.2 million and a senior subordinated loan facility of approximately \$854.5 million, as described in detail under "Liquidity and Capital Resources" below. Subsequently, we refinanced significant portions of this indebtedness with indebtedness bearing lower interest rates. Nonetheless, as a result of the Dynamit Nobel acquisition, our interest expense currently is, and will continue to be, higher than it was prior to the Dynamit Nobel acquisition.

We are focused on increasing sales, improving productivity, reducing costs, expanding margins and reducing debt. In connection with this focus, since the KKR acquisition, among other things:

we reduced overhead costs and eliminated management redundancies. We have begun to implement plans to cut costs, reduce overhead and eliminate duplicative positions in the acquired Dynamit Nobel businesses and the acquired pigments and dispersions business of Johnson Matthey Plc. For example, we closed the former headquarters of Dynamit Nobel in Troisdorf, Germany and the New Lebanon, New York manufacturing facility of our Advanced Ceramics segment and will implement other restructuring measures at our Specialty Chemicals and Groupe Novasep segments. In addition, we eliminated 40 positions in connection with the acquisition of the pigments and dispersions business. In total, we expect to achieve annual cost savings of approximately \$17.0 million, of which we have already realized approximately \$7.0 million through March 31, 2005, in connection with these and other actions;

we reduced our net working capital as a percentage of net sales by implementing more effective systems to monitor working capital, augmenting further our "just-in-time" inventory management and creating incentives for managers to focus on working capital management; and

we implemented stringent controls to help ensure that maintenance capital expenditures are appropriate and that expansion capital is in line with both capacity and market demands. In 2000, Rockwood's capital expenditures as a percentage of net sales was 6.2%; in 2003, it was 4.3%. We intend to monitor capital expenditures in all of our segments.

## **Factors Which Affect Our Results of Operations**

### **Our Markets**

Because the businesses in our segments generally serve many unrelated end-use markets, we discuss the principal market conditions on a segment basis rather than a consolidated basis. The principal market conditions in our segments and regions in which we operate that impacted our results of operations during the periods presented include the following:

#### ***Performance Additives***

Although there was a slight improvement in 2002, global political instability and the continued economic slowdown that began in 2001 contributed to a generally soft sales environment in

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most of 2003. During 2004, a general economic improvement resulted in improved sales by our Performance Additives segment.

The continued growth in demand in certain North American end-use markets, such as construction, contributed to an increase in sales, specifically in our Color Pigments and Services and Timber Treatment Chemicals businesses. In particular, a continuing trend towards the increased use of colored concrete products in the North American construction market has had a positive effect on our Color Pigments and Services business line. Timber Treatment Chemicals also benefited from high levels of activity in home improvement areas, although growth in demand for treated wood has been impacted by the increasing use of wood substitutes and poor weather during the first quarter of 2005 in many regions.

Demand in certain European end-use markets over the last few years has slowed. This affected sales of Color Pigments and Services in the construction market, particularly in Germany, and, in certain regions, sales of Clay-based Additives in the coatings and paint markets. Demand in Europe improved in the second half of 2004 but we have experienced a decrease in volumes in our Color Pigments and Services business in early 2005.

The change in the market to environmentally advanced wood treatment chemical products, such as alkaline copper quaternary, or ACQ, and the phase out of chromated copper arsenate, or CCA, for residential use have had a positive impact on our Timber Treatment Chemicals business, which is a leading supplier of these higher margin products.

In recent years, we exited a number of lower margin product lines in our Clay-based Additives business, which negatively impacted our net sales. We are now focusing on increasing high margin specialty applications to offset these lost sales.

Raw material costs have increased in general in the Performance Additives segment in 2004 and continue to trend upward currently, particularly in the Timber Treatment Chemicals and Color Pigments and Services businesses. Increased raw material costs for copper and mono-ethanolamine, primary components in the ACQ production process, are expected to continue to increase in the near future. Our ability to pass on some or all of these increases is uncertain.

### ***Specialty Compounds***

Our largest product line in the Specialty Compounds segment is wire and cable compounds. Sales within this product line are dependent upon the telecommunications market and related sectors, specifically demand for high-end voice and data communication wire and cable, for which our Specialty Compounds segment is a significant provider of sheathing materials. A sustained downturn in the telecommunications market and related sectors caused a significant decline in the volume of our products sold during the first half of 2002. Sales of these products have been relatively stable in 2003 and the first half of 2004 with demand improving moderately in the second half of 2004 and continued to experience moderate gains in the first quarter of 2005.

Most of the other end-use markets for which Specialty Compounds' products are used generally track growth of gross domestic product and as a result, our net sales were negatively impacted during 2002 and were relatively flat in 2003 and 2004. We are focusing more of our efforts towards increasing high margin specialty applications to offset this impact, in particular, thermoplastic elastomers, and less of our efforts in regulated packaging because we have been unable to successfully penetrate this market to date.

As a result of declining or flat sales, we significantly rationalized our cost structure in the Specialty Compounds segment through headcount reductions and other cost cutting measures.

Raw material costs have increased in the Specialty Compounds segment during 2004 and continue to trend upward in 2005. This is particularly true with respect to PVC resin and plasticizers, primary components in the production of wire and cable products. Also, the price of ammonium octamolybdate, another key raw material used in the production of wire and cable products, has increased in 2005 and we expect this trend to continue. Our ability to pass on some or all of these increases is uncertain.

### ***Electronics***

Demand for our Electronics products generally follows the activity levels of semiconductor and printed circuit board manufacturers. The global semiconductor and printed circuit board markets are cyclical in nature. These markets witnessed a sustained downturn in 2002 and most of 2003, which significantly impacted the volume of our products sold in the three business lines within our Electronics segment. Although the timing and severity of such impact generally varied among the business lines during this period, due to the unusually long duration of that downturn, volumes sold in most of our Electronics business lines (most notably our Wafer Reclaim business line and, to a lesser extent, our Photomasks and Electronic Chemicals business lines) declined through 2003. Market conditions generally improved during 2004, resulting in higher volumes in 2004 as compared to 2003. However, general electronic market conditions in the fourth quarter of 2004 and the first quarter of 2005 appear to indicate that demand for Electronics products has declined. Although the semiconductor industry is now predicting growth over 2004, we expect such growth to occur largely in Asia.

The price of certain of our products is insulated to some degree from the effect of changes in the price of semiconductors and printed circuit boards due to the fact that the cost of these products is generally a small component of the cost of the end product. Despite this, in 2004 and continuing into 2005 there has been heavy pricing pressure in certain businesses, particularly wafer reclaim and photomasks, due to very aggressive competition.

### ***Specialty Chemicals***

Demand for our Surface Treatment products of our Specialty Chemicals segment generally follows the activity levels of metal processing manufacturers, including the automotive supply, steel and aircraft industries. Overall market conditions for Surface Treatment products in the industries served improved in 2003, following a downturn in 2002 that reflected the slow world economy. During 2004, less favorable global market conditions in the automotive and aircraft industries were offset by more favorable conditions in the steel industry. Despite the less favorable automotive conditions, we have been able to sustain sales growth due to market penetration.

Demand for our lithium products in the Fine Chemical business line of our Specialty Chemicals segment is generally driven in part by demand of lithium carbonate in industrial applications, the aluminum business, battery products and higher general demand in China. Sales of lithium products specifically used in life science applications depend on the trends in drug development and growth in pharmaceuticals markets as well as generic competition. Market conditions for lithium products in the industries served have been stable in 2003 and 2004. Through the first quarter of 2005, we have experienced price increases related to a key raw material used in producing metal sulfides.

Pricing for lithium products is very competitive, particularly in the butyllithium market.

### *Titanium Dioxide Pigments*

Demand for our titanium dioxide products in anatase form is driven mainly by demand in the synthetic fiber industry, while demand for titanium dioxide products in rutile form and our functional additives is driven by demand in the coatings, paper and plastics industries. Volumes sold of our titanium dioxide products in anatase form increased from mid-2002 through 2004. In contrast, volumes sold of our titanium dioxide products in rutile form decreased during 2002 due to continued weak global conditions and remained flat in 2003 and 2004. We have experienced a decrease in volume in our titanium dioxide business line in early 2005 due, in part, to the lower cost of cotton, which has negatively affected demand for synthetic fibers and in turn our products. In addition, a significant portion of our sales generated in Asia are denominated in euros, and the strengthening of the euro may negatively impact our net sales in this region in 2005 by either resulting in pricing pressure or loss of customers.

Although price levels of titanium dioxide products in anatase form remained relatively stable globally in 2003, we experienced pricing pressure in Europe from global suppliers and in Asia from Chinese suppliers during 2004. Although price levels of titanium products in rutile form gradually increased in 2003, we experienced pricing pressures during 2004.

### *Advanced Ceramics*

Demand for our ceramic medical devices is mainly tied to the aging population in Europe and the U.S. As a result of this demographic as well as our market share penetration, the volume of our products used in medical device applications sold have experienced double-digit growth each year since 2001. We expect demand for ceramic components in artificial hip joints to continue to increase.

Beginning in 2003, the markets for our electronic products stabilized, although we experienced less demand as a result of the shift in the market focus to Asia. We have experienced some pricing pressure in our electronic products business in early 2005. Similarly, sales of ceramic products for use in cutting tool products and mechanical applications have been negatively impacted by strong pricing pressure from Asian competitors in 2003 and 2004. We also experienced lower market growth as these applications are for more mature industries.

### *Groupe Novasep*

Demand for our custom synthesis chemistries and processes depends to a large extent on the pipeline and lifecycles of pharmaceutical products. The decrease of annual FDA approvals in recent years reflects the slowdown of the development of new molecules in the life-sciences industry. In addition, the average development time of a new drug has increased in recent years, despite pharmaceutical manufacturers' attempts to decrease this development period. Further, merger and acquisition activity in the pharmaceutical industry and overcapacity in the custom synthesis industry has adversely affected the demand for and prices of our products. We also expect demand to be adversely affected by the migration of certain manufacturing processes to China. This trend toward lower demand has been partially offset in recent years, however, by increased demand for pharmaceuticals caused by a growing population worldwide and an aging population in the United States.

### **Global Exposure**

We operate a geographically diverse business. Of our 2004 pro forma net sales, 50% were shipments to Europe, 34% to North America (predominately the United States) and 16% to the rest of the world. We estimate that we sold to customers in more than 25 countries during this period. Currently, we serve our diverse and extensive customer base with 100 manufacturing facilities in 25 countries. Consequently, we are exposed to global economic and political changes, particularly currency fluctuations that could impact our profitability.

Our sales and production costs are mainly denominated in U.S. dollars or euros. Therefore, our results of operations and financial condition have been historically impacted primarily by the fluctuation of the euro against our reporting currency, the U.S. dollar. The recent strengthening of the euro against the U.S. dollar through the first quarter of 2005 has had a positive impact on our net sales, gross profit and operating income reported in our consolidated statements of operations for the years ended December 31, 2002, 2003 and 2004, as a result of our euro-denominated operations being translated into U.S. dollars, but has had a negative impact on the "foreign exchange gain (loss)" component of "other (expenses) income" as a result of our euro-denominated debt being translated into U.S. dollars. A weakening of the euro against the U.S. dollar would have had the opposite effect. Historically, however, our pro forma operating margins have not been significantly impacted by currency fluctuations because, in general, sales and costs of products sold are generated or incurred in the same currency, subject to certain exceptions, particularly in our Groupe Novasep segment.

### **Raw Materials**

Raw materials constituted approximately 48% of our 2004 pro forma cost of products sold. We have a broad raw material base, with the cost of no single raw material representing more than 5% of our pro forma cost of products sold in 2004. Nonetheless, the significant price fluctuations our raw materials have experienced in the past during periods of high demand have had an adverse impact on our results of operations business. We cannot accurately predict the impact of any future price increases for raw materials or any raw material shortages on our business as a whole or in specific geographic regions. In addition, we may not be able to pass on raw material price increases to our customers.

### **Energy Costs**

In 2004, energy purchases represented approximately 4% of Rockwood's historical cost of products sold and 5% of Dynamit Nobel's historical cost of products sold. However, within certain business lines, such as our Titanium Dioxide Pigments segment and the Color Pigments and Services and Clay-based Additives businesses of our Performance Additives segment, energy costs are more significant. The cost of products sold for certain of our businesses, including Color Pigments and Services and Clay-based Additives, increases when the price of natural gas in North America rises. In 2004, natural gas prices were volatile in North America and have been increasing in the first quarter of 2005. Energy cost increases have been mainly due to global political conditions and extreme weather conditions. In contrast, natural gas prices in Europe, where our Titanium Dioxide Pigments segment is located, have historically been relatively stable.

### **Income Taxes**

As of March 31, 2005, we have global tax loss carryforwards (excluding state and local amounts) of approximately \$398.9 million, of which \$189.8 million expire in years 2005 through 2025 and \$209.1 million have no current expiration date. For financial reporting purposes, a valuation allowance has been recognized to reduce the deferred tax assets related to certain tax



loss carryforwards for which it is more likely than not that the related tax benefits will not be realized. Our net deferred tax assets include certain amounts of tax loss carryforwards as well as certain tax deductible temporary differences which we believe are realizable through a combination of future taxable income, reversal of deferred tax liabilities and anticipated tax planning strategies. Failure to achieve future taxable income might affect the ultimate realization of any remaining recorded net deferred tax assets. In addition, a significant issuance of our common stock or a significant shift in ownership of our currently outstanding common stock may result in an ownership change under the Internal Revenue Code of 1986, as amended, that may subject our federal net operating loss carryforwards to an annual usage limitation, which could limit our ability to use our federal net operating loss carryforwards to offset our post-ownership-change taxable income.

### **Acquisitions**

Since February 2002, pursuant to our business strategy of achieving profitable growth through selective acquisitions, we have acquired seven businesses at purchase prices ranging from approximately \$3.0 million (a Canadian color pigments asset acquisition by our Performance Additives segment) to \$2,274.0 million (the four businesses of Dynamit Nobel); and combined the three business lines of our Custom Synthesis segment (now known as our Groupe Novasep segment) with the businesses of Groupe Novasep SAS.

We accounted for the Dynamit Nobel acquisition using the purchase method of accounting. We have allocated the estimated total purchase price to the assets acquired and liabilities assumed of Dynamit Nobel based on management's estimates of their fair values. We retained independent valuation specialists to assist in the determination of fair value of a significant portion of these assets, including property, plant and equipment and identified intangible assets. The consolidated statements of operations for the year ended December 31, 2004 and three months ended March 31, 2005 reflect the results of operations of the Dynamit Nobel businesses since July 31, 2004. See notes 2, 6 and 7 to our audited consolidated financial statements for additional information.

In September 2004, one of our subsidiaries acquired the pigments and dispersions business of Johnson Matthey Plc. and in connection therewith borrowed €41.9 million (or \$50.4 million based on the September 27, 2004 exchange rate of €1.00=\$1.2029) under a term loan of the senior secured credit facilities.

In December 2004, we completed a combination of the three business lines of our Custom Synthesis segment (now known as our Groupe Novasep segment) with Groupe Novasep SAS. Pursuant to this transaction, one of our subsidiaries acquired 69.4% of the stock of Groupe Novasep SAS from outside investors and Groupe Novasep SAS management for a total purchase price of approximately \$139.7 million, including assumed debt of \$48.6 million; cash acquired of \$14.6 million and the exchange of the remaining 30.6% of the stock of Groupe Novasep SAS for stock in our acquiring subsidiary, valued at \$31.2 million. As a result of the combination, we own approximately 79% of the combined new Groupe Novasep. We believe this combination strengthens this segment by joining together Groupe Novasep SAS' proprietary separation technologies with our capabilities of developing and manufacturing advanced intermediates and active ingredients for the pharmaceutical and performance chemical industries, which we expect will position us better in this highly competitive market.

We accounted for the Groupe Novasep combination using the purchase method of accounting. We have not finalized the estimated fair value of the assets acquired and liabilities assumed other than inventory, identified intangible assets, and property, plant and equipment. We expect to complete our research and fair value estimates on remaining purchase price components by the third quarter of 2005. Based on the preliminary allocation of the total estimated purchase price,

goodwill in the transaction totaled \$33.8 million at the combination date. We expect this amount will change at a subsequent date when we finalize the purchase accounting for the Groupe Novasep combination.

### Special Charges

During the periods presented, we have incurred certain special charges, substantially in connection with the process of refocusing and restructuring the historic Rockwood businesses after the completion of the KKR acquisition and the establishment of the post-acquisition corporate entity that incorporates the four business segments acquired in the Dynamit Nobel acquisition. These items include the following:

#### *Non-recurring charges/gains:*

##### *Systems/organization establishment expenses:* These expenses include:

costs of \$1.6 million, \$1.6 million and \$0.3 million in 2002, 2003 and 2004, respectively, that arose in connection with the KKR acquisition and our resulting organization as a stand-alone company and expenses primarily relating to the amortization of sign-on compensation arrangements for key executives;

costs of \$2.1 million and \$0.3 million incurred during 2004 and the first quarter of 2005, respectively, primarily relating to the integration of the business acquired in the Dynamit Nobel acquisition. We expect to incur additional integration costs in the second, third and fourth quarters of 2005;

professional fees of \$1.9 million and \$0.9 million incurred during 2004 and the first quarter of 2005, respectively, in connection with the initial implementation of systems and internal control documentation in connection with the Sarbanes-Oxley Act of 2002. We have previously estimated additional non-recurring costs of approximately \$2.6 million to complete initial Sarbanes-Oxley compliance. However, this estimate was prepared based on our original compliance timetable of the year ending December 31, 2005. Given the recent extension of the compliance deadline until the year ended December 31, 2006, and the expectations articulated in SEC Release 33-8545 that announced this extension, we are reevaluating the scope and estimated cost of our documentation and initial compliance plan; and

additional expenses of \$0.5 million within the business segments during 2004.

*Inventory write-up reversal:* Under Statement of Financial Accounting Standard No. 141, *Business Combinations*, all inventories acquired in an acquisition must be revalued to "fair value."

In connection with the Dynamit Nobel acquisition, we allocated approximately \$55.4 million of the total purchase price to inventory to reflect manufacturing profit in inventory at the date of the acquisition. This resulted in a consequential reduction in gross profit, including currency effects, of \$60.1 million during 2004, as the inventory was sold in the normal course of business.

In connection with the pigments and dispersions acquisition in our Performance Additives segment, we have also included for 2004 the \$1.0 million impact from the reversal of inventory step-ups.

In connection with the Groupe Novasep combination, we allocated approximately \$3.3 million of the total purchase price to inventory to reflect manufacturing profit



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in inventory at the date of the combination. This resulted in a consequential reduction in gross profit, including currency effects, of \$2.8 million during the first quarter of 2005, as the inventory was sold in the normal course of business. We expect the remaining \$0.5 million to be charged to gross profit during the second quarter of 2005.

*Stamp duty tax:* In June 2004, we paid a stamp duty tax of \$4.0 million on certain assets transferred in the United Kingdom in connection with the KKR acquisition.

*Business interruption costs and insurance recovery:* We recorded gains in 2002 and 2003 for fire insurance settlements received in connection with fire related costs in our Electronics segment incurred in 2001.

*Costs incurred related to debt modifications:* In December 2003, we expensed \$1.4 million in connection with a modification of our then senior credit agreement resulting in a 75 basis point interest rate reduction on \$290.0 million of our senior debt. In July 2004, we expensed \$1.0 million related to debt refinancing. In December 2004, we expensed \$1.0 million related to the second amendment of the senior secured credit agreement resulting in a 25 basis point interest rate reduction on our tranche D term loans.

*Cancelled acquisition and disposition costs:* We incurred cancelled acquisition and disposition costs in connection with non-consummated acquisitions and dispositions.

### *Non-cash charges:*

*Impairment charges:* As part of our annual impairment testing, we determined that there were asset impairments in certain businesses within our Electronics segment. These impairments resulted from a significant decline in earnings and operating cash flows, both historical and prospective, based on global economic conditions common to significant competitors, including overcapacity, as well as the erosion of the Electronics segment's business lines' relative competitive position due to continued industry concentration and resulting pricing pressure. Accordingly, we recorded non-cash asset impairment charges to goodwill of \$50.0 million, \$19.3 million and \$4.0 million, respectively, for the years 2002, 2003 and 2004. Also, we recorded non-cash impairment charges to property, plant and equipment of \$15.7 million and \$7.0 million in 2003 and 2004, respectively.

### *Deferred debt issuance costs:*

In July 2003, we wrote off \$36.9 million of deferred debt issuance costs relating to our previous long-term debt that was repaid as part of the July 2003 debt refinancing.

In July 2004, we wrote off \$1.8 million of deferred debt issuance costs relating to our previous long-term debt that was repaid as part of the acquisition financings.

In October 2004, we wrote off \$6.1 million of deferred financing costs in connection with the first amendment of the senior secured credit agreement.

In November 2004, we wrote off \$17.2 million of deferred financing costs in connection with the repayment of the senior subordinated loan facility with the proceeds of the offering of the 2014 notes.

*Foreign exchange (loss)/gain:* During all periods presented, we have recorded foreign exchange losses and gains related to our long-term debt. These amounts reflect \$115.5 million in losses during 2004 and \$12.2 million and \$47.2 million in gains



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during the three months ended March 31, 2004 and 2005, respectively, for the non-cash translation impact on our euro-denominated debt resulting from the strengthening and weakening, as applicable, of the euro against the U.S. dollar.

### *Losses on asset sales:*

*Loss on receivables sold:* During 2002, we entered into two receivables sales agreements for which losses were recorded in accordance with SFAS No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. We did not enter into such transactions during 2003 or 2004.

*Loss on disposed business:* During 2004, we incurred a loss of \$0.8 million in connection with the disposition of a business in our Groupe Novasep segment.

*Restructuring charges:* A net charge of \$1.2 million was recorded in 2002 to reflect the difference between estimated and actual costs of the 2001 restructuring programs. Additional restructuring charges of \$1.8 million and \$1.1 million were recorded in 2003 and 2004, respectively, for miscellaneous restructuring activities.

*Expenses paid in connection with the Dynamit Nobel Acquisition:* We incurred foreign exchange losses of \$10.9 million on foreign currency derivative agreements that we entered into in connection with the Dynamit Nobel acquisition.

*CCA litigation defense costs:* During the three months ended March 31, 2005, we incurred \$0.4 million in connection with litigation defense costs related to our Timber Treatment Chemicals business of our Performance Additives segment.

In addition, Dynamit Nobel incurred special charges during the periods presented prior to July 1, 2004, largely in connection with implementing certain business portfolio changes in an effort to streamline and strengthen its core assets, including the divestiture of its traditional low-growth explosives business, and to concentrate a greater proportion of its resources on higher growth life science applications. Other related portfolio changes were implemented, including the closure of certain operations within the Advanced Ceramics segment and the sale of certain non-core businesses within the Specialty Chemicals segment. In addition, Dynamit Nobel performed certain restructuring actions that resulted in the closure of certain operations and headcount reductions. These actions resulted in a number of charges and gains that are non-recurring that significantly affected Dynamit Nobel's historical results. Dynamit Nobel also incurred non-recurring charges related to certain events deemed not to be part of the ongoing business. These non-recurring charges related to discretionary bonus payments made to employees in the Specialty Chemicals segment; two discrete technical production incidents in the Titanium Dioxide Pigments segment; and non-recurring losses in connection with a contract that was subsequently cancelled in the Advanced Ceramics segment. Finally, Dynamit Nobel incurred certain non-cash charges related to plant capacity issues in the Groupe Novasep segment and net foreign exchange gains in the Specialty Chemicals segment related to an intercompany loan.

### **Special Note Regarding Non-GAAP Financial Measures**

A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable U.S. GAAP measure. From time to time in this management's discussion and analysis, we disclose non-GAAP financial measures, primarily Adjusted EBITDA, as defined below.

**Definition of Adjusted EBITDA**

All presentations of consolidated Adjusted EBITDA contained in this prospectus are calculated using the definition set forth in the senior secured credit agreement. Adjusted EBITDA, which is referred to under the senior secured credit agreement as "Consolidated EBITDA," is defined in the senior secured credit agreement as consolidated earnings (which, as defined in the senior secured credit agreement, equals income (loss) before the deduction of income taxes of Rockwood Specialties Group, Inc. and the Restricted Subsidiaries (as such term is defined in the senior secured credit agreement), excluding extraordinary items) plus:

interest expense;

depreciation expense;

amortization expense, including amortization of deferred financing fees;

extraordinary losses and non-recurring charges;

non-cash charges;

losses on asset sales;

restructuring charges or reserves (including severance, relocation costs and one-time compensation charges and costs relating to the closure of facilities);

expenses paid by us or any of our subsidiaries in connection with the Dynamit Nobel acquisition, the senior secured credit agreement, the granting of liens under the security documents (as such term is defined in the senior secured credit agreement), the indenture governing the 2014 notes and the offering of the 2014 notes and any other related transactions;

any expenses or charges incurred in connection with any issuance of debt or equity securities;

any fees and expenses related to permitted acquisitions;

any deduction for minority interest expense; and

items arising in connection with litigation related to our Timber Treatment Chemicals business of our Performance Additives segment;

less:

extraordinary gains and non-recurring gains;

non-cash gains; and

gains on asset sales,

in all cases, subject to certain exclusions.

With respect to entities acquired, we include Adjusted EBITDA for such entities in calculating our pro forma Adjusted EBITDA. The adjustments made to the income from continuing operations before income taxes and extraordinary items of such entities directly correlate to the adjustments to net income in calculating Adjusted EBITDA on a consolidated basis pursuant to the senior secured credit agreement.

**Management's Uses**

We use Adjusted EBITDA on a consolidated basis to assess our operating performance. We believe this financial measure on a consolidated basis is helpful in highlighting trends in our overall



business because the items excluded in calculating Adjusted EBITDA have little or no bearing on our day-to-day operating performance. It is also the most significant criterion in our calculation of performance-based cash bonuses and our determination of whether certain performance-based stock options vest, both of which are tied to Adjusted EBITDA targets.

We also use Adjusted EBITDA on a consolidated basis as a liquidity measure. We believe this financial measure on a consolidated basis is important in analyzing our liquidity because our senior secured credit agreement and indentures governing the 2011 notes and 2014 notes contain financial covenants that are determined based on Adjusted EBITDA. These covenants are material terms of these agreements, which are material because they govern substantially all of our long-term debt, which in turn represents a substantial portion of our capitalization. Non-compliance with these financial covenants under our senior secured credit facilities — our maximum total leverage ratio and our minimum interest coverage ratio, in particular — could result in the lenders requiring us to immediately repay all amounts borrowed. Any such acceleration could also lead to the noteholders accelerating the maturity of the 2011 notes and the 2014 notes. In addition, if we cannot satisfy these financial covenants in the indentures governing the 2011 notes and 2014 notes, we cannot engage in certain activities, such as incurring additional indebtedness or making certain payments. Consequently, Adjusted EBITDA is critical to our assessment of our liquidity.

We also use Adjusted EBITDA on a segment basis as the primary measure used by our chief decision maker to evaluate the ongoing performance of our business segments and reporting units. On a segment basis, we define Adjusted EBITDA as operating income excluding depreciation and amortization, certain non-cash gains and charges, certain other special gains and charges determined by our senior management to be non-recurring gains and charges and certain items deemed by our senior management to have little or no bearing on the day-to-day operating performance of our business segments and reporting units. The adjustments made to operating income directly correlate with the adjustments to net income in calculating Adjusted EBITDA on a consolidated basis pursuant to the senior secured credit agreement.

### **Limitations**

Adjusted EBITDA has limitations as an analytical tool, and should not be viewed in isolation and is not a substitute for U.S. GAAP measures of earnings and cash flows. Material limitations associated with making the adjustments to our earnings and cash flows to calculate Adjusted EBITDA, and using this non-GAAP financial measure as compared to the most directly comparable U.S. GAAP financial measures, include:

the cash portion of interest expense, net, income tax (benefit) provision, and restructuring as well as non-recurring charges related to securities issuance, acquisition activities, and systems/organization establishment, generally represent charges (gains) which may significantly affect funds available to use in our operating, investing and financing activities;

non-operating foreign exchange gains (losses), although not immediately affecting cash used in investing activities, may affect the amount of funds needed to service our debt if those currency impacts remain in place as we meet our future principal repayment obligations; and

depreciation, amortization, non-cash (gains) charges and impairment charges, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of the plant, equipment and intangible assets which permit us to manufacture and/or market our products; these items may be indicative of future needs for capital expenditures, for development or acquisition of intangible assets or relevant trends causing asset value changes.

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An investor or potential investor may find any one or all of these items important in evaluating our performance, results of operations, financial position and liquidity. Management compensates for the limitations of using non-GAAP financial measures by using them only to supplement our U.S. GAAP results to provide a more complete understanding of the factors and trends affecting our business.

Adjusted EBITDA is not an alternative to net (loss) income or operating income or cash flows from operating activities as calculated and presented in accordance with U.S. GAAP. You should not rely on Adjusted EBITDA as a substitute for any such U.S. GAAP financial measures. We strongly urge you to review the reconciliations of Adjusted EBITDA to GAAP financial measures and other financial information, in each case included elsewhere in this prospectus. We also strongly urge you not to rely on any single financial measure to evaluate our business.

**Results of Operations****Actual Results of Operations**

The following table presents the major components of our operations on an actual basis and Adjusted EBITDA (the reconciliation to net loss is set forth in "Reconciliation of Net Income to Adjusted EBITDA"), including as a percentage of net sales, for the periods presented. See note 3 to our and Rockwood's audited consolidated financial statements and unaudited condensed consolidated financial statements included elsewhere in this prospectus for segment information and reconciliation to consolidated net income.

(\$ in millions)	Year Ended December 31,			Three Months Ended March 31,	
	2002	2003	2004	2004	2005
<b>Net sales:</b>					
Performance Additives	\$ 443.8	\$ 477.3	\$ 630.9	\$ 139.1	\$ 159.5
Specialty Compounds	168.8	176.4	200.4	47.9	58.1
Electronics	147.3	143.6	168.1	40.4	42.8
Specialty Chemicals			321.1		220.0
Titanium Dioxide Pigments			175.7		104.5
Advanced Ceramics			146.3		91.9
Groupe Novasep			101.0		92.9
Total net sales	759.9	797.3	1,743.5	227.4	769.7
Gross profit	217.4	215.9	475.9	62.4	225.6
	28.6%	27.1%	27.3%	27.4%	29.3%
Selling, general and administrative expenses	112.9	118.0	327.7	35.1	150.2
	14.9%	14.8%	18.8%	15.4%	19.5%
Impairment charges	50.0	35.0	11.0		
Restructuring charges	1.2	1.8	1.1		2.9
<b>Operating income (loss):</b>					
Performance Additives	81.7	84.1	115.4	24.9	23.0
	18.4%	17.6%	18.3%	17.9%	14.4%
Specialty Compounds	19.2	16.1	20.7	5.4	5.9
	11.4%	9.1%	10.3%	11.3%	10.2%
Electronics	(29.7)	(24.8)	(3.2)	1.6	0.7
	(20.2%)	(17.3%)	(1.9%)	4.0%	1.6%
Specialty Chemicals			16.3		30.8
			5.1%		14.0%
Titanium Dioxide Pigments			16.0		11.7
			9.1%		11.2%
Advanced Ceramics			2.8		13.9
			1.9%		15.1%
Groupe Novasep			4.8		(1.5)
			4.8%		(1.6%)
Corporate costs	(17.9)	(14.3)	(36.7)	(4.6)	(12.0)
Total	53.3	61.1	136.1	27.3	72.5
<b>Other (expenses) income:</b>					
Interest expense, net	(108.2)	(112.3)	(162.1)	(25.1)	(57.3)
Foreign exchange (loss) gain, net	(24.6)	(18.5)	(126.4)	12.2	47.2
Refinance expenses		(38.3)	(27.1)		
Other, net	(1.2)		(4.3)		
<b>Loss before taxes</b>	(80.7)	(108.0)	(183.8)	14.4	62.4
Income tax (benefit) provision	(12.5)	(16.3)	32.3	5.5	24.9
Net income (loss) before minority interest	(68.2)	(91.7)	(216.1)	8.9	37.5
Minority interest					(0.8)

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	Three Months Ended March 31,				
	2019	2018	2017	2016	2015
Net (loss) income	\$ (68.2)	\$ (91.7)	\$ (216.1)	\$ 8.9	\$ 38.3
<b>Adjusted EBITDA:</b>					
Performance Additives	\$ 106.4	\$ 112.5	\$ 149.2	\$ 32.1	\$ 34.2
	24.0%	23.6%	23.6%	23.1%	21.4%
Specialty Compounds	26.0	23.9	28.8	6.8	7.3
	15.4%	13.5%	14.4%	14.2%	12.6%
Electronics	33.4	24.8	28.9	6.6	5.8
	22.7%	17.3%	17.2%	16.3%	13.6%
Specialty Chemicals			60.0		43.0
			18.7%		19.5%
Titanium Dioxide Pigments			37.8		20.9
			21.5%		20.0%
Advanced Ceramics			35.8		21.4
			24.5%		23.3%
Groupe Novasep			23.0		10.2
			22.8%		11.0%
Corporate costs	(15.4)	(11.7)	(31.1)	(4.4)	(9.6)
<b>Total Adjusted EBITDA</b>	<b>\$ 150.4</b>	<b>\$ 149.5</b>	<b>\$ 332.4</b>	<b>\$ 41.1</b>	<b>\$ 133.2</b>

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The following tables present the changes in the major components of our operations on a historical basis in dollars and percentages.

(\$ in millions)	Change: 2002 vs. 2003					Change: 2003 vs. 2004				
	Total Change in \$	Change in %	Foreign Exchange Effect(1)	Acquisitions & Divestitures, Net	Organic	Total Change in \$	Total Change in %	Foreign Exchange Effect(1)	Acquisitions & Divestitures, Net	Organic
<b>Net sales:</b>										
Performance Additives	\$ 33.5	7.5%	\$ 16.2	\$ 9.7	\$ 7.6	\$ 153.6	32.2%	\$ 14.6	\$ 32.4	\$ 106.6
Specialty Compounds	7.6	4.5	5.8		1.8	24.0	13.6	6.1		17.9
Electronics	(3.7)	(2.5)	6.6		(10.3)	24.5	17.1	7.3	2.7	14.5
Specialty Chemicals						321.1			321.1	
Titanium Dioxide										
Pigments						175.7			175.7	
Advanced Ceramics						146.3			146.3	
Groupe Novasep						101.0			101.0	
<b>Total net sales</b>	<b>37.4</b>	<b>4.9</b>	<b>28.6</b>	<b>9.7</b>	<b>(0.9)</b>	<b>946.2</b>	<b>118.7</b>	<b>28.0</b>	<b>779.2</b>	<b>139.0</b>
Gross profit	(1.5)	(0.7)	5.3	3.7	(10.5)	260.0	120.4	4.5	208.7	46.8
Selling, general and administrative expenses	5.1	4.5	4.4	1.7	(1.0)	209.7	177.7	5.6	181.0	23.1
Impairment charges	(15.0)				(15.0)	(24.0)				(24.0)
Restructuring charges	0.6				0.6	(0.7)				(0.7)
<b>Operating income (loss):</b>										
Performance Additives	2.4	2.9	1.1	2.0	(0.7)	31.3	37.2	1.0	(0.6)	30.9
Specialty Compounds	(3.1)	(16.1)	(0.3)		(2.8)	4.6	28.6	0.3		4.3
Electronics	4.9	(16.5)	0.2		4.7	21.6	87.1	(1.8)	(5.6)	29.0
Specialty Chemicals						16.3			16.3	
Titanium Dioxide										
Pigments						16.0			16.0	
Advanced Ceramics						2.8			2.8	
Groupe Novasep						4.8			4.8	
Corporate costs	3.6	(20.1)	(0.1)		3.7	(22.4)	156.6	(0.6)	(6.0)	(15.8)
<b>Total operating income</b>	<b>7.8</b>	<b>14.6</b>	<b>0.9</b>	<b>2.0</b>	<b>4.9</b>	<b>75.0</b>	<b>122.8</b>	<b>(1.1)</b>	<b>27.7</b>	<b>48.4</b>
<b>Other (expenses) income:</b>										
Interest expense, net	(4.1)	(3.9)	(2.0)		(2.1)	(49.8)	44.3	(1.7)	(7.3)	(40.8)
Foreign exchange (loss) gain, net	6.1					(107.9)				
Refinancing expenses	(38.3)					11.2				
Other, net	1.2					(4.3)				
<b>Loss before taxes</b>	<b>(27.3)</b>					<b>(75.8)</b>				
Income tax (benefit) provision	(3.8)					48.6				
<b>Net (loss) income:</b>										
Performance Additives	2.8					40.1				
Specialty Compounds	(5.3)					(4.6)				
Electronics	10.1					20.7				
Specialty Chemicals						(24.5)				
Titanium Dioxide										
Pigments						(4.2)				
Advanced Ceramics						(22.0)				
Groupe Novasep						(18.6)				
Corporate costs	(31.1)					(111.3)				
<b>Total net loss</b>	<b>\$ (23.5)</b>					<b>\$ (124.4)</b>				

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Change: 2002 vs. 2003

Change: 2003 vs. 2004

	Change: 2002 vs. 2003				Change: 2003 vs. 2004					
<b>Adjusted EBITDA:</b>										
Performance Additives	\$ 6.1	5.7%	\$ 3.4	2.2	\$ 0.5	36.7	32.6%	\$ 2.8	0.7	33.2
Specialty Compounds	(2.1)	(8.1)	0.9		(3.0)	4.9	20.5	0.7		4.2
Electronics	(8.6)	(25.7)	1.1		(9.7)	4.1	16.5	(0.4)	(1.4)	5.9
Specialty Chemicals						60.0			60.0	
Titanium Dioxide										
Pigments						37.8				37.8
Advanced Ceramics						35.8				35.8
Groupe Novasep						23.0				23.0
Corporate costs	3.7	(24.0)	(0.1)		3.8	(19.4)	165.8	(0.7)	(6.4)	(12.3)
Total Adjusted EBITDA	\$ (0.9)	(0.6)%	\$ 5.3	2.2	\$ (8.4)	182.9	122.3%	\$ 2.4	149.5	\$ 31.0

(1) The foreign exchange effect was calculated based on the change in the euro to U.S. dollar exchange rate for the applicable period.

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Change: Three Months Ended March 31, 2004 vs. March 31, 2005

(\$ in millions)	Total Change in \$	Total Change in %	Foreign Exchange Effect(1)	Acquisitions & Divestitures, Net	Organic
<b>Net sales:</b>					
Performance Additives	\$ 20.4	14.7%	\$ 2.0	\$ 16.3	\$ 2.1
Specialty Compounds	10.2	21.3	0.7		9.5
Electronics	2.4	5.9	1.3		1.1
Specialty Chemicals	220.0			220.0	
Pigments	104.5			104.5	
Advanced Ceramics	91.9			91.9	
Groupe Novasep	92.9			92.9	
<b>Total net sales</b>	<b>542.3</b>	<b>238.5</b>	<b>4.0</b>	<b>525.6</b>	<b>12.7</b>
Gross profit	163.2	261.5	0.9	160.7	1.6
Selling, general and administrative expenses	115.1	327.9	0.8	108.7	5.5
Restructuring charges	2.9			0.5	2.4
<b>Operating income (loss):</b>					
Performance Additives	(1.9)	(7.6)	0.3	1.3	(3.5)
Specialty Compounds	0.5	9.3	0.1		0.4
Electronics	(0.9)	(56.3)	(0.2)		(0.7)
Specialty Chemicals	30.8			30.8	
Pigments	11.7			11.7	
Advanced Ceramics	13.9			13.9	
Groupe Novasep	(1.5)			(1.5)	
Corporate costs and eliminations	(7.4)	160.9			(7.4)
<b>Total operating income (loss)</b>	<b>45.2</b>	<b>165.6</b>	<b>0.2</b>	<b>56.2</b>	<b>(11.2)</b>
<b>Other (expenses) income:</b>					
Interest expense, net	(32.2)	128.3	0.4	(6.0)	(26.6)
Foreign exchange gain, net	35.0				35.0
Refinancing expenses					
Stamp duty tax					
<b>Income before taxes</b>	<b>48.0</b>				
Income tax provision	19.4				
Net income before minority interest	28.6				
Minority interest	0.8				
<b>Net income (loss):</b>					
Performance Additives	0.4				
Specialty Compounds	1.6				
Electronics	(0.1)				
Specialty Chemicals	6.9				
Pigments	1.9				
Advanced Ceramics	2.8				
Groupe Novasep	(3.1)				
Corporate costs and eliminations	19.0				
<b>Total net income</b>	<b>\$ 29.4</b>				
<b>Adjusted EBITDA:</b>					
Performance Additives	\$ 2.1	6.5%	\$ 0.5	\$ 2.2	\$ (0.6)

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Change: Three Months Ended March 31, 2004 vs. March 31, 2005

Specialty Compounds	0.5	7.4	0.1	0.4
Electronics	(0.8)	(12.1)	(0.1)	(0.7)
Specialty Chemicals	43.0			43.0
Pigments	20.9			20.9
Advanced Ceramics	21.4			21.4
Groupe Novasep	10.2			10.2
Corporate costs and eliminations	(5.2)	118.2		(5.2)
<b>Total Adjusted EBITDA</b>	<b>\$ 92.1</b>	<b>224.1%</b>	<b>\$ 0.5</b>	<b>\$ 97.7</b>
				<b>\$ (6.1)</b>



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### *Three months ended March 31, 2005 compared to three months ended March 31, 2004*

#### Overview

Net sales increased \$542.3 million primarily as a result of the Dynamit Nobel acquisition (\$479.2 million) as well as other 2004 acquisitions consummated after the first quarter of 2004 (\$46.4 million). Net sales also increased by \$4.0 million due to currency changes. The remaining sales improvement of \$12.7 million, or 5.6%, was primarily in the Performance Additives and the Specialty Compounds segments (aggregating \$11.6 million) due to the impact of higher selling prices (\$6.7 million) to offset higher raw material costs, and volume increases in the Specialty Compounds segment.

Gross profit increased \$163.2 million primarily as a result of the Dynamit Nobel acquisition as well as other 2004 acquisitions (\$160.7 million). Gross profit increased by \$0.9 million due to currency changes. The remaining improvement was due to sales increases offset by raw material cost increases.

Operating income increased \$45.2 million with \$56.2 million due to acquisitions and \$0.2 million due to currency changes. The remaining decrease of \$11.2 million was due to special charges aggregating \$4.7 million and higher central costs to operate the significantly larger business due to the acquisitions and higher amortization expense from purchase accounting.

Net income increased \$29.4 million due to the reasons noted above in operating income and a favorable change in foreign exchange gains offset by higher interest expense.

Adjusted EBITDA increased \$92.1 million due to the effect of acquisitions (\$97.7 million) offset primarily by higher corporate costs (\$5.2 million).

#### Net sales

*Performance Additives.* Net sales for our Performance Additives segment increased \$20.4 million over the prior period primarily due to acquisitions (\$16.3 million). Net sales also increased by \$2.0 million due to currency changes. The remaining increase of \$2.1 million, or 1.5%, was due to the impact of higher selling prices to offset higher raw material costs.

*Specialty Compounds.* Net sales for our Specialty Compounds segment increased \$10.2 million, or 21.3%, over the prior period including the impact of higher selling prices (\$4.3 million) to offset higher raw material costs. The remaining increase was primarily due to stronger sales volume in our wire and cable compounds business.

*Electronics.* Net sales for our Electronics segment increased \$2.4 million over the prior year period with \$1.3 million due to currency changes. Despite \$0.8 million of price declines from continued pricing pressures in the wafer reclaim business, a remaining increase of \$1.1 million, or 2.7%, occurred due to increases in sales volumes.

#### Gross profit

Gross profit increased \$163.2 million primarily due to acquisitions (\$160.7 million). Gross profit increased by \$0.9 million due to currency changes. The remaining net decline in gross profit occurred as the remaining sales improvement above was offset primarily by higher raw material costs of \$8.3 million (\$4.7 million in the Specialty Compounds segment due to PVC resin and ammonium octamolybdate cost increases, \$3.5 million in the Performance Additives segment due to higher copper costs in the Timber Treatment Chemicals business and higher costs in the Color Pigments and Services business and \$0.1 million in the Electronics business) as well as by higher manufacturing costs.

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Gross profit as a percentage of net sales was 29.3% in the first quarter of 2005 versus 27.4% in the first quarter of 2004 due to the inclusion of the Dynamit Nobel businesses which have a higher average gross margin percentage than the historical Rockwood businesses (offset by higher selling, general and administrative expenses as a percentage of net sales in the Dynamit Nobel businesses versus the historical Rockwood businesses), and offset in part by the impact of the higher raw material costs.

### Selling, general and administrative expenses

Selling, general and administrative expenses, or SG&A, increased \$115.1 million primarily due to the acquisitions (\$108.7 million), as well as \$0.8 million due to currency changes. The remaining increase of \$5.6 million was due primarily to special charges, aggregating \$1.8 million, primarily related to the integration of the Dynamit Nobel acquisition and costs for initial compliance with Sarbanes-Oxley as well as \$7.3 million of higher central costs to operate the significantly larger business resulting from the acquisitions.

SG&A expenses as a percentage of net sales were 19.5% in the first quarter of 2005 as compared to 15.5% for the first quarter of 2004, primarily due to the inclusion of the Dynamit Nobel businesses which have higher weighted average SG&A expenses as a percentage of net sales than the historical Rockwood businesses.

### Restructuring charges

We recorded \$2.9 million of restructuring charges in the first quarter of 2005 for miscellaneous restructuring actions, primarily in the Performance Additives segment including the announced closure of our Baulking, United Kingdom facility in the Clay-based Additives business.

### Operating income

*Performance Additives.* Operating income decreased \$1.9 million despite the \$1.3 million favorable impact of acquisitions due to \$2.4 million of restructuring charges with the balance primarily due to the higher raw material costs described above.

*Specialty Compounds.* Operating income increased \$0.5 million primarily due to the increase in net sales partially offset by the higher PVC and AOM raw material costs discussed above.

*Electronics.* Operating income decreased \$0.9 million primarily due to the pricing pressures in the wafer reclaim business.

*Corporate.* Operating loss at Corporate increased \$7.4 million primarily due to the special charges and higher central costs discussed in "Selling, general and administrative expenses" above.

### Other income (expenses)

*Interest expense, net.* For the first quarter of 2005 and 2004, interest expense, net, increased \$32.2 million. The first quarter of 2005 and 2004 included a gain of \$7.6 million and \$2.3 million, respectively, representing the movement in the mark-to-market valuation of our interest rate and cross currency hedging instruments as well as \$2.9 million and \$0.9 million, respectively, of amortization expense related to deferred financing costs. The remaining increase of \$34.9 million was primarily due to higher debt levels from the acquisitions.

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*Foreign exchange gain.* In the first quarter of 2005, the foreign exchange gains increased by \$35.0 million reflecting the non-cash currency impact on our euro-denominated debt due to the weaker euro as of March 31, 2005 versus December 31, 2004.

### Provision for income taxes

The effective income tax rate for the first quarter of 2005 and 2004 was 39.9% and 38.2%, respectively. The effective tax rate in the first quarter of 2005 was favorably impacted by the reversal of \$4.9 million of valuation allowances related to U.S. federal income generated. The effective tax rate in both periods was impacted by the recording of valuation allowances in certain other jurisdictions as well as the impact of foreign tax rate differentials.

### Minority interest

Minority interest income represents the minority interest portion of the Groupe Novasep segment net loss in the first quarter of 2005.

### Net income

Net income for the first quarter of 2005 was \$38.3 million as compared to net income of \$8.9 million for the first quarter of 2004 for the reasons described above.

### Adjusted EBITDA

*Performance Additives.* Adjusted EBITDA for our Performance Additives segment increased from \$32.1 million to \$34.2 million, or 6.5%, primarily due to a \$2.2 million impact from acquisitions and \$0.5 million from currency changes.

*Specialty Compounds.* Adjusted EBITDA for our Specialty Compounds segment increased from \$6.8 million to \$7.3 million, or 7.4%, primarily due to stronger wire and cable volume. Higher raw material prices, partially offset by higher selling prices described above, negatively impacted Adjusted EBITDA.

*Electronics.* Adjusted EBITDA for our Electronics segment decreased from \$6.6 million to \$5.8 million, or (12.1%), primarily due to \$0.8 million in selling price decreases.

*Corporate.* Adjusted EBITDA loss at Corporate increased from \$4.4 million to \$9.6 million due to higher central costs to operate the significantly larger business due to the Dynamit Nobel acquisition.

### ***Year ended December 31, 2004 compared to year ended December 31, 2003***

#### Overview

Net sales increased \$946.2 million, or 118.7%, as a result of the inclusion of five months of operations for the segments acquired as part of the Dynamit Nobel acquisition (\$744.1 million), other acquisitions and favorable currency changes. The sales improvement was also a result of the strong performance of the Performance Additives segment largely stemming from higher North American sales of ACQ products versus CCA products as a result of the ACQ conversion. Specialty Compounds also had solid net sales growth primarily due to wire and cable sales volume increases. The Electronics segment experienced double-digit net sales percentage growth, primarily due to the general recovery in the Electronics sector, as well as the effects of favorable currency effects and acquisitions.

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We also experienced solid operating income and Adjusted EBITDA growth as well for 2004 as compared to 2003 primarily due to the net sales growth described above. Operating income was up \$75.0 million, or 122.8%. Adjusted EBITDA was up \$182.9 million, or 122.3%. This improvement was also primarily due to the strong performance of the Performance Additives segment (operating income and Adjusted EBITDA up \$31.3 million, or 37.2%, and \$36.7 million, or 32.6%, respectively), stemming from acquisitions and favorable currency changes and the higher ACQ sales in our Timber Treatment Chemicals business.

Operating income and Adjusted EBITDA results were negatively impacted by rising raw material costs in several businesses including, among others, PVC in the Specialty Compounds segment and the cost of copper in the Timber Treatment Chemicals business of the Performance Additives segment.

Net loss increased \$124.4 million due to an increase in foreign exchange losses and higher interest expense, partially offset by the reasons noted above in operating income.

### Net sales

Net sales were \$1,743.5 million for 2004 as compared to \$797.3 million for 2003. The 118.7% increase is largely due to the Dynamit Nobel acquisition from the inclusion of \$744.1 million of five months of operations for the segments acquired as part of the Dynamit Nobel acquisition. Other acquisitions accounted for \$35.1 million of net sales for 2004 as compared to the same period in 2003. Currency changes positively impacted net sales in 2004 by approximately \$28.0 million. The remaining increase was \$139.0 million, or 17.4%, and is explained below in the segment discussion of net sales.

*Performance Additives.* Net sales for our Performance Additives segment increased \$153.6 million, or 32.2%, over the prior period with favorable mix (\$84.5 million) primarily in our Timber Treatment Chemicals products due to a greater mix of higher priced ACQ products versus CCA products as a result of the ACQ conversion in North America (\$66.3 million). Selling prices were unfavorable by \$7.0 million. Also, volume was higher in this segment including in our Color Pigments and Services business with stronger volume due to increased demand for construction products. Also included in net sales were \$14.6 million from favorable currency changes and \$32.4 million from the impact of acquisitions.

*Specialty Compounds.* Net sales for our Specialty Compounds segment increased \$24.0 million, or 13.6%, over the prior period including the impact of more favorable sales volume (\$16.8 million), primarily in our wire and cable compounds business. Also, selling prices increased \$4.3 million in 2004 due to raw material cost increases. Favorable currency changes of \$6.1 million were also experienced in 2004.

*Electronics.* Net sales for our Electronics segment increased \$24.5 million, or 17.1%, over the prior year period primarily due to increase in sales volumes. Pricing pressure (\$8.0 million) offset this sales increase in certain businesses.

### Gross profit

Gross profit as a percentage of net sales was 27.3% in 2004 and 27.1% in 2003. Gross profit increased by \$260.0 million, primarily representing \$208.7 million due to acquisitions (primarily Dynamit Nobel). Gross profit also increased by \$4.5 million due to currency changes.

The remaining gross margin increase was \$46.8 million mostly due to more favorable mix in the Performance Additives segment (\$27.1 million), primarily resulting from ACQ product sales in our Timber Treatment Chemicals business and generally higher gross margins from the Dynamit

Nobel businesses partially offset by higher raw material costs in the Performance Additives segment (\$2.9 million), primarily in the Timber Treatment Chemicals business, higher PVC raw material costs in our Specialty Compounds segment (\$4.2 million) and pricing pressures within the Wafer Reclaim and Photomasks' businesses of our Electronics segment discussed above.

Gross profit margin as a percentage of net sales was partially impacted by a \$61.1 million charge, or 3.5% of net sales, to cost of goods sold in 2004 primarily related to the portion of the purchase price allocated to inventory to reflect manufacturing profit in inventory on the date the Dynamit Nobel acquisition was consummated. This was recorded as the inventory was sold in the normal course of business during the five months of operations for the segments acquired.

#### Selling, general and administrative expenses

Selling, general and administrative expenses, or SG&A, increased primarily due to the Dynamit Nobel acquisition. SG&A expenses as a percentage of net sales were 18.8% in 2004 as compared to 14.8% in 2003. The increase in SG&A expenses as a percentage of net sales is partially attributable to income in 2003 from fire insurance proceeds of \$4.5 million. Also, SG&A expenses in 2004 included \$0.8 million of losses related to disposed businesses in the Groupe Novasep segment.

#### Impairment charges

As part of our annual goodwill impairment testing in 2004 and 2003, we determined there were goodwill impairments of \$4.0 million and \$19.3 million, respectively, in certain business lines of our Electronics segment. These impairments resulted from a significant decrease in earnings and operating cash flows during the year of the applicable charge and estimated prospective earnings and operating cash flows based on projections prepared late in the same year. The decline in profitability and cash flows was due to global economic conditions common to significant competitors, including significant pricing pressure in part based on current industry overcapacity and eroding competitive position. We also reviewed these business lines for impairment of property, plant and equipment. As a result, we recorded an impairment charge of \$7.0 million and \$15.7 million, respectively, in 2004 and 2003 to our property, plant and equipment of our Electronics segment.

#### Restructuring charges, net

We recorded \$1.1 million and \$1.8 million in 2004 and 2003, respectively, of restructuring charges for miscellaneous restructuring actions.

#### Operating income

Operating income increased \$75.0 million, or 122.7%. \$42.5 million of this increase resulted from special charges in gross profit and operating expenses of \$78.5 million in 2004 as compared to \$36.0 million in 2003. The remaining amounts of operating income for those period of \$214.6 million in 2004 and \$97.1 million in 2003 would represent operating margins of 12.3% in 2004 versus 12.2% in 2003, despite increased depreciation and amortization expenses from fair value step-ups associated with the Dynamit Nobel acquisition.

*Performance Additives.* Operating income increased \$31.3 million primarily due to the increase in net sales of Timber Treatment Chemicals due to a greater mix of ACQ products, partially offset by higher raw material costs of \$2.9 million as discussed above.

*Specialty Compounds.* Operating income increased \$4.6 million primarily due to the increase in net sales partially offset by higher PVC raw material costs as discussed above.

*Electronics.* Operating income increased \$21.6 million primarily due to the net increase in sales from higher sales volume offset by certain pricing pressures in 2004 and the \$4.5 million of fire insurance proceeds in 2003 as discussed above.

*Corporate.* Operating loss at Corporate increased \$22.4 million primarily due to higher bonus accruals and higher central costs to operate the significantly larger business due to the Dynamit Nobel acquisition. Also, \$5.6 million of special charges were incurred at Corporate in 2004 including costs related to the integration of the Dynamit Nobel acquisition and initial costs related to Sarbanes-Oxley compliance.

Other income (expenses)

*Interest expense, net.* During the years ended December 31, 2004 and 2003, interest expense, net, included a gain of \$6.0 million and a loss of \$6.0 million, respectively, representing the movement in the mark-to-market valuation of our interest rate and cross currency hedging instruments as well as \$7.4 million and \$6.1 million, respectively, of amortization expense related to deferred financing costs. This amortization increased in 2004 due to the acquisition financings (see "Liquidity and Capital Resources"), which substantially increased our deferred financing cost balance. Currency changes increased interest expense, net by \$1.7 million. The remaining increase of \$40.8 million was primarily due to higher debt levels from the Dynamit Nobel acquisition.

*Foreign exchange loss.* During the year ended December 31, 2004, the foreign exchange loss reflected the non-cash currency impact on our euro-denominated debt of the strengthening of the British pound against the euro and also included a \$10.9 million mark-to-market realized loss on certain foreign currency call options (see "Liquidity and Capital Resources Liquidity Foreign currency related transactions"). During the year ended December 31, 2003, the foreign exchange loss reflected the non-cash currency impact on our euro-denominated debt of the strengthening of the euro against the U.S. dollar.

*Other, net.* Primarily represents stamp duty tax of \$4.0 million paid during 2004 in connection with the KKR acquisition.

Provision for income taxes

The effective income tax rate for 2004 was 17.6%. The current year effective tax rate was negatively impacted by 4.4% due to foreign tax differential, 40.5% due to the expected inability to realize tax benefits on losses incurred in the United States, Switzerland, Italy and the United Kingdom and by 2.9% due to certain costs incurred on derivatives in connection with the Dynamit Nobel acquisition that are not deductible for tax purposes.

Net loss

Net loss for 2004 was \$216.1 million as compared to a net loss of \$91.7 million for 2003 for the reasons discussed above.

Adjusted EBITDA

*Performance Additives.* Adjusted EBITDA for our Performance Additives segment increased from \$112.5 million to \$149.2 million, or 32.6%, primarily due to the increase in sales of Timber Treatment Chemicals due to a greater mix of ACQ products, partially offset by higher raw material costs specifically in the third quarter of 2004. Adjusted EBITDA as a percentage of net sales was the same in 2004 as in 2003.

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*Specialty Compounds.* Adjusted EBITDA for our Specialty Compounds segment increased from \$23.9 million to \$28.8 million, or 20.5%, primarily due to the increase in sales volume partially offset by higher PVC raw material costs as discussed above. Adjusted EBITDA as a percentage of net sales was higher in 2004 than in 2003.

*Electronics.* Adjusted EBITDA for our Electronics segment increased from \$24.8 million to \$28.9 million, or 16.5%, primarily due to the increase in net sales with higher sales volume offset by certain pricing pressures as discussed above. Adjusted EBITDA as a percentage of net sales was lower in 2004 than in 2003.

*Corporate.* Adjusted EBITDA loss at Corporate increased from \$11.7 million to \$31.1 million primarily due to higher professional fees and other costs related to the Dynamit Nobel acquisition.

### ***Year ended December 31, 2003 compared to year ended December 31, 2002***

#### Overview

Net sales growth was predominately due to the favorable exchange rates and acquisitions. Performance Additives sales increased primarily due to currency exchange rate changes and acquisitions. However, \$7.6 million of the increase was due to a greater mix of ACQ products versus CCA products within the Timber Treatment Chemicals business, offset by the generally difficult global economic and political conditions in 2003 and the unusually severe weather, particularly impacting our Color Pigments and Services volume. Net sales in our Specialty Compounds segment were up in 2003 due primarily to currency exchange rate changes, but also increased \$1.8 million, or 1.1%, due to higher wire and cable product pricing. Net sales in our Electronics segment decreased \$3.7 million, despite \$6.6 million of favorable currency changes, due to the continued slowdown in the semiconductor and printed circuit board industries experienced in 2003.

Operating income grew \$7.8 million in 2003, including \$2.9 million due to favorable exchange rates and the effect of acquisitions. The remaining \$4.9 million, or 9.2%, increase in operating income in 2003 was due to a reduction in non-cash impairment charges offset primarily by gross profit decreases. However, Adjusted EBITDA decreased despite positive effects from currency exchange rate changes and acquisitions. Growth in operating income and Adjusted EBITDA for our Performance Additives segment in 2003 was predominately due to exchange rate changes and acquisitions. The impact of the small organic sales increase was offset by generally higher energy, depreciation, and insurance costs as well as higher marketing costs related to the ACQ conversion and higher rent expense at our Water Treatment Chemicals business due to a sale/leaseback transaction. Despite favorable exchange rate changes, other sources of operating income and Adjusted EBITDA for our Specialty Compounds segment decreased \$2.8 million, or 14.6%, and \$3.0 million, or 11.9%, respectively, as higher PVC and insurance costs offset the impact of the small organic sales increase. Operating income for our Electronics segment increased \$4.9 million as lower goodwill impairment charges offset the impact of the sales decrease. Adjusted EBITDA for our Electronics segment decreased \$8.6 million due primarily to the impact of the sales decrease and higher insurance costs. Corporate operating expense decreased \$3.6 million, or 20.1%, due to lower bonus payments and lower discretionary spending. Corporate Adjusted EBITDA loss decreased \$3.7 million, or 24.0%, for the same reason.

Net income decreased \$23.5 million due to refinancing expenses for the write-off of deferred debt issuance cost and costs incurred for debt modifications offset by a favorable change in foreign exchange gains and the reasons noted above in operating income.

#### Net sales

Net sales for the year ended December 31, 2003 increased as compared to the year ended December 31, 2002, principally due to currency changes and acquisitions, primarily Southern Color, within our Color Pigments and Services business in the Performance Additives segment. Included in this increase were 2003 sales aggregating \$18.0 million. Included in 2002 net sales were sales aggregating \$8.3 million from our pool and spa accessories business line within our Water Treatment Chemicals business in the Performance Additives segment which was divested in October 2002, and G.D. Holmes, a division of our Clay-based Additives business in the Performance Additives segment which was shut down in late 2002. The remaining decrease in net sales of \$0.9 million represented an increase in our Performance Additives segment of \$7.6 million, an increase in our Specialty Compounds segment of \$1.8 million, and a decrease in our Electronics segment of \$10.3 million.

*Performance Additives.* Net sales for our Performance Additives segment increased due primarily to currency changes and acquisitions (primarily Southern Color) offset by 2002 net sales from our divested pool and spa accessories business line and discontinued G.D. Holmes division. The remaining increase in net sales of \$7.6 million was primarily due to a greater mix of ACQ products versus CCA products within the Timber Treatment Chemicals business line, offset in part by the generally difficult global economic and political conditions and the unusually severe weather, particularly impacting our Color Pigments and Services volume in 2003 as well as Timber Treatment Chemicals and Water Treatment Chemicals businesses, during certain portions of 2003.

*Specialty Compounds.* Net sales for our Specialty Compounds segment increased primarily due to currency changes with the remaining increase in net sales of \$1.8 million primarily due to more favorable pricing of certain products in our wire and cable compounds business.

*Electronics.* Net sales for our Electronics segment decreased primarily due to the continued slowdown in the semiconductor and printed circuit board industries and the resulting pricing pressure and volume declines experienced particularly in our Wafer Reclaim business. Pricing pressure was also experienced in our Photomasks business. These declines were offset in part by currency changes. Conditions in certain of our Electronics businesses improved near the end of 2003 due to improvement in general market conditions in the industries served.

#### Gross profit

Gross profit was 27.1% of 2003 net sales, as compared to 28.6% of 2002 net sales. Gross profit decreased \$1.5 million in 2003 despite an increase of \$5.3 million due to currency changes. Also, gross profit included in 2003 \$4.9 million in the aggregate from acquisitions, primarily Southern Color, while gross profit in 2002 included \$1.2 million in the aggregate from the divested businesses discussed above. In Performance Additives, we benefited from currency changes and our 2003 acquisitions offset by our divestitures mentioned above, and the greater mix of ACQ products in our Timber Treatment Chemicals business line largely offset by generally higher energy costs experienced in 2003, the impact of lower Titanium Dioxide Pigments volume and higher depreciation expenses. In Specialty Compounds, higher PVC raw material costs offset the improvement due to product sales mix discussed above and favorable currency impact. In Electronics, apart from the currency impact, we experienced the net sales decrease discussed above and higher depreciation expense.

#### Selling, general and administrative expenses

SG&A increased primarily due to currency changes but was essentially flat as a percentage of net sales. Included in 2003 SG&A was \$2.3 million, primarily related to Southern Color, and 2002



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SG&A included \$0.6 million from our divested pool and spa accessories business line and discontinued G.D. Holmes division. Also included in SG&A in 2003 and 2002 was \$0.8 million and \$0.5 million, respectively, of net reductions in SG&A expense due to certain non-cash and non-recurring charges/credits. The non-cash and non-recurring charges related to the amortization of sign-on compensation arrangements for key executives in both periods, non-consummated acquisition efforts in 2003 and insurance recoveries on proceeds of \$4.5 million and \$2.2 million in 2003 and 2002, respectively, from fire damage to one of our plants in 2001. The remaining decrease in SG&A resulted from lower bonus expense and discretionary spending offset in part by higher general insurance costs, higher marketing costs related to the ACQ conversion in our Timber Treatment Chemicals business and higher rent expense at our Water Treatment Chemicals business due to a sale leaseback transaction consummated at the end of the second quarter of 2002.

### Impairment charges

As part of our annual goodwill impairment testing in late 2003 and 2002, we determined there were goodwill impairments of \$19.3 million and \$50.0 million, respectively, in certain business lines within our Electronics segment. These impairments resulted from a significant decrease in earnings and operating cash flows during the year of the applicable charge and estimated prospective earnings and operating cash flows based on projections prepared late in the same year. The decline in profitability and cash flows was due to global economic conditions common to significant competitors, including significant pricing pressure in part based on current industry overcapacity and eroding competitive position. We also reviewed these business lines for impairment of property, plant and equipment. As a result, we recorded an impairment charge of \$15.7 million in 2003 to our property, plant and equipment.

### Restructuring charges, net

We recorded \$1.8 million of restructuring charges for miscellaneous restructuring actions covering all of the three reporting segments in 2003. In 2002, we recorded \$1.2 million of restructuring expense for adjustments to restructuring reserves from the end of 2001, primarily pension-related.

### Operating income

Operating income increased primarily due to a \$15.0 million reduction in asset impairment charges as well as currency changes. Included in 2003 operating income was \$2.6 million of operating income, primarily related to Southern Color, offset by 2002 operating income aggregating \$0.6 million from our divested pool and spa accessories business line and discontinued G.D. Holmes division. Also included in 2003 and 2002 operating income was \$0.9 million and \$0.5 million, respectively of net SG&A reductions due to certain non-cash and non-recurring charges/credits discussed above over 2002. Also included in 2003 operating income was \$0.7 million of additional restructuring charges over 2002. The remaining operating income decrease of \$9.9 million was comprised of decreases of \$1.0 million in our Performance Additives segment, \$2.4 million in our Specialty Compounds segment, \$10.4 million in our Electronics segment, offset in part by a \$3.9 million decrease in corporate costs.

*Performance Additives.* Operating income for our Performance Additives segment increased primarily due to currency changes, the operating income from the 2003 acquisitions net of operating income from 2002 divestitures and \$0.5 million of lower restructuring charges. The remaining decrease of \$1.0 million was due to higher general insurance costs, higher marketing costs related to the ACQ conversion in our Timber Treatment Chemicals business, higher depreciation expense and higher rent expense at our Water Treatment Chemicals business due to

the sale leaseback transaction, offset in part by higher gross profit discussed above and lower bonus expense.

*Specialty Compounds.* Operating income for our Specialty Compounds segment decreased \$3.1 million primarily due to lower gross profit discussed above as well as restructuring costs and higher general insurance costs.

*Electronics.* Although operating loss for our Electronics segment improved during 2003, this was largely due to the decrease in non-cash impairment charges noted above. The remaining operating loss increased by \$9.9 million primarily due to the gross profit decrease discussed above along with higher general insurance costs.

*Corporate.* Corporate operating expense decreased due to lower bonus expense and discretionary spending.

Other income (expenses)

*Interest expense, net.* For the years ended December 31, 2003 and 2002, interest expense, net, included \$6.0 million and \$11.6 million, respectively, representing the movement in the mark-to-market valuation of our interest rate and cross currency hedging instruments as well as \$6.1 million and \$8.0 million, respectively, of amortization expense related to deferred financing costs. This amortization decreased in 2003 due to the effect of the July 2003 debt refinancing, which substantially reduced our deferred financing cost balance. Currency changes increased interest expense, net by \$2.0 million. The remaining increase of \$9.6 million was primarily due to the scheduled increase in the interest rate on our old senior subordinated loan prior to the July 2003 debt refinancing and the interest related to the senior discount notes that were issued in July 2003.

*Loss on receivables sold.* During 2002, we entered into certain receivables sales agreements for which losses of \$1.2 million were recorded in accordance with SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." We did not enter into any such transactions in 2003.

*Foreign exchange loss.* In both 2002 and 2003 foreign exchange losses reflected the non-cash currency translation impact on our euro-denominated debt of the strengthening of the euro against the U.S. dollar.

Provision for income taxes

An income tax benefit of \$16.3 million on a loss before taxes of \$108.0 million in 2003 resulted in an effective income tax rate of 15.1%. This compared to an income tax benefit of \$12.5 million on a loss before taxes of \$80.7 million in 2002 resulted in an effective income tax rate of 15.5%. The difference between the effective income tax rate and the statutory rate primarily related to the non-deductibility of the impairment charges in both years. The effective tax rate was also impacted in both years by foreign tax rate differentials, the inclusion of state taxes, and our expected inability to utilize certain tax loss carryforwards, particularly our tax loss carryforwards in 2003 in the United Kingdom.

Net loss

A net loss of \$91.7 million was incurred in the year ended December 31, 2003 as compared to a net loss of \$68.2 million incurred in the year ended December 31, 2002 due to the reasons discussed above.

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### Adjusted EBITDA

*Performance Additives.* Adjusted EBITDA for our Performance Additives segment increased primarily due to currency changes. Included in 2003 Adjusted EBITDA was \$3.1 million primarily from Southern Color as well as the other small acquisitions. Included in 2002 Adjusted EBITDA was \$0.9 million from our pool and spa accessories business line, which we sold during 2002, and G.D. Holmes division, which was discontinued in 2002. Adjusted EBITDA as a percentage of Performance Additives net sales was lower in 2003 than 2002.

*Specialty Compounds.* Adjusted EBITDA for our Specialty Compounds segment decreased primarily due to the lower gross profit discussed above and higher general insurance costs, offset in part by currency exchange rate changes. Adjusted EBITDA as a percentage of Specialty Compounds net sales was lower in 2003 than 2002.

*Electronics.* Adjusted EBITDA for our Electronics segment decreased primarily due to the gross profit decrease discussed above along with higher general insurance costs, offset in part by currency exchange rate changes. Adjusted EBITDA as a percentage of Electronics net sales was lower in 2003 than 2002.

*Corporate.* Adjusted EBITDA loss at Corporate decreased primarily due to reductions in bonuses and discretionary spending including certain professional fees.

### *Reconciliation of Net Income to Adjusted EBITDA*

Because we view Adjusted EBITDA on both a consolidated basis and segment basis as an operating performance measure, we use net income (loss) as the most comparable U.S. GAAP measure. The following table, which sets forth the applicable components of Adjusted EBITDA, presents a reconciliation of net income (loss) to Adjusted EBITDA:

(\$ in millions)	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Groupe Novasep	Corporate	Consolidated
<b>Three months ended March 31, 2005</b>									
Net income (loss)	\$ 10.8	\$ 5.3	\$ 0.6	\$ 6.9	\$ 1.9	\$ 2.8	\$ (3.1)	\$ 13.1	\$ 38.3
Income tax provision (benefit)	6.4	0.7	0.2	10.1	1.3	1.7	(1.9)	6.4	24.9
Interest, net	6.6	(0.1)	1.3	12.1	8.5	9.4	4.5	15.0	57.3
Depreciation and amortization	8.5	1.4	5.1	11.7	9.2	7.5	8.9	0.9	53.2
Systems/organization establishment expenses								1.2	1.2
Inventory write-up reversal							2.8		2.8
Cancelled acquisition and disposition costs								0.2	0.2
Foreign exchange loss (gain)	(0.9)		(1.4)	1.8				(46.7)	(47.2)
Restructuring and related charges	2.4			0.5					2.9
Minority interest							(0.8)		(0.8)
CCA litigation defense costs	0.3							0.1	0.4
Other	0.1			(0.1)			(0.2)	0.2	
<b>Total Adjusted EBITDA</b>	<b>\$ 34.2</b>	<b>\$ 7.3</b>	<b>\$ 5.8</b>	<b>\$ 43.0</b>	<b>\$ 20.9</b>	<b>\$ 21.4</b>	<b>\$ 10.2</b>	<b>\$ (9.6)</b>	<b>\$ 133.2</b>

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(\$ in millions)	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Groupe Novasep	Corporate	Consolidated
<b>Three months ended March 31, 2004</b>									
Net income (loss)	\$ 10.4	\$ 3.7	\$ 0.7	\$	\$	\$	\$	\$ (5.9)	\$ 8.9
Income tax provision (benefit)	8.4	1.7	1.2					(5.8)	5.5
Interest, net	7.6		1.5					16.0	25.1
Depreciation and amortization	7.1	1.4	5.0					0.3	13.8
Foreign exchange loss (gain)	(1.4)		(1.8)					(9.0)	(12.2)
<b>Total Adjusted EBITDA</b>	<b>\$ 32.1</b>	<b>\$ 6.8</b>	<b>\$ 6.6</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ (4.4)</b>	<b>\$ 41.1</b>
<b>Year ended December 31, 2004</b>									
Net income (loss)	\$ 84.1	\$ 12.4	\$ (5.5)	\$ (24.5)	\$ (4.2)	\$ (22.0)	\$ (18.6)	\$ (237.8)	\$ (216.1)
Income tax provision (benefit)	4.2	8.6	(4.6)	17.4	4.5	8.2	17.6	(23.6)	32.3
Interest, net	26.8	(0.7)	5.4	24.3	15.7	16.6	5.5	68.5	162.1
Depreciation and amortization	32.0	7.7	20.8	17.4	15.0	11.5	9.8	1.0	115.2
Systems/organization establishment expenses	0.2		0.2	0.1				4.3	4.8
Inventory write-up reversal	1.0			25.4	6.6	20.8	7.3		61.1
Stamp duty tax								4.0	4.0
Costs incurred related to debt modifications								2.0	2.0
Cancelled acquisition and disposition costs			0.2					0.3	0.5
Impairment charges			11.0						11.0
Write-off of deferred debt issuance costs	0.4	0.2	0.1					24.4	25.1
Foreign exchange loss (gain)	0.3		1.4	(0.9)			0.2	114.5	115.5
Loss on disposed business							0.8		0.8
Restructuring and related charges	0.5	0.3		0.3					1.1
Foreign exchange loss on foreign currency derivative								10.9	10.9
Other	(0.3)	0.3	(0.1)	0.5	0.2	0.7	0.4	0.4	2.1
<b>Total Adjusted EBITDA</b>	<b>\$ 149.2</b>	<b>\$ 28.8</b>	<b>\$ 28.9</b>	<b>\$ 60.0</b>	<b>\$ 37.8</b>	<b>\$ 35.8</b>	<b>\$ 23.0</b>	<b>\$ (31.1)</b>	<b>\$ 332.4</b>

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(\$ in millions)	Performance Additives	Specialty Compounds	Electronics	Corporate	Consolidated
<b>Year ended December 31, 2003</b>					
Net income (loss)	\$ 44.0	\$ 17.0	\$ (26.2)	\$ (126.5)	\$ (91.7)
Income tax (benefit) provision	10.1	(0.3)	(5.3)	(20.8)	(16.3)
Interest expense, net	30.0	(0.5)	6.6	76.2	112.3
Depreciation and amortization	27.4	7.2	17.1	0.7	52.4
Systems/organization establishment expenses				1.6	1.6
Inventory write-up reversal	0.2				0.2
Business interruption costs and insurance recovery			(4.5)		(4.5)
Cancelled acquisition and disposition costs			1.6	0.3	1.9
Cost incurred related to debt modifications				1.4	1.4
Impairment charges			35.0		35.0
Write-off of deferred debt issuance costs				36.9	36.9
Foreign exchange loss (gain)		(0.1)	0.1	18.5	18.5
Restructuring and related charges	0.8	0.6	0.4		1.8
<b>Total Adjusted EBITDA</b>	<b>\$ 112.5</b>	<b>\$ 23.9</b>	<b>\$ 24.8</b>	<b>\$ (11.7)</b>	<b>\$ 149.5</b>
<b>Year ended December 31, 2002</b>					
Net income (loss)	\$ 41.2	\$ 22.3	\$ (36.3)	\$ (95.4)	\$ (68.2)
Income tax (benefit) provision	14.1	(2.5)	(0.5)	(23.6)	(12.5)
Interest expense, net	26.0	(0.8)	7.0	76.0	108.2
Depreciation and amortization	23.4	6.7	15.4	0.8	46.3
Systems/organization establishment expenses				1.6	1.6
Business interruption costs and insurance recovery		0.1	(2.3)		(2.2)
Cancelled acquisition and disposition costs				0.2	0.2
Impairment charges			50.0		50.0
Foreign exchange loss (gain)			0.1	24.5	24.6
Loss on receivables sold	0.5	0.2		0.5	1.2
Restructuring and related charges	1.2				1.2
<b>Total Adjusted EBITDA</b>	<b>\$ 106.4</b>	<b>\$ 26.0</b>	<b>\$ 33.4</b>	<b>\$ (15.4)</b>	<b>\$ 150.4</b>

(a) Includes \$0.5 reflected in costs of product sold.

**Pro Forma Net Sales, Net Income (Loss) and Adjusted EBITDA**

Our company has changed significantly since the Dynamit Nobel acquisition. Our historical results of operations on an actual basis for the year ended December 31, 2004, presented immediately prior to this pro forma information, include only the results of operations for the four segments acquired as part of the Dynamit Nobel acquisition since the consummation date of July 31, 2004 in accordance with accounting principles generally accepted in the United States, which we refer to as U.S. GAAP in this prospectus. Our historical results of operations on an actual basis for the three months ended March 31, 2004, presented immediately prior to this pro forma information, do not include the results of operations for these four segments. As such, we believe the following supplemental unaudited pro forma information is helpful in highlighting trends by segment and on a consolidated basis.

The following supplemental pro forma net sales, net income (loss) and Adjusted EBITDA for the three months ended March 31, 2004 and the year ended December 31, 2004 is prepared on a pro forma basis as if the Dynamit Nobel acquisition and related equity and debt financings and Fall 2004 debt refinancings, the pigments and dispersions acquisition and related financing and the Groupe Novasep combination had occurred at January 1, 2004; this unaudited pro forma information does not give effect to the offering. The net sales, net income (loss) and Adjusted EBITDA for the three months ended March 31, 2005 is presented on an actual basis.

The following supplemental unaudited pro forma information is provided for informational purposes only and is not intended to be indicative of the results that would have actually been attained had the Dynamit Nobel acquisition and related equity and debt financings and Fall 2004 debt refinancings, the pigments and dispersions acquisition and related financing and the Groupe Novasep combination occurred as of January 1, 2004 or that may be attained in the future. The supplemental unaudited pro forma information has been prepared based upon currently available information and assumptions that we believe are reasonable. Such currently available information and assumptions may prove to be inaccurate over time.

The following table presents net sales, net income (loss) and Adjusted EBITDA (the reconciliation to pro forma net income (loss) is set forth below) for the year ended December 31, 2004 and the three months ended March 31, 2004 on a pro forma basis, and net sales, net income (loss) and Adjusted EBITDA for the three months ended March 31, 2005 on an actual basis.

(\$ in millions) (unaudited)	Pro Forma Year Ended December 31, 2004	Pro Forma Three Months Ended March 31, 2004	Actual Three Months Ended March 31, 2005
<b>Net sales:</b>			
Performance Additives	\$ 674.8	\$ 155.0	\$ 159.5
Specialty Compounds	200.4	47.9	58.1
Electronics	168.1	40.4	42.8
Specialty Chemicals	759.6	187.9	220.0
Titanium Dioxide Pigments	422.0	109.2	104.5
Advanced Ceramics	349.5	86.6	91.9
Groupe Novasep	338.6	72.3	92.9
<b>Total net sales</b>	<b>\$ 2,913.0</b>	<b>\$ 699.3</b>	<b>\$ 769.7</b>

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<b>Net income (loss):</b>			
Performance Additives	\$	84.2	\$ 11.1 \$ 10.8
Specialty Compounds		12.2	3.4 5.3
Electronics		(6.7)	0.6 0.6
Specialty Chemicals		2.9	4.8 6.9
Titanium Dioxide Pigments		9.0	2.6 1.9
Advanced Ceramics		(12.1)	2.8
Groupe Novasep		(5.3)	(0.2) (3.1)
Corporate		(274.3)	(19.7) 13.1
<hr/>			
Total net income (loss)	\$	(190.1)	\$ 2.6 \$ 38.3
<hr/>			
<b>Adjusted EBITDA:</b>			
Performance Additives	\$	154.9	\$ 34.6 \$ 34.2
Specialty Compounds		28.8	6.8 7.3
Electronics		28.9	6.6 5.8
Specialty Chemicals		141.4	37.0 43.0
Titanium Dioxide Pigments		84.6	20.4 20.9
Advanced Ceramics		80.3	19.4 21.4
Groupe Novasep		61.1	13.3 10.2
Corporate		(40.1)	(9.7) (9.6)
<hr/>			
Total Adjusted EBITDA	\$	539.9	\$ 128.4 \$ 133.2
<hr/>			

*Actual three months ended March 31, 2005 compared to pro forma three months ended March 31, 2004*

Overview

Net sales increased \$70.4 million on a pro forma basis with \$27.2 million due to currency changes. The remaining sales improvement of \$43.2 million, or 6.2%, was primarily in the Specialty Chemicals segment, the Performance Additives segment and the Specialty Compounds segment due to the impact of higher selling prices in each of the segments to offset higher raw material costs, and volume increases in the Specialty Compounds segment. Net sales for our Groupe Novasep segment were favorably impacted by \$12.5 million due to acquisitions made by Groupe Novasep after the first quarter of 2004. Titanium Dioxide Pigments sales were down due to weaker demand for synthetic fiber caused by lower prices for cotton, which are a competing fiber.

Adjusted EBITDA increased \$4.8 million on a pro forma basis with \$5.3 million due to currency changes. The remaining decrease was \$0.5 million. Gross profit was down slightly as higher selling prices and slightly lower selling, general and administrative expenses incurred at the operating segments were offset by higher raw material costs.

Net income on a pro forma basis increased by \$35.7 million in the first quarter of 2005 due to the higher Adjusted EBITDA and foreign exchange gains from the weaker euro.

Pro Forma Net sales

Net sales on a pro forma basis increased \$70.4 million with \$27.2 million due to currency changes. The remaining sales improvement of \$43.2 million, or 6.2%, is described in the segment discussions below.

*Performance Additives.* Net sales on a pro forma basis for our Performance Additives segment increased \$4.5 million with \$2.0 million due to currency changes. The remaining increase of

\$2.5 million, or 1.6%, was due to the impact of higher selling prices (\$2.4 million), to offset higher raw material costs.

*Specialty Compounds.* Net sales for our Specialty Compounds segment increased \$10.2 million, or 21.3%, over the prior period including the impact of higher selling prices (\$4.3 million) to offset higher raw material costs. The remaining increase was primarily due to stronger sales volume in our wire and cable compounds business.

*Electronics.* Net sales for our Electronics segment increased \$2.4 million over the prior year period with \$1.3 million due to currency changes. The remaining increase of \$1.1 million, or 2.7%, occurred despite \$0.8 million of continued pricing pressures in the wafer reclaim business due to increases in sales volumes.

*Specialty Chemicals.* Net sales for our Specialty Chemicals segment increased \$32.1 million on a pro forma basis over the prior period, including \$8.9 million related to currency changes. The remaining increase of \$23.2 million, or 12.3%, was primarily due to higher sales prices (\$7.6 million) primarily in metal sulfide products realized due to the pass through of raw material cost increases and volume growth in the Surface Treatment businesses.

*Titanium Dioxide Pigments.* Net sales for our Titanium Dioxide Pigments segment decreased \$4.7 million on a pro forma basis versus the prior year period, despite \$5.2 million of favorable currency changes. The remaining decrease of \$9.9 million, or 9.1%, was due to weaker demand for synthetic fiber caused by lower prices for cotton, a competing fiber.

*Advanced Ceramics.* Net sales for our Advanced Ceramics segment increased \$5.3 million on a pro forma basis over the prior year period, including \$4.3 million related to currency changes. The remaining increase of \$1.0 million is primarily due to a better mix of medical products and Piezo applications.

*Groupe Novasep.* Net sales for our Groupe Novasep segment increased \$20.6 million on a pro forma basis as compared to the prior year period. However, \$12.5 million related to Novasep acquisitions made after the first quarter of 2004 and \$4.8 million related to currency changes. The remaining net sales increase of \$3.3 million was primarily due to solid performance from the new Groupe Novasep businesses offset by continued capacity utilization issues at the Rohner plant.

#### Pro Forma Adjusted EBITDA

Adjusted EBITDA increased \$4.8 million on a pro forma basis with \$5.3 million due to currency changes. The remaining Adjusted EBITDA decrease of \$0.5 million is described in the segment discussion below.

*Performance Additives.* Adjusted EBITDA on a pro forma basis for our Performance Additives segment decreased from \$34.6 million to \$34.2 million despite \$0.5 million of favorable currency changes. The remaining decrease of \$0.9 million was primarily due to the higher raw material prices partially offset by higher selling prices described above.

*Specialty Compounds.* Adjusted EBITDA for our Specialty Compounds segment increased from \$6.8 million to \$7.3 million, or 7.4%, primarily due to stronger wire and cable volume. Higher raw material prices, partially offset by higher selling prices described above, negatively impacted Adjusted EBITDA.

*Electronics.* Adjusted EBITDA for our Electronics segment decreased from \$6.6 million to \$5.8 million, or 12.1%, primarily due to \$0.8 million in selling price decreases.



*Specialty Chemicals.* Adjusted EBITDA for our Specialty Chemicals segment increased \$6.0 million on a pro forma basis over the prior period, including \$2.3 million related to currency changes. The remaining increase of \$3.7 million was primarily due to volume growth in the Surface Treatment businesses. Also, higher sales prices (\$7.6 million) primarily in metal sulfide products were realized due to the pass through of raw material cost increases (\$6.5 million).

*Titanium Dioxide Pigments.* Adjusted EBITDA for our Titanium Dioxide Pigments segment increased \$0.5 million on a pro forma basis over the prior year period, with \$1.1 million of favorable currency changes. The remaining decrease of \$0.6 million was due to soft demand for synthetic fiber used in clothing caused by lower prices for cotton, a competing fiber, offset partially by cost reduction measures.

*Advanced Ceramics.* Adjusted EBITDA for our Advanced Ceramics segment increased \$2.0 million on a pro forma basis over the prior year period, including \$1.2 million related to currency changes. The remaining increase of \$0.8 million is primarily due to a better mix of medical products and Piezo applications.

*Groupe Novasep.* Adjusted EBITDA for our Groupe Novasep segment decreased \$3.1 million on a pro forma basis as compared to the prior year period despite \$0.5 million of increases related to Novasep acquisitions made after the first quarter of 2004 and \$0.4 million related to currency changes. The remaining decrease of \$4.0 million was primarily due to continued capacity utilization issues at the Rohner plant partially offset by solid performance from the new Novasep businesses.

*Corporate.* Adjusted EBITDA loss at Corporate was relatively flat as higher central costs to operate the significantly larger business due to the Dynamit Nobel Acquisition were offset in part by savings from headcount reductions at the former Dynamit Nobel corporate headquarters.

***Pro forma year ended December 31, 2004***

Pro Forma Net Sales

Net sales on a pro forma basis were \$2,913.0 million in 2004. This amount consisted of \$674.8 million in the Performance Additives segment, \$200.4 million in the Specialty Compounds segment, \$168.1 million in the Electronics segment, \$759.6 million in the Specialty Chemicals segment, \$422.0 million in the Titanium Dioxide Pigments segment, \$349.5 million in the Advanced Ceramics segment and \$338.6 million in the Groupe Novasep segment.

Pro Forma Net Income (Loss)

Net loss on a pro forma basis was \$190.1 million in 2004. This amount included \$84.2 million pro forma net income in the Performance Additives segment, \$12.2 million pro forma net income in the Specialty Compounds segment, \$6.7 million pro forma net loss in the Electronics segment, \$2.9 million pro forma net income in the Specialty Chemicals segment, \$9.0 million pro forma net income in the Titanium Dioxide Pigments segment, \$12.1 million pro forma net loss in the Advanced Ceramics segment and \$5.3 million pro forma net loss in the Groupe Novasep segment. Also included in net loss on a pro forma basis in 2004 were losses at Corporate of \$274.3 million.

Pro Forma Adjusted EBITDA

Adjusted EBITDA on a pro forma basis was \$539.9 million in 2004. This amount included \$154.9 million in the Performance Additives segment, \$28.8 million in the Specialty Compounds segment, \$28.9 million in the Electronics segment, \$141.4 million in the Specialty Chemicals segment, \$84.6 million in the Titanium Dioxide Pigments segment, \$80.3 million in the Advanced Ceramics segment and \$61.1 million in the Groupe Novasep segment. Also included in Adjusted EBITDA on a pro forma basis in 2004 were losses at Corporate of \$40.1 million.

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Adjusted EBITDA as a percentage of net sales on a pro forma basis was 18.5% in 2004. Adjusted EBITDA as a percentage of net sales on a pro forma basis per segment in 2004 was 23.0% in the Performance Additives segment, 14.4% in the Specialty Compounds segment, 17.2% in the Electronics segment, 18.6% in the Specialty Chemicals segment, 20.0% in the Titanium Dioxide Pigments segment, 23.0% in the Advanced Ceramics segment and 18.0% in the Groupe Novasep segment. Adjusted EBITDA loss at Corporate on a pro forma basis was (1.4)% of net sales in 2004.

### *Reconciliation of Pro Forma Net Income (Loss) to Pro Forma Adjusted EBITDA for the Three Months Ended March 31, 2004 and the Year Ended December 31, 2004*

Because we view Adjusted EBITDA on both a consolidated and segment basis as an operating performance measure, we use net income (loss) as the most comparable U.S. GAAP measure. The following table, which sets forth the applicable components of Adjusted EBITDA, presents a reconciliation of pro forma net income (loss) to pro forma Adjusted EBITDA on a consolidated and segment basis for the three months ended March 31, 2004 and the year ended December 31, 2004. For a reconciliation of actual net income (loss) to actual Adjusted EBITDA on a consolidated and segment basis for the three months ended March 31, 2005, see " Actual Results of Operations."

(\$ in millions)	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Groupe Novasep	Corporate	Consolidated
<b>Three months ended</b>									
<b>March 31, 2004</b>									
Net income (loss)	\$ 11.1	\$ 3.4	\$ 0.6	\$ 4.8	\$ 2.6	\$	\$ (0.2)	\$ (19.7)	\$ 2.6
Interest expense, net	7.5	(0.1)	1.7	12.0	7.7	8.2	2.7	23.5	63.2
Income tax (benefit) provision	8.8	1.6	0.9	10.9	3.0	4.5	4.5	(5.3)	28.9
Depreciation and amortization	8.6	1.9	5.2	9.5	7.1	6.4	6.0	0.3	45.0
Foreign exchange loss (gain)	(1.4)		(1.8)	(0.2)				(9.0)	(12.4)
Restructuring and related charges						0.1	0.1		0.2
Other						0.2	0.2	0.5	0.9
<b>Total Adjusted EBITDA</b>	<b>\$ 34.6</b>	<b>\$ 6.8</b>	<b>\$ 6.6</b>	<b>\$ 37.0</b>	<b>\$ 20.4</b>	<b>\$ 19.4</b>	<b>\$ 13.3</b>	<b>\$ (9.7)</b>	<b>\$ 128.4</b>

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(\$ in millions)	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Groupe Novasep	Corporate	Consolidated
<b>Year ended December 31, 2004</b>									
Net income (loss)	\$ 84.2	\$ 12.2	\$ (6.7)	\$ 2.9	\$ 9.0	\$ (12.1)	\$ (5.3)	\$ (274.3)	\$ (190.1)
Interest expense, net	30.0	(0.5)	6.6	43.9	28.3	30.0	9.9	96.1	244.3
Income tax (benefit) provision	4.4	8.6	(4.6)	31.1	12.1	15.4	23.7	(23.6)	67.1
Depreciation and amortization	34.2	7.7	20.8	38.1	28.4	25.5	24.1	1.0	179.8
Systems/organization establishment expenses	0.2		0.2	0.1				4.3	4.8
Inventory write-up reversal	1.0			25.4	6.6	20.8	7.3		61.1
Stamp duty tax								4.0	4.0
Costs incurred related to debt modifications								2.0	2.0
Cancelled acquisition and disposition costs			0.2					0.3	0.5
Impairment charges			11.0						11.0
Write-off of deferred debt issuance costs	0.4	0.2	0.1					24.4	25.1
Foreign exchange loss (gain)	0.3		1.4	(0.9)			0.9	113.1	114.8
Loss on disposed business							0.8		0.8
Restructuring and related charges	0.5	0.3		0.3					1.1
Foreign exchange loss on foreign currency derivatives								10.9	10.9
Other	(0.3)	0.3	(0.1)	0.5	0.2	0.7	(0.3)	1.7	2.7
<b>Total Adjusted EBITDA(a)</b>	<b>\$ 154.9</b>	<b>\$ 28.8</b>	<b>\$ 28.9</b>	<b>\$ 141.4</b>	<b>\$ 84.6</b>	<b>\$ 80.3</b>	<b>\$ 61.1</b>	<b>\$ (40.1)</b>	<b>\$ 539.9</b>

(a) Total Adjusted EBITDA does not include estimated annual cost savings from certain restructuring measures that were not realized as of December 31, 2004. In total, we expect to achieve annual cost savings of approximately \$17.0 million, of which we have already realized approximately \$7.0 million through March 31, 2005 through actions we have implemented or are in the process of implementing, such as the closure of the former headquarters of Dynamit Nobel in Troisdorf, Germany, the closure of the New Lebanon, New York manufacturing facility of our Advanced Ceramics segment and various restructuring measures at our Specialty Chemicals and Groupe Novasep segments, and the elimination of 40 positions in connection with the acquisition of the pigments and dispersions business of Johnson Matthey Plc.

## Dynamit Nobel

### Separation from mg technologies ag

Prior to the Dynamit Nobel acquisition, Dynamit Nobel was a division of mg technologies ag and historically did not prepare separate financial statements. The audited combined financial statements of Dynamit Nobel have been prepared from mg technologies ag's historical accounting records and are presented on a "carve-out" basis to include the historical operations applicable to the acquired businesses of Dynamit Nobel in accordance with U.S. GAAP. The historical financial information of Dynamit Nobel presented in this prospectus does not necessarily reflect what the results of operations would have been had Dynamit Nobel been operated as a stand-alone entity during the periods presented.

### Results of Operations

The following table presents the major components of Dynamit Nobel's operations, including as a percentage of net sales, and Adjusted EBITDA (the reconciliation to Dynamit Nobel net income (loss) to Adjusted EBITDA is set forth below) during the periods presented.



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(\$ in millions)	Year Ended September 30,		Three Months Ended December 31,	Year Ended December 31,	Six Months Ended June 30,	
	2001	2002	2002	2003	2003	2004
<b>Net sales:</b>						
Specialty Chemicals	\$ 557.7	\$ 568.2	\$ 134.5	\$ 659.7	\$ 328.9	\$ 376.7
Titanium Dioxide Pigments	319.5	321.3	80.9	381.8	188.1	212.8
Advanced Ceramics	266.9	224.8	58.8	286.0	143.1	173.2
Groupe Novasep	302.4	307.6	62.7	268.4	139.9	122.8
Total net sales	1,446.5	1,421.9	336.9	1,595.9	800.0	885.5
Gross profit	497.0	507.2	117.6	535.9	275.1	298.5
	34.4%	35.7%	34.9%	33.6%	34.4%	33.7%
Operating expenses	(286.4)	(300.9)	(84.6)	(350.3)	(171.3)	(194.3)
	19.8%	21.2%	25.1%	21.9%	21.4%	21.9%
<b>Operating income (loss):</b>						
Specialty Chemicals	108.0	102.7	14.6	100.7	54.3	58.2
	19.4%	18.1%	10.9%	15.3%	16.5%	15.4%
Titanium Dioxide Pigments	41.7	44.9	12.3	53.1	26.5	28.3
	13.1%	14.0%	15.2%	13.9%	14.1%	13.3%
Advanced Ceramics	42.5	31.7	6.3	34.2	18.2	28.1
	15.9%	14.1%	10.7%	12.0%	12.7%	16.2%
Groupe Novasep	40.3	37.3	7.1	16.9	14.9	1.1
	13.3%	12.1%	11.3%	6.3%	10.7%	0.9%
Corporate costs and eliminations	(21.9)	(10.3)	(7.3)	(19.3)	(10.1)	(11.5)
Total operating income	210.6	206.3	33.0	185.6	103.8	104.2
	14.6%	14.5%	9.8%	11.6%	13.0%	11.8%
Income from investments	4.9	3.8	2.2	2.9	0.8	0.5
Interest expense, net of similar income	(24.2)	(22.8)	(6.9)	(25.2)	(13.6)	(14.4)
<b>Income before taxes and other adjustments</b>						
	191.3	187.3	28.3	163.3	91.0	90.3
Income tax provision	94.1	80.4	11.8	61.7	34.2	32.1
Minority interests		0.8	0.1	(0.3)	(0.3)	
Income after taxes and before earnings from discontinued operations and cumulative effects from change in accounting principle	97.2	107.7	16.6	101.3	56.5	58.2
Earnings from discontinued operations	1.3	2.6	0.2	1.4	1.4	
Income after taxes and before cumulative effects from change in accounting principle	98.5	110.3	16.8	102.7	57.9	58.2
Cumulative effects from changes in accounting principles				(1.8)		
<b>Net income</b>	\$ 98.5	\$ 110.3	\$ 16.8	\$ 100.9	\$ 57.9	\$ 58.2
<b>Adjusted EBITDA:</b>						
Specialty Chemicals	\$ 112.1	\$ 119.9	\$ 21.6	\$ 133.5	\$ 67.5	\$ 71.3
	20.1%	21.1%	16.1%	20.2%	20.5%	18.9%
Titanium Dioxide Pigments	63.9	64.3	16.8	75.3	36.5	40.3

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	Year Ended September 30,		Three Months Ended December 31, 2002		Six Months Ended June 30,	
	20.0%	20.0%	20.8%	19.7	19.4%	18.9%
Advanced Ceramics	62.0	50.5	10.9	65.3%	31.4	38.6
	23.2%	22.5%	18.5%	22.8%	21.9%	22.3%
Groupe Novasep	40.2	52.5	13.4	54.5	28.4	16.9
	13.3%	17.1%	21.4%	20.3%	20.3%	13.8%
Corporate costs and eliminations	(19.0)	(15.2)	(5.2)	(16.5)	(9.8)	(8.8)
<b>Total Adjusted EBITDA</b>	<b>\$ 259.2</b>	<b>\$ 272.0</b>	<b>\$ 57.5</b>	<b>\$ 312.1</b>	<b>\$ 154.0</b>	<b>\$ 158.3</b>
	17.9%	19.1%	17.1%	19.6%	19.3%	17.9%

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The following tables present the changes in the major components of Dynamit Nobel's operations on a historical basis in dollars and percentages.

(\$ in millions)	Change: September 30, 2002 vs. September 30, 2001					Change: December 31, 2003 vs. September 30, 2002				
	Total Change in \$	Total Change in %	Foreign Exchange Effect(1)	Divestitures	Organic	Total Change in \$	Total Change in %	Foreign Exchange Effect(1)	Divestitures	Organic
<b>Net sales:</b>										
Specialty Chemicals	\$ 10.5	1.9%	\$ 11.7	\$ (19.7)	\$ 18.5	\$ 91.5	16.1%	\$ 85.9	\$	\$ 5.6
Titanium Dioxide										
Pigments	1.8	0.6	10.2		(8.4)	60.5	18.8	71.4		(10.9)
Advanced Ceramics	(42.1)	(15.8)	6.0	(16.1)	(32.0)	61.2	27.2	46.6	(6.3)	20.9
Groupe Novasep	5.2	1.7	9.7	(40.1)	35.6	(39.2)	(12.7)	50.2	(96.6)	7.2
<b>Total net sales</b>	<b>(24.6)</b>	<b>(1.7)</b>	<b>37.6</b>	<b>(75.9)</b>	<b>13.7</b>	<b>174.0</b>	<b>12.2</b>	<b>254.1</b>	<b>(102.9)</b>	<b>22.8</b>
Gross profit	10.2	2.1	13.3	(18.7)	15.6	28.7	5.7	84.7	(21.4)	(34.6)
Operating expenses	(14.5)	5.1	(7.9)	(35.4)	28.8	(49.4)	16.4	(56.0)	21.4	(14.8)
<b>Operating (loss) income:</b>										
Specialty Chemicals	(5.3)	(4.9)	2.2	(36.9)	29.4	(2.0)	(1.9)	13.2		(15.2)
Titanium Dioxide										
Pigments	3.2	7.7	1.4		1.8	8.2	18.3	9.9		(1.7)
Advanced Ceramics	(10.8)	(25.4)	1.0	(1.2)	(10.6)	2.5	7.9	6.0	1.6	(5.1)
Groupe Novasep	(3.0)	(7.4)	1.2	(16.0)	11.8	(20.4)	(55.0)	3.2	(1.6)	(22.0)
Corporate costs and eliminations	11.6	(53.0)	(0.4)		12.0	(9.0)	87.4	(3.6)		(5.4)
<b>Total operating (loss) income</b>	<b>(4.3)</b>	<b>(2.0)</b>	<b>5.4</b>	<b>(54.1)</b>	<b>44.4</b>	<b>(20.7)</b>	<b>(10.1)</b>	<b>28.7</b>		<b>(49.4)</b>
<b>Other income (expenses):</b>										
Income from investments	(1.1)	(22.4)	0.1		(1.2)	1.0	(26.3)	0.5		(1.5)
Interest expense, net of similar income	1.4	(5.8)	(0.5)		1.9	(2.3)	10.1	(3.3)	1.1	(0.1)
<b>Loss before taxes</b>	<b>(4.0)</b>					<b>(24.0)</b>				
Income tax provision	13.7					18.7				
Minority interests	0.8					(1.1)				
Income from discontinued operations	1.3					(1.2)				
Cumulative effects from changes in accounting principles						(1.8)				
<b>Net income (loss):</b>										
Specialty Chemicals	6.3					2.9				
Titanium Dioxide										
Pigments	3.9					(0.7)				
Advanced Ceramics	(14.2)					(5.2)				
Groupe Novasep	(2.8)					(22.3)				
Corporate costs and eliminations	18.6					15.9				
<b>Total</b>	<b>\$ 11.8</b>					<b>\$ (9.4)</b>				

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Change: September 30, 2002 vs.  
September 30, 2001

Change: December 31, 2003 vs.  
September 30, 2002

**Adjusted EBITDA:**

Specialty Chemicals	\$ 7.8	7.0%	\$ 2.4	\$ 5.4	\$ 13.6	11.3%	\$ 17.8	\$ (4.2)
Titanium Dioxide								
Pigments	0.4	0.6	2.0	(1.6)	11.0	17.1	14.1	(3.1)
Advanced Ceramics	(11.5)	(18.5)	1.6	(13.1)	14.8	29.3	11.4	3.4
Groupe Novasep	12.3	30.6	1.7	10.6	2.0	3.8	10.2	(8.2)
Corporate costs and eliminations	3.8	(20.0)	(0.5)	4.3	(1.4)	9.2	(3.2)	1.8
<b>Total Adjusted EBITDA</b>	<b>\$ 12.8</b>	<b>4.9%</b>	<b>\$ 7.2</b>	<b>\$ 5.6</b>	<b>\$ 40.0</b>	<b>14.7%</b>	<b>\$ 50.3</b>	<b>\$ (10.3)</b>

(1) The foreign exchange effect was calculated based on the change in the euro to U.S. dollar exchange rate for the applicable period.



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Change: Six Months Ended June 30, 2004 vs. June 30, 2003

(\$ in millions)	Total Change in \$	Total Change in %	Foreign Exchange Effect(1)	Organic
<b>Net sales:</b>				
Specialty Chemicals	\$ 47.8	14.5%	\$ 26.7	\$ 21.1
Titanium Dioxide Pigments	24.7	13.1	21.4	3.3
Advanced Ceramics	30.1	21.0	15.3	14.8
Groupe Novasep	(17.1)	(12.2)	12.3	(29.4)
<b>Total net sales</b>	<b>85.5</b>	<b>10.7</b>	<b>75.7</b>	<b>9.8</b>
Gross profit	23.4	8.5	25.7	(2.3)
Operating expenses:	(23.0)	13.4	(16.8)	(6.2)
<b>Operating income (loss):</b>				
Specialty Chemicals	3.9	7.2	4.3	(0.4)
Titanium Dioxide Pigments	1.8	6.8	2.8	(1.0)
Advanced Ceramics	9.9	54.4	2.7	7.2
Groupe Novasep	(13.8)	(92.6)	0.1	(13.9)
Corporate costs and eliminations	(1.4)	13.9	(1.1)	(0.3)
<b>Total operating income (loss)</b>	<b>0.4</b>	<b>0.4</b>	<b>8.8</b>	<b>(8.4)</b>
<b>Other income (expenses):</b>				
Income from investments	(0.3)	(37.5)	0.1	(0.4)
Interest expense, net of similar income	(0.8)	5.9	(1.1)	0.3
<b>Loss before taxes</b>	<b>(0.7)</b>			
Income tax provision	2.1			
Minority interests	0.3			
Income from discontinued operations	(1.4)			
Cumulative effects from changes in accounting principles				
<b>Net (loss) income:</b>				
Specialty Chemicals	(10.5)			
Titanium Dioxide Pigments	1.3			
Advanced Ceramics	7.8			
Groupe Novasep	12.6			
Corporate costs and eliminations	(10.9)			
<b>Total income</b>	<b>\$ 0.3</b>			
<b>Adjusted EBITDA:</b>				
Specialty Chemicals	\$ 3.8	5.6%	\$ 5.1	\$ (1.3)
Titanium Dioxide Pigments	3.8	10.4	4.1	(0.3)
Advanced Ceramics	7.2	22.9	3.7	3.5
Groupe Novasep	(11.5)	(40.5)	1.7	(13.2)
Corporate costs and eliminations	1.0	(10.2)	(0.9)	1.9
<b>Total Adjusted EBITDA</b>	<b>\$ 4.3</b>	<b>2.8%</b>	<b>\$ 13.7</b>	<b>\$ (9.4)</b>

- (1) The foreign exchange effect was calculated based on the change in the euro to U.S. dollar exchange rate for the applicable period.

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*Year ended December 31, 2003 compared to year ended September 30, 2002*

### Net sales

Net sales for the year ended December 31, 2003 increased \$174.0 million to \$1,595.9 million from \$1,421.9 million in the year ended September 30, 2002, primarily due to favorable currency changes net of divestitures. The remaining increase in sales of \$22.8 million consisted of higher sales of \$5.6 million in Specialty Chemicals, \$20.9 million in Advanced Ceramics and \$7.2 million in Groupe Novasep partially offset by lower sales of \$10.9 million in Titanium Dioxide Pigments.

*Specialty Chemicals.* Net sales for the Specialty Chemicals segment increased \$91.5 million primarily due to favorable currency exchange rate changes. The remaining increase of \$5.6 million was primarily due to increased sales volume of metal sulfides products offset by lower sales volume of lithium products in the Fine Chemicals business. Surface Treatment sales were relatively flat.

*Titanium Dioxide Pigments.* Net sales for the Titanium Dioxide Pigments segment increased \$60.5 million primarily due to favorable currency changes offset in part by net sales of \$10.9 million due to sales declines in the Titanium Dioxide business mainly from lower anatase-based pigment volume in Asia, lower volume and lower average selling prices in rutile-based pigment products resulting from weaker market conditions and cyclical price fluctuations, and lower sales in the Functional Additives business due to weaker demand in zinc and barium products. Zinc sales were also negatively impacted by pricing pressures. These decreases were offset in part by sales volume increases in Water Chemistry products due to the addition of several new customers.

*Advanced Ceramics.* Net sales for the Advanced Ceramics segment increased \$61.2 million primarily due to favorable currency changes net of divestitures. The remaining increase in net sales of \$20.9 million resulted primarily due to higher sales volume in medical related products and, to a lesser extent, electronic related products.

*Groupe Novasep.* Net sales for the Groupe Novasep segment decreased \$39.2 million due to unfavorable currency changes and divestitures offset in part by a net sales increase of \$7.2 million due to increased sales volume of the segment's German operation offset by the loss of a large customer as a result of industry consolidation and lower overall sales volume in part at Rohner.

### Gross profit

Gross profit margin was 33.6% of 2003 net sales, as compared to 35.7% of 2002 net sales. Gross margin in 2003 was negatively impacted by certain non-recurring costs and restructuring costs aggregating \$14.9 million. These charges included \$8.1 million of losses (\$5.1 million of cash charges and \$3.0 million of depreciation) related to the actuator project at Advanced Ceramics for which significant start-up costs and high scrap rates were incurred in excess of selling prices. Gross margin in 2003 was also negatively impacted by \$2.2 million of other non-recurring charges at Groupe Novasep primarily due to non-cash inventory and pension adjustments as well as \$2.3 million of other non-recurring charges at Titanium Dioxide Pigments due to one-time problems in titanium dioxide production. Additionally, \$1.8 million of restructuring costs at Rohner were incurred in 2003 due to a headcount reduction program as well as \$0.5 million of restructuring costs relating to the closure of an Advanced Ceramics plant in Italy. In 2002, gross margin was negatively impacted by \$1.6 million of restructuring costs at Advanced Ceramics.

The remaining decrease in gross profit margin percentage was primarily the result of lower margins in the Groupe Novasep segment due to the lower capacity utilization at the Rohner plant as well as currency effects affecting the Finorga plant which manufactures products in euros and generally sells those products in U.S. dollars. Additionally, margins were lower in Specialty Chemicals due to increased raw material costs and unfavorable product mix. The above negative margin impacts were offset in part by favorable mix in the Titanium Dioxide Pigments segment due

to a greater percentage of higher margin anatase-based pigment product sales and lower titanium-bearing slag purchase prices, a key raw material used in Titanium Dioxide Pigments production.

Gross profit increased \$28.7 million in 2003 primarily due to currency changes net of divestitures. The remaining gross profit decrease of \$34.6 million was due to lower gross margins from non-recurring and restructuring costs, as well as the other unfavorable items described above.

#### Operating expenses

Operating expenses as a percentage of net sales were 21.9% in 2003 as compared to 21.2% in 2002. Operating expenses in 2003 included \$19.8 million of net non-recurring costs primarily related to net closure costs and net costs related to divested assets of \$14.7 million, restructuring charges of \$4.5 million and other net charges of \$0.6 million. This amount consisted of \$5.1 million in Advanced Ceramics related to \$7.8 million of closure costs of divested assets and \$0.2 million of restructuring costs, offset by \$1.7 million of gains on sales of businesses and \$1.1 million of gains on land sales related to divested assets; \$6.6 million in Groupe Novasep consisting of \$5.6 million for environmental damage at a closed operation and \$1.0 million of restructuring costs at Rohner due to a headcount reduction program; and \$6.6 million in Specialty Chemicals with \$3.9 million related to costs associated with divested assets, \$2.3 million of other non-recurring costs and \$1.0 million of restructuring costs offset by \$0.6 million of gains on business sales. Operating expenses in 2003 also included \$2.8 million of currency transaction gains related to intercompany financing denominated in a foreign currency at Specialty Chemicals. Operating expenses in 2002 included \$21.9 million of non-recurring gains related to gains on sold or divested assets net of restructuring charges and disposal costs. This amount consisted of \$9.1 million of gains on disposed assets in Groupe Novasep, \$9.4 million of gains in Specialty Chemicals primarily related to fixed asset and building sales and \$5.6 million of net gains in Corporate with \$8.3 million of gains on disposed assets offset by non-recurring charges of \$1.9 million and \$0.8 million of corporate restructuring charges. Advanced Ceramics had \$1.4 million of charges related to closed facilities and \$0.5 million of restructuring charges and Titanium Dioxide Pigments had \$0.3 million of charges related to closed businesses. Operating expenses in 2002 also included \$0.8 million from currency transaction gains.

#### Operating income

Operating income decreased \$20.7 million in 2003 primarily because non-recurring costs related to restructuring charges and other non-operational items, including divested businesses, caused a \$53.0 million decline in operating income in 2003 as compared to 2002, including a \$13.3 million increase in cost of goods sold in 2003 and a \$39.7 million increase in other operating expenses in 2003. The \$13.3 million increase in cost of goods sold in 2003 versus 2002 consists of the non-recurring and restructuring charges to gross profit of \$14.9 million in 2003 offset by the \$1.6 million of restructuring charges to gross profit in 2002 discussed in detail in gross profit above. The \$39.7 million increase in other operating expenses includes the net \$19.8 million of non-recurring costs recorded to operating expenses in 2003, offset by the \$2.0 million net increase in currency transaction gains (\$2.8 million in 2003 versus \$0.8 million in 2002), and the \$21.9 million of non-recurring gains recorded to operating expenses in 2002, all as described in further detail above. These items were offset in part by a \$28.7 million favorable effect of exchange rate changes. The remaining increase in operating income was \$3.6 million.

*Specialty Chemicals.* Operating income for the Specialty Chemicals segment decreased \$2.0 million in 2003. This decrease includes the impact of non-recurring costs related to restructuring charges, disposal costs of businesses and other non-operational items of \$3.9 million in 2003 as compared to a net gain of \$10.2 million in 2002, a net change of \$14.1 million, as well as other decreases of \$1.1 million. This was largely offset by favorable currency rate changes.

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*Titanium Dioxide Pigments.* Operating income for the Titanium Dioxide Pigments segment increased \$8.2 million due to currency rate changes, offset in part by other decreases of \$1.7 million. These reflected the impact of non-recurring net losses related to non-recurring charges, net of gains on sale of businesses and/or property, plant and equipment equaling \$1.7 million in 2003 and \$0.3 million in 2002.

*Advanced Ceramics.* Operating income for the Advanced Ceramics segment increased \$2.5 million in 2003. Increases due to currency changes and divested operations were partially offset by other operating income decreases of \$5.1 million. This included the impact of non-recurring costs related to restructuring charges, disposition costs of businesses and other items of \$13.8 million in 2003 (including \$3.0 million in depreciation) as compared to \$3.4 million in 2002.

*Groupe Novasep.* Operating income for the Groupe Novasep segment decreased \$20.4 million. Non-recurring costs related to restructuring charges, disposal costs of businesses, gains on sale of businesses and/or property, plant and equipment and other non-operational items caused \$19.7 million of this decrease in operating income in 2003 as compared to 2002 as such charges were \$10.7 million in 2003 as compared to income from these items of \$9.1 million in 2002.

*Corporate.* Corporate operating loss increased \$9.0 million. Non-recurring items related to restructuring charges, disposal costs of businesses, gains on sale of businesses and other non-operational activities resulted in \$5.6 million of gain in 2002 as compared to \$1.9 million of charges in 2003, a net change of \$7.5 million.

### Income from investments

For the years ended December 31, 2003 and September 30, 2002, income from investments decreased \$0.9 million in 2003. Favorable currency rate changes of \$0.5 million were offset by \$1.5 million of other decreases.

### Interest expense, net of similar income

For the years ended December 31, 2003 and September 30, 2002, interest expense, net of similar income, increased \$2.4 million, primarily due to favorable currency changes offset by divestitures.

### Income taxes

Income taxes of \$61.7 million on income before taxes of \$163.3 million in 2003 resulted in an effective income tax rate of 37.8%. This compared to income taxes of \$80.4 million on income before taxes of \$187.3 million in 2002 which resulted in an effective income tax rate of 43.0%. The effective tax rate decreased in 2003 primarily due to reductions in the estimated valuation allowance needed for deferred tax assets including net operating loss carry-forwards.

### Net income

Net income was \$100.9 million in the year ended December 31, 2003 as compared to net income of \$110.3 million in the year ended September 30, 2002 due to the reasons discussed above.

### Adjusted EBITDA

Adjusted EBITDA increased \$40.1 million in 2003 due to currency changes. The remaining decrease of \$10.3 million was due to lower Adjusted EBITDA in the Specialty Chemicals, Titanium

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Dioxide Pigments and Groupe Novasep segments offset in part by higher Adjusted EBITDA at Advanced Ceramics and lower Corporate Adjusted EBITDA losses.

*Specialty Chemicals.* Adjusted EBITDA for the Specialty Chemicals segment increased \$13.6 million in 2003 due to currency changes. The remaining decrease of \$4.2 million was primarily due to increased raw material costs, unfavorable product mix and lower income from equity investments offset in part by increased sales volume in Metal Sulfides products, net of lower sales volume in Lithium products.

*Titanium Dioxide Pigments.* Adjusted EBITDA for the Titanium Dioxide Pigments segment increased \$11.0 million due to currency changes. The remaining Adjusted EBITDA decrease of \$3.1 million was due to sales declines in the Titanium Dioxide and Functional Additives products offset in part by sales volume increases in Water Chemistry products, an increased mix of higher margin anatase-based pigment product sales and lower titanium-bearing slag purchase prices, discussed above.

*Advanced Ceramics.* Adjusted EBITDA for the Advanced Ceramics segment increased \$14.8 million due to currency changes of \$11.4 million as well as \$3.4 million primarily due to higher sales volume in Medical products and Electronics.

*Groupe Novasep.* Adjusted EBITDA increased \$2.0 million. Adjusted EBITDA decreased \$8.2 million due to lower capacity utilization at the Rohner plant, currency effects at Finorga, the termination of certain contracts, as well as increased raw material costs and unfavorable product mix, offset partly by increased sales volume of the German business. This was offset by favorable exchange rate changes.

*Corporate.* Adjusted EBITDA expense decreased \$1.3 million. Adjusted EBITDA expense increased \$1.9 million primarily due to the impact of miscellaneous cost reductions, but this was offset by \$3.2 million of favorable exchange rate changes.

### ***Three months ended December 31, 2002***

#### Net sales

Net sales for the quarter ended December 31, 2002 was \$336.9 million, which included Specialty Chemicals segment net sales of \$134.5 million, Titanium Dioxide Pigments segment net sales of \$80.9 million, Advanced Ceramics segment net sales of \$58.8 million and Groupe Novasep segment net sales of \$62.7 million.

#### Gross profit

Gross profit margin was \$117.6 million, or 34.9%, of net sales in the quarter ended December 31, 2002. Gross margin was negatively impacted by \$0.4 million due to restructuring costs at Advanced Ceramics.

#### Operating expenses

Operating expenses was \$84.6 million, or 25.1%, of net sales in the quarter ended December 31, 2002. Operating expenses included \$2.0 million and \$0.2 million of restructuring charges at Corporate and Advanced Ceramics, respectively, offset by currency transaction gains related to intercompany financing denominated in a foreign currency at Specialty Chemicals of \$1.4 million.

#### Operating income

Operating income for the quarter ended December 31, 2002 was \$33.0 million, with Specialty Chemicals segment operating income of \$14.6 million, Titanium Dioxide Pigments segment

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operating income of \$12.3 million, Advanced Ceramics segment operating income of \$6.3 million and Groupe Novasep segment operating income of \$7.1 million. Corporate operating expense was \$7.3 million.

### Income from investments

Income from investments for the quarter ended December 31, 2002 was \$2.1 million, primarily related to equity investments in Specialty Chemicals.

### Interest expense, net

Interest expense, net, for the quarter ended December 31, 2002 was \$6.9 million.

### Income taxes

Income taxes of \$11.8 million on income before taxes of \$28.3 million in the quarter ended December 31, 2002 resulted in an effective income tax rate of 41.7%.

### Net income

Net income for the quarter ended December 31, 2002 was \$16.8 million.

### Adjusted EBITDA

Adjusted EBITDA for the quarter ended December 31, 2002 was \$57.5 million with Specialty Chemicals segment Adjusted EBITDA of \$21.6 million, Titanium Dioxide Pigments segment Adjusted EBITDA of \$16.8 million, Advanced Ceramics segment Adjusted EBITDA of \$10.9 million and Groupe Novasep segment Adjusted EBITDA of \$13.4 million. Corporate Adjusted EBITDA loss was \$5.2 million.

### *Year ended September 30, 2002 compared to year ended September 30, 2001*

#### Net sales

Net sales for the year ended September 30, 2002 decreased \$24.6 million to \$1,421.9 million from \$1,446.5 million in the year ended September 30, 2001 due to divested operations offset in part by other increases, primarily favorable foreign exchange rate effects. The remaining increase in sales of \$13.7 million consisted of higher sales in Specialty Chemicals of \$18.5 million and Groupe Novasep of \$35.6 million, including a full year's impact of the Finorga acquisition, offset by lower sales in Titanium Dioxide Pigments of \$8.4 million and in Advanced Ceramics of \$32.0 million.

*Specialty Chemicals.* Net sales for the Specialty Chemicals segment increased \$10.5 million. Increases of \$18.5 million primarily due to higher Lithium sales within the life sciences market and higher overall Fine Chemicals product sales as well as favorable exchange rate changes were offset in part by the effect of divestitures.

*Titanium Dioxide Pigments.* Net sales for the Titanium Dioxide Pigments segment increased \$1.8 million due to currency changes. The remaining \$8.4 million decrease was due to sales declines in titanium dioxide and Functional Additives products caused by weaker demand and pricing pressures, offset in part by sales volume increases in the Water Chemistry business.

*Advanced Ceramics.* Net sales for the Advanced Ceramics segment decreased \$42.1 million including \$16.1 million due to divestitures offset in part by \$6.0 million of favorable currency rate changes. The remaining decrease in sales of approximately \$32.0 million was due in part to the economic downturn in the electronics and telecommunications industries offset in part by higher Medical application sales due to market share growth.

*Groupe Novasep.* Net sales for the Groupe Novasep segment increased \$5.2 million. This was primarily due to sales from the Finorga operation which was acquired on March 1, 2001, as well as favorable currency rate changes offset in part by a \$40.1 million decrease resulting from divestitures.

#### Gross profit

Gross profit margin was 35.7% of 2002 net sales, as compared to 34.4% of 2001 net sales. The increase in gross profit margin was due to better product mix, particularly related to the Groupe Novasep segment with the addition of a greater mix of higher margin life sciences and agro market synthesis products due to a full year of Finorga operations in 2002 versus a half year in 2001, and the divestiture of lower margin businesses at the same time, as well as better mix in lithium products at Specialty Chemicals.

In 2002 gross profit was negatively impacted by \$1.6 million due to restructuring costs at Advanced Ceramics. Notwithstanding this, gross profit increased \$10.2 million in 2002 primarily due to currency changes. The remaining \$3.1 million decrease in gross profit was due to the divestitures net of the acquisitions discussed above.

#### Operating expenses

Operating expenses as a percentage of net sales were 21.2% in 2002 as compared to 19.8% in 2001. Operating expenses in 2002 included \$21.9 million of non-recurring gains related to gains on sold or disposed businesses and fixed assets net of restructuring charges and disposal costs of businesses. This amount consisted of \$9.1 million of gains on disposed businesses in Groupe Novasep, \$9.4 million of gains in Specialty Chemicals, primarily related to fixed asset and building sales, and \$5.6 million of net gains in Corporate with \$8.3 million of gains on disposed businesses offset by non-recurring charges of \$1.8 million and \$0.8 million of corporate restructuring charges. Advanced Ceramics had \$1.4 million of charges related to closed businesses and \$0.5 million of restructuring charges and Titanium Dioxide Pigments had \$0.3 million of charges related to closed businesses. Operating expenses in 2002 also included \$0.8 million from currency transaction gains related to intercompany financing denominated in a foreign currency at Specialty Chemicals. Operating expenses in 2001 included \$58.1 million of non-recurring gains related to gains on sold or disposed businesses of \$23.3 million in Groupe Novasep and \$36.9 million in Specialty Chemicals. Sales of fixed assets yielded gains of \$0.7 million at Corporate. Restructuring charges were \$0.3 million at Advance Ceramics, \$0.4 million at Specialty Chemicals and \$1.7 million at Corporate. Also, disposal costs of \$0.5 million were incurred at Corporate. Operating expenses in 2001 also included \$1.4 million from currency transaction gains related to intercompany financing denominated in a foreign currency at Specialty Chemicals.

#### Operating income

Operating income decreased \$4.3 million in 2002 due to a \$54.1 million decrease resulting from divestitures. In addition to a favorable effect of foreign currency rate changes, the remaining increase of \$44.4 million was primarily due to non-recurring net gains in 2002 and 2001 as well as items described in "Adjusted EBITDA" below.

*Specialty Chemicals.* Operating income for the Specialty Chemicals segment decreased \$5.3 million due to the \$36.9 million effect of divestitures offset in part by favorable currency rate changes. The remaining operating income increase of \$29.4 million was primarily due to non recurring net gains in 2002 and 2001 as well as items described in "Adjusted EBITDA" below.

*Titanium Dioxide Pigments.* Operating income for the Titanium Dioxide Pigments segment increased \$3.2 million in 2002 including \$1.4 million of currency rate changes. The remaining



\$1.8 million increase included the impact of \$0.3 million of non-recurring charges in 2002 related to divested operations.

*Advanced Ceramics.* Operating income for the Advanced Ceramics segment decreased \$10.8 million in 2002, despite favorable currency changes. In addition to the effect of divestitures, operating income decreased \$10.6 million, due to the impact of non-recurring costs such as restructuring charges and disposal costs of business assets totaling \$3.4 million in 2002 as compared to \$0.1 million net in 2001.

*Groupe Novasep.* Operating income for the Groupe Novasep segment decreased \$3.0 million in 2002 due to divestitures. This was offset in part by favorable exchange rate changes. The remaining increase of \$11.8 million was primarily due to non-recurring net gains in 2002 and 2001.

*Corporate.* Corporate operating loss decreased \$11.6 million. The main component was a \$7.0 million net change in non-recurring items gains primarily related to business divestitures were \$5.6 million in 2002 while related to restructuring charges and net disposal costs of businesses were \$1.4 million in 2001.

#### Income from investments

For the years ended September 30, 2002 and September 30, 2001 income from investments decreased \$1.1 million primarily due to lower income from equity investments in the Specialty Chemicals and Advanced Ceramics segments.

#### Interest expense, net of similar income

For the years ended September 30, 2002 and September 30, 2001 interest expense, net of similar income, decreased \$1.4 million.

#### Income taxes

Income taxes of \$80.4 million on income before taxes of \$187.3 million in 2002 resulted in an effective income tax rate of 42.9%. This compared to income taxes of \$94.1 million on income before taxes of \$191.3 million in 2001 which resulted in an effective income tax rate of 49.2%. The effective tax rate decreased in 2002 due to certain lower unfavorable permanent differences.

#### Net income

Net income of \$110.3 million resulted in the year ended September 30, 2002 as compared to net income of \$98.5 million in the year ended September 30, 2001 due to the reasons discussed above.

#### Adjusted EBITDA

Adjusted EBITDA increased \$12.8 million in 2002 including \$7.2 million of currency effects. The remaining Adjusted EBITDA increase of \$5.6 million was due to higher Adjusted EBITDA in the Specialty Chemicals and Groupe Novasep segments along with lower Corporate Adjusted EBITDA losses offset by lower Adjusted EBITDA at Advanced Ceramics and Titanium Dioxide Pigments.

*Specialty Chemicals.* Adjusted EBITDA for the Specialty Chemicals segment increased \$7.8 million in 2002. In addition to the effect of currency changes, Adjusted EBITDA increased \$5.4 million primarily due to higher Lithium sales within the Life Sciences markets and higher overall Fine Chemicals product sales along with better overall mix in Lithium products.

*Titanium Dioxide Pigments.* Adjusted EBITDA for the Titanium Dioxide Pigments segment increased only \$0.4 million despite \$2.0 million of favorable currency changes. The remaining Adjusted EBITDA decrease of \$1.6 million was due to sales declines in Titanium Dioxide and

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Functional Additives products caused by weaker demand and pricing pressures, offset in part by sales volume increases in the Water Chemistry business.

*Advanced Ceramics.* Adjusted EBITDA for the Advanced Ceramics segment decreased \$11.5 million despite favorable currency changes of \$1.6 million. The remaining Adjusted EBITDA decrease of \$13.1 million was primarily due to the impact of the economic downturn in the electronics and telecommunications industries offset in part by higher medical application sales due to market share growth.

*Groupe Novasep.* Adjusted EBITDA increased \$12.3 million in 2002. In addition to currency changes, the remaining Adjusted EBITDA increase of \$10.6 million was primarily due to the impact of a full year's sales from the acquisition of the Finorga operation on March 1, 2001.

*Corporate.* Adjusted EBITDA expense decreased \$3.8 million is primarily due to the impact of miscellaneous cost reductions including lower consulting fees in 2002, offset in part by a \$0.5 million increase due to currency changes.

The following table, which sets forth the applicable components of Adjusted EBITDA on a segment basis, presents a reconciliation of Dynamit Nobel net income (loss) to Adjusted EBITDA for the periods presented:

(\$ in millions)	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Custom Synthesis	Corporate and Eliminations	Consolidated
<b>Six months ended June 30, 2004</b>						
Net income (loss)	\$ 28.1	\$ 19.9	\$ 21.8	\$ (1.2)	\$ (10.4)	\$ 58.2
Interest expense, net	8.3	1.8	0.9	2.9	0.5	14.4
Income tax (benefit) provision	22.0	6.8	5.4	(0.6)	(1.5)	32.1
Depreciation and amortization	14.0	11.8	10.4	15.5	0.3	52.0
Non-recurring charges					2.3	2.3
Foreign exchange gain	(1.1)					(1.1)
Restructuring and closure charges			0.1	0.3		0.4
<b>Adjusted EBITDA</b>	<b>\$ 71.3</b>	<b>\$ 40.3</b>	<b>\$ 38.6</b>	<b>\$ 16.9</b>	<b>\$ (8.8)</b>	<b>\$ 158.3</b>
<b>Six months ended June 30, 2003</b>						
Net income (loss)	\$ 38.6	\$ 18.7	\$ 14.1	\$ (13.8)	\$ 0.3	\$ 57.9
Interest expense, net	8.0	1.4	0.6	2.6	1.0	13.6
Income tax (benefit) provision	12.4	6.4	3.2	26.2	(14.0)	34.2
Depreciation and amortization	13.5	10.0	8.7	13.1	0.4	45.7
Non-recurring charges	2.2		3.4			5.6
Earnings from discontinued operations	(3.9)				2.5	(1.4)
Adjustment related to divested businesses	1.3		(0.8)			0.5
Foreign exchange gain	(4.6)					(4.6)
Restructuring and closure charges			1.9	0.3		2.2
Minority interest			0.3			0.3
<b>Adjusted EBITDA</b>	<b>\$ 67.5</b>	<b>\$ 36.5</b>	<b>\$ 31.4</b>	<b>\$ 28.4</b>	<b>\$ (9.8)</b>	<b>\$ 154.0</b>



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**Year ended December 31,  
2003**

Net income (loss)	\$	75.8	\$	41.4	\$	25.6	\$	8.2	\$	(50.1)	\$	100.9
Interest expense, net		14.8		2.1		1.0		5.1		2.2		25.2
Income tax (benefit) provision		16.1		9.9		7.3		3.5		24.9		61.7
Depreciation and amortization		26.6		20.2		20.3		27.0		0.5		94.6
Non-recurring charges		2.3		2.8		5.2		2.3				12.6
Earnings from discontinued operations		(3.7)								2.3		(1.4)
Adjustment related to divested businesses		3.4		(1.1)		(2.9)		5.6		(0.4)		4.6
Cumulative effect of change in accounting principle										1.8		1.8
Foreign exchange gain		(2.8)										(2.8)
Restructuring and closure charges		1.0				8.5		2.8		2.3		14.6
Minority interest						0.3						0.3
Adjusted EBITDA	\$	133.5	\$	75.3	\$	65.3	\$	54.5	\$	(16.5)	\$	312.1

**Three months ended  
December 31, 2002**

Net income (loss)	\$	93.6	\$	137.1	\$	110.3	\$	3.8	\$	(328.0)	\$	16.8
Interest expense, net		4.2		0.6		0.3		1.3		0.5		6.9
Income tax (benefit) provision		(80.5)		(125.2)		(104.2)		2.1		319.7		11.9
Depreciation and amortization		6.5		4.3		4.0		6.2		0.1		21.1
Earnings from discontinued operations		(0.8)								0.6		(0.2)
Foreign exchange gain		(1.4)										(1.4)
Restructuring and closure charges						0.6				2.0		2.6
Minority interest						(0.1)						(0.1)
Adjusted EBITDA	\$	21.6	\$	16.8	\$	10.9	\$	13.4	\$	(5.1)	\$	57.6

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**Year ended September 30,  
2002**

Net income (loss)	\$	72.9	\$	42.0	\$	30.8	\$	30.6	\$	(66.0)	\$	110.3
Interest expense, net		14.9		1.6		0.4		4.1		1.8		22.8
Income tax (benefit) provision		21.0		1.8		1.8		2.8		53.0		80.4
Depreciation and amortization		25.0		18.6		14.9		24.1		0.5		83.1
Non-recurring charges		(3.8)								1.9		(1.9)
Earnings from discontinued operations		(3.7)								1.1		(2.6)
Adjustment related to divested businesses		(6.1)		0.3		1.4		(9.1)		(8.3)		(21.8)
Foreign exchange gain		(0.8)										(0.8)
Restructuring and closure charges		0.5				2.0				0.8		3.3
Minority interest						(0.8)						(0.8)
Adjusted EBITDA	\$	119.9	\$	64.3	\$	50.5	\$	52.5	\$	(15.2)	\$	272.0

**Year ended September 30,  
2001**

Net income (loss)	\$	66.6	\$	38.2	\$	45.0	\$	33.3	\$	(84.6)	\$	98.5
Interest expense, net		18.3		1.8		(0.5)		2.3		2.3		24.2
Income tax (benefit) provision		27.5		1.1		(0.7)		4.8		61.4		94.1
Depreciation and amortization		38.5		22.8		18.1		23.4		0.5		103.3
Non-recurring charges								(0.3)				(0.3)
Earnings from discontinued operations		(1.3)										(1.3)
Adjustment related to divested businesses		(36.5)				(0.2)		(23.3)		(0.3)		(60.3)
Foreign exchange gain		(1.4)										(1.4)
Restructuring and closure charges		0.4				0.3				1.7		2.4
Adjusted EBITDA	\$	112.1	\$	63.9	\$	62.0	\$	40.2	\$	(19.0)	\$	259.2

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The following table presents a reconciliation of Dynamit Nobel's net cash provided by (used in) operating activities to Adjusted EBITDA:

(\$ in millions)	Year Ended September 30,		Three Months Ended December 31,	Year Ended December 31,	Six Months Ended June 30,	
	2001	2002	2002	2003	2003	2004
Net cash provided by (used in) operating activities	\$ 128.0	\$ 142.1	\$ 42.2	\$ 267.0	\$ 57.6	\$ (18.2)
Changes in assets and liabilities net of the effect of foreign currency translation and acquisitions	(6.6)	24.5	(9.5)	(51.1)	64.6	151.2
Cash interest expense, net	24.2	22.8	6.9	25.2	13.6	14.4
Current portion of income tax (benefit) provision	86.5	80.2	(1.5)	53.5	19.9	18.0
Non-recurring charges	(0.3)	(1.9)		12.6	5.6	2.3
Adjustments related to divested business, net of gains excluded in cash flows	(10.5)	(9.1)		7.2		
Restructuring and closure charges	2.4	3.3	2.6	14.6	2.2	0.4
Change in provisions	38.4	13.1	17.0	(17.0)	(9.9)	(9.1)
Other, net	(2.9)	(3.0)	(0.1)	0.1	0.4	(0.7)
<b>Adjusted EBITDA</b>	<b>\$ 259.2</b>	<b>\$ 272.0</b>	<b>\$ 57.6</b>	<b>\$ 312.1</b>	<b>\$ 154.0</b>	<b>\$ 158.3</b>

### Liquidity and Capital Resources

#### Historic Rockwood Cash Flows (for the year ended December 31, 2004, includes five months of Dynamit Nobel)

*Operating Activities.* Net cash (used in) provided by operating activities was (\$7.4) million and \$1.3 million for the three months ended March 31, 2005 and 2004, respectively. Net cash from operating activities was unfavorable in 2005 from higher adjusted EBITDA due to the inclusion of the businesses acquired in the 2004 acquisitions, offset by an increase in working capital as our working capital requirements have historically increased during the first quarter of each year since our inception. That trend is magnified due to the acquisitions.

Net cash provided by operating activities was \$179.3 million and \$42.6 million in 2004 and 2003, respectively. Net cash used in operating activities was \$4.1 million in 2002. Net cash provided by operating activities increased in 2004 due to operating cash flows generated from the businesses acquired in the Dynamit Nobel acquisition for the five-month period ended December 31, 2004 and the stronger operating results from the historical Rockwood segments. The change in cash flows from operating activities for 2003 as compared to 2002 was primarily due to a \$50.0 million net use of cash in 2002 related to receivables sale transactions. Also, there was a smaller increase in working capital accounts in 2003 compared to 2002.

*Investing Activities.* Net cash used in investing activities was \$35.5 million excluding capital leases which were characterized as non-cash items and \$6.7 million for the three months ended March 31, 2005 and 2004, respectively. Investing activities primarily represented capital expenditures, which increased due mostly to the Dynamit Nobel acquisition.

Net cash used in investing activities was \$2,249.9 million in 2004, \$48.5 million in 2003, and \$30.4 million in 2002. Net cash used for investing activities for the year ended December 31, 2004

includes \$2,137.9 million related to the Dynamit Nobel acquisition, the acquisition of the pigments and dispersions business of Johnson Matthey Plc. and the Groupe Novasep combination. The remaining change in net cash used for investing activities for 2004 as compared to 2003 was primarily due to the 2003 acquisition of Southern Color partially offset by higher capital expenditures related to the businesses acquired in the Dynamit Nobel acquisition for the five-month period ended December 31, 2004. The increase for 2003 as compared to 2002 was primarily due to the sale-leaseback of one of our subsidiaries' facilities in 2002 along with increases in cash used for acquisitions in 2003, partially offset by insurance proceeds from fire damage received in 2003.

*Financing Activities.* Net cash provided by (used for) financing activities was \$169.1 million and \$(3.8) million for the three months ended March 31, 2005 and 2004, respectively. Activity in the first quarter of 2005 substantially represented \$175.0 million, net borrowed against our senior secured revolving credit facility for short-term liquidity needs.

Net cash provided by financing activities was \$2,134.4 million in the year ended December 31, 2004 due to net financing proceeds for the acquisitions discussed above of \$2,137.9 million, primarily the Dynamit Nobel acquisition, and equity contributions of \$425.0 million for the Dynamit Nobel acquisition, as well as management equity contributions of \$7.0 million. Net cash used in financing activities was \$1.7 million in 2003, and \$18.9 million in 2002. Net cash used in financing activities during 2002 represented scheduled principal repayments on our then long-term debt.

### **Dynamit Nobel Cash Flows**

*Operating Activities.* Net cash provided by (used in) operating activities was (\$18.2) million and \$57.6 million in the six months ended June 30, 2004 and 2003, respectively. Net cash provided by operating activities was \$267.0 million in 2003, \$42.1 million in the short fiscal year ending December 31, 2002, \$142.1 million in fiscal 2002 and \$128.0 million in fiscal 2001. The decrease in net cash provided by operating activities for the six months ended June 30, 2004 as compared to six months ended June 30, 2003 was primarily due to a larger increase in working capital in 2004 compared to 2003 along with weaker operating results. The change in cash flows from operating activities for 2003 as compared to 2002 was primarily due to a significant decrease in working capital in 2003 versus a significant increase in working capital in 2002. The change between 2002 and 2001 primarily related to higher operating income in 2002 excluding gains on disposals as well as operating working capital changes.

*Investing Activities.* Net cash used in investing activities was \$45.0 million in the six months ended June 30, 2004, \$9.0 million in the six months ended June 30, 2003, \$102.7 million in 2003, \$23.8 million in the short fiscal year ending December 31, 2002, \$62.5 million in 2002 and \$60.3 million in 2001. These amounts primarily represent cash used for capital expenditures net of cash received on disposed businesses and fixed assets. The increase in net cash used for investing activities for the six months ended June 30, 2004 as compared to six months ended June 30, 2003 was primarily due to a larger increase in capital expenditures in the current year along with \$17.8 million of proceeds from business disposals in 2003. The increase in cash used for investing activities for 2003 as compared to 2002 was primarily due to more cash flows generated from business and fixed assets disposals in 2002 versus 2003. The increase in cash used for investing activities for 2002 as compared to 2001 was primarily due to more cash flows generated from business and fixed assets disposals in 2001 versus 2002.

*Financing Activities.* Net cash provided by (used in) financing activities was \$71.7 million in the six months ended June 30, 2004, (\$56.6) million in the six months ended June 30, 2003, (\$196.8) million in 2003, (\$30.9) million in the short fiscal year ending December 31, 2002, (\$95.9) million in 2002 and (\$82.3) million in 2001. This amount for each period primarily related to net financing provided by mg technologies ag less third party debt activity.

## Liquidity

Our primary source of liquidity has been and will continue to be cash generated from operations. Our primary liquidity requirements are working capital, debt service, capital expenditures, contractual obligations and acquisitions. Our debt service requirements, and other contractual obligations and commitments over the next several years are significant and are substantially higher than historical amounts. We believe that our currently available sources of liquidity will be sufficient for these needs. Furthermore, any future acquisitions, business combinations or similar transactions will likely require additional capital resources. If our present operating performance and current market conditions continue, we believe that such resources will be available to us for small transactions. We would need to access alternative sources of liquidity for larger acquisitions such as through additional borrowings, equity issuances or other sources. We may not have access to these sources of cash for a variety of reasons. See "Risk Factors Risk Factors Relating to Our Business."

We believe that based on current and anticipated levels of operations and conditions in our industry and markets, cash flows from operations and borrowings available under our revolving credit facility will be adequate for 2005 and the foreseeable future to make required payments of principal and interest on our debt and fund our working capital and capital expenditure requirements. We are taking actions to reduce overhead and excess or unprofitable manufacturing capacity, in part to improve our long-term liquidity. As noted in " General" above, we are also applying the same initiatives used after the KKR acquisition: reducing net working capital as a percentage of net sales through improved systems and manager incentives as well as the implementation of stringent controls to help ensure that maintenance capital expenditures are appropriate and that expansion capital expenditures are in line with both capacity and market demands. We expect this to further improve our short and long-term liquidity. If our cash flow from operations and borrowings under our revolving credit facility are insufficient to fund our currently existing liquidity requirements, we may be forced to use other means available to us, such as reduce or delay capital expenditures and seek additional capital. We may not have adequate capital for working capital, future acquisitions, business combinations or similar transactions.

As of March 31, 2005, we had total indebtedness of \$3,497.0 million. We incurred substantial amounts of debt in connection with the KKR acquisition, including amounts outstanding under our then existing senior credit facilities and our then existing senior subordinated loan facility. As part of the July 2003 debt refinancing, we repaid the borrowings under our then existing senior subordinated loan facility and repaid all amounts outstanding under our then existing senior credit facilities with the proceeds from the then new senior credit facilities and the private offering of the 2011 notes.

We incurred substantial amounts of debt in connection with the Dynamit Nobel acquisition. Specifically, we entered into new senior secured credit facilities of approximately \$1,454.2 million and a new senior subordinated loan facility of \$854.5 million (based on the exchange rate at July 31, 2004). We also received an equity contribution of \$425.0 million from affiliates of KKR and DLJMB. \$50.4 million of the term loan was undrawn at the closing of the Dynamit Nobel acquisition. The proceeds from the acquisition financings were used at the closing of the Dynamit Nobel acquisition to finance the purchase price of the businesses acquired in the Dynamit Nobel acquisition, repay all amounts outstanding under our old senior credit facilities (which totaled approximately \$442.2 million), repay assumed debt of approximately \$129.0 million, fund approximately \$20.0 million of cash settlement of derivative transactions related to the Dynamit Nobel acquisition and pay related fees and expenses. We also assumed certain standby letters of credit and comparable obligations. Approximately \$6.1 million of these obligations will have to be renewed upon expiration and will then reduce availability under the revolving credit facility.



In connection with the Dynamit Nobel acquisition, we also received equity contributions of approximately \$7.0 million from management and certain other employees. Specifically, from September 2004 to December 2004, we sold 477,428 shares of our common stock to members of our management and certain other employees for gross proceeds of \$7.0 million. In connection with the sale of these shares, pursuant to the stock plan, we granted stock options to purchase an aggregate of 2,091,852 shares of common stock to these members of our management and certain other employees.

Subsequent to the closing of the Dynamit Nobel acquisition, on September 27, 2004, we drew the remaining \$50.4 million of the term loans in connection with the acquisition of the pigments and dispersions business of Johnson Matthey Plc. In addition, on October 8, 2004, we amended the senior secured credit facilities to borrow an additional \$160.0 million and €52.7 million (or \$225.5 million in aggregate) of term loans and used the additional borrowings to repay a portion of its senior subordinated loan and to pay related fees. On November 10, 2004, we issued the 2014 notes and used the net proceeds to repay the remaining outstanding borrowings under the senior subordinated loan facility of \$260.1 million and €313.2 million (or \$664.9 million in the aggregate), plus accrued interest on the remaining outstanding borrowings and pay related fees and expenses and fund general corporate purposes. On November 30, 2004, we repaid a portion (\$15.9 million, or €12.8 million) of the assumed debt. On December 10, 2004, we refinanced all outstanding borrowings under the tranche B term loans with new tranche D term loans in order to reduce interest expense.

On December 31, 2004, we assumed approximately €27.8 million (\$37.8 million based on the December 31, 2004 exchange rate of €1.00=\$1.3593) plus \$10.8 million (or an aggregate of \$48.6 million) of debt and approximately €10.7 million (or \$14.6 million) in cash, in connection with the combination of the three business lines of our Custom Synthesis segment (now known as our Groupe Novasep segment) with Groupe Novasep SAS. As a result of the combination, our subsidiary Knight Specialite Synthese SAS acquired approximately 66% of the stock of Groupe Novasep SAS held by outside investors and approximately 3% held by the Groupe Novasep SAS management, and the Groupe Novasep SAS management contributed its remaining stock of 30.6% of Groupe Novasep SAS to Knight Specialite Synthese SAS in exchange for shares in Knight Specialite Synthese SAS. As a result of the transaction, we own approximately 79% of Knight Specialite Synthese SAS, which has now been renamed Groupe Novasep; management owns the remaining approximately 21%. We used cash on hand to finance this transaction.

As of August 5, 2005, we had outstanding borrowings of \$24.0 million under the revolving credit facility.

We intend to use the net proceeds of the offering, among other uses, to repay the outstanding principal amount of pay-in-kind loans and redeem the outstanding principal amount of the pay-in-kind notes; redeem the outstanding principal amount of senior discount notes; redeem up to 14% of the aggregate principal amount of the 2011 notes; and redeem all outstanding shares of redeemable convertible preferred stock. See "Use of Proceeds."

### ***Contractual Obligations***

As of March 31, 2005, on a pro forma as adjusted basis after giving effect to the offering, our aggregate indebtedness would have been \$3,184.7 million. The following table sets forth our fixed

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contractual debt obligations, as described in detail in "Description of Indebtedness," as of March 31, 2005 on a pro forma basis as adjusted after giving effect to the offering.

(\$ in millions)	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
Senior secured credit facilities, excluding revolving credit facility	\$ 1,774.4	\$ 28.6	\$ 107.2	\$ 123.0	\$ 1,515.6
Revolving credit facility(1)	175.0				175.0
2011 notes	322.5				322.5
2014 notes	687.4				687.4
Assumed debt	225.4	38.8	51.1	61.8	73.7
<b>Total fixed contractual debt obligations</b>	<b>\$ 3,184.7</b>	<b>\$ 67.4</b>	<b>\$ 158.3</b>	<b>\$ 184.8</b>	<b>\$ 2,774.2</b>

- (1) Although we are not contractually obligated to repay the \$175.0 million outstanding under our revolving credit facility until July 30, 2010, we intend to repay it within one year.

*Senior secured credit facilities.* The senior secured credit facilities, as amended, consist of:

tranche A-1 term loans in an aggregate principal amount of €39.1 million (or approximately \$50.8 million) and tranche A-2 term loans in an aggregate principal amount of €170.4 (or approximately \$221.5 million), each maturing on July 30, 2011 and bearing interest at Group's option of either (i) Adjusted LIBOR plus 2.50% or (ii) ABR plus 1.25%;

tranche C term loans in an aggregate principal amount of €274.8 million (or approximately \$357.1 million) maturing on July 30, 2012 and bearing interest of Adjusted LIBOR plus 3.00%;

tranche D term loans in an aggregate principal amount of \$1,145.0 million maturing on July 30, 2012 and bearing interest at Group's option of either (i) Adjusted LIBOR plus 2.25% or (ii) ABR plus 1.00%; and

a revolving credit facility in an aggregate principal amount of \$250.0 million maturing on July 23, 2010, bearing interest at Group's option of either (i) Adjusted LIBOR plus 2.50% or (ii) ABR plus 1.25%.

The U.S. dollar equivalents of term loans denominated in euros are shown based on the exchange rate on March 31, 2005 of €1.00=\$1.2996. In each case, the interest rates per year (other than under the tranche C term loan facility) are subject to step-downs determined by reference to a performance test. Adjusted LIBOR is the London inter-bank offered rate adjusted for statutory reserves. ABR is the alternate base rate, which is the highest of Credit Suisse First Boston's prime rate and the federal funds effective rate plus 1/2 of 1%. Tranche A-1 and A-2 term loans are payable in January and July of each year at escalating percentages of the original principal amount. Tranche C and tranche D term loans are payable in January and July of each year at amounts equal to 0.5% of the original principal balance, with the remainder due at the final maturity date.

Group's borrowings and the borrowings of Rockwood Specialties Limited under the senior secured credit facilities are guaranteed and secured by assets and pledges of capital stock as described under "Description of Indebtedness Senior Secured Credit Facilities."

In addition to the financial covenants described below under "Covenant Compliance," Group's senior secured credit facilities contain various affirmative and restrictive covenants. The restrictive covenants limit Group's and Group's subsidiaries' ability to, among other things, incur indebtedness and other liabilities; create liens; merge or consolidate; dispose of assets; make investments; pay dividends and make payments to shareholders; make payments on certain



indebtedness or to amend documents related to certain indebtedness and to enter into sale leaseback transactions.

*2011 notes and 2014 notes.* Group's 2011 notes will have, on a pro forma as adjusted basis after giving effect to the offering, an aggregate principal amount of \$322.5 million, and mature on May 15, 2011 and Group's 2014 notes have an aggregate principal amount of €375.0 million (or approximately \$487.4 million based on the exchange rate on March 31, 2005 of €1.00=\$1.2996) in the case of the euro notes and \$200.0 million in the case of the dollar notes, and mature on November 15, 2014. Interest on both the 2011 notes and 2014 notes are payable semi-annually on May 15 and November 15. Interest on the 2011 notes accrues at the rate of 10.625% per year, and interest on the 2014 notes accrues at the rate of 7.625% in the case of euro notes and 7.500% in the case of dollar notes. Certain of our domestic subsidiaries guarantee the 2011 notes and 2014 notes on a senior subordinated unsecured basis.

Group's 2011 notes and 2014 notes contain various affirmative and restrictive covenants. The restrictive covenants limit Group's ability, and the ability of Group's restricted subsidiaries, to, among other things, incur or guarantee additional indebtedness (as described below under "Covenant Compliance"); pay dividends or make other equity distributions or repurchase capital stock (as described below under "Covenant Compliance"); make investments or other restricted payments (as described below under "Covenant Compliance"); create liens; transfer or sell assets; restrict dividends or other payments to us; engage in transactions with affiliates; and merge or consolidate with other companies or sell substantially all of our assets. See "Description of Indebtedness 2011 Notes" and "2014 Notes."

*Covenant compliance.* In addition to the affirmative and restrictive covenants, Group's senior secured credit agreement contains the following financial covenants that are determined based on our Adjusted EBITDA:

a maximum total leverage ratio: for the twelve-month period ended March 31, 2005, net debt to Adjusted EBITDA must be less than 6.95 to 1; for such period, our ratio equaled 5.74 to 1; and

a minimum interest coverage ratio: for the twelve-month period ended March 31, 2005, Adjusted EBITDA to cash interest expense (interest expense, net excluding deferred debt issuance cost amortization and the movements in the mark-to-market value of our interest rate and cross-currency interest rate derivatives) must be at least 1.60 to 1; for such period, our ratio equaled 2.60 to 1.

These covenants are material terms of the senior secured credit agreement. Non-compliance with these covenants could result in a default under the senior secured credit agreement and the lenders could elect to declare all amounts borrowed immediately due and payable. Any such acceleration would also result in a default under the indentures governing the 2011 notes and 2014 notes, which could lead to the noteholders electing to declare the principal, premium, if any, and interest on the then outstanding notes immediately due and payable.

The indentures governing the 2011 notes and 2014 notes prohibit us from incurring additional debt, subject to certain permitted incurrences, unless the fixed charge coverage ratio, which is the ratio of Adjusted EBITDA (as defined therein excluding certain adjustments permitted under the senior secured credit agreement) to fixed charges (as defined therein), for the most recently ended four fiscal quarters is at least 2.00 to 1. In addition, the indentures prohibit us from making restricted payments (such as dividends or other equity distributions, repurchases of capital stock or restricted investments), subject to certain permitted payments, unless, among other things, the fixed charge coverage ratio for the most recently ended four fiscal quarters is at least 2.00 to 1. For the four-fiscal-quarter period ended March 31, 2005, the fixed charge coverage ratio equaled 2.60 to 1. These covenants are material terms of the indentures governing the 2011 notes and 2014 notes.

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Given our use of Adjusted EBITDA as a liquidity measure, the following table presents a reconciliation of net cash provided by (used in) operating activities to Adjusted EBITDA:

(\$ in millions)	Year Ended December 31,			Three Months Ended March 31,	
	2002	2003	2004	2004	2005
Net cash provided by (used in) operating activities	\$ (4.1)	\$ 42.6	\$ 179.3	\$ 1.3	\$ (7.4)
Changes in assets and liabilities net of the effect of foreign currency translation and acquisitions	25.3	21.4	(9.1)	17.8	76.1
Interest expense, net, excluding amortization of deferred financing costs and unrealized losses on derivatives	70.3	75.5	128.1	18.4	53.3
Current portion of income tax (benefit) provision	7.8	9.3	21.6	4.0	6.7
Systems/organization establishment expenses	1.6	1.6	4.8		1.2
Inventory write-up reversal		0.1			
Stamp duty tax			4.0		
Business interruption costs and insurance recovery	(2.2)	(4.5)			
Cancelled acquisition and disposition costs	0.2	1.9	0.5	0.2	0.2
Refinancing fees		1.4	2.0		
Bad debt provision	(0.9)	(1.7)	(2.8)	(0.6)	(0.2)
Net receivables sale activity	50.0				
Loss on receivables sold	1.2				
Loss on disposed business			0.8		
Restructuring charges	1.2	1.9	1.1		2.9
CCA litigation defense costs					0.4
Other			2.1		
<b>Total Adjusted EBITDA(a)</b>	<b>\$ 150.4</b>	<b>\$ 149.5</b>	<b>\$ 332.4</b>	<b>\$ 41.1</b>	<b>\$ 133.2</b>

(a)

Total adjusted EBITDA does not include estimated annual cost savings from certain restructuring measures that were not realized as of December 31, 2004. In total, we expect to achieve annual cost savings of approximately \$17.0 million, of which we have already realized approximately \$7.0 million through March 31, 2005 through actions we have implemented or plan to implement. Actions include the closure of the Troisdorf facility (the former headquarters of Dynamit Nobel), the closure of the New Lebanon, New York manufacturing facility of our Advanced Ceramics segment and various restructuring measures at our Specialty Chemicals and Groupe Novasep segments, and the elimination of 40 positions in connection with the acquisition of the pigments and dispersions business of Johnson Matthey Plc.

*Assumed debt.* Certain of our subsidiaries acquired in the Dynamit Nobel acquisition are borrowers under eight euro-denominated term loan facilities that provide aggregate outstanding borrowings of approximately €15.6 million as of March 31, 2005. These term loans mature between 2006 and 2009 and bear annual interest rates ranging between 2.50% and 4.25% or EURIBOR plus 1.45% or LIBOR plus 0.39%. On November 30, 2004, we repaid a portion (€12.8 million, or \$15.9 million based on the November 30, 2004 exchange rate of €1.00=\$1.2422) of the assumed debt. In addition, certain of our subsidiaries acquired in the Dynamit Nobel acquisition are borrowers under eight term loan facilities denominated in other foreign currencies, including Swiss Francs, Taiwanese Dollars and Japanese Yen, providing for borrowings of an aggregate U.S. dollar equivalent amount of approximately \$47.4 million as of March 31, 2005. These term loans mature between 2005 and 2011 and bear annual interest rates ranging between 1.38% and 4.02%. The term loan facilities described above contain customary events of default and some of them are secured by mortgages or accounts receivables.

As part of the Groupe Novasep combination on December 31, 2004, we assumed additional gross debt of €27.8 million (\$37.8 million based on the December 31, 2004 exchange rate of €1.00=\$1.3593) plus \$10.8 million for an aggregate \$48.6 million. The assumed debt includes three tranches of bank debt at the Groupe Novasep parent level totaling €13.0 million (\$17.7 million), each with a maturity date of 2010 and interest rates of EURIBOR plus 1.75% in the case of two of the tranches, and LIBOR plus 1.75% for the remaining tranche. In addition, there is bank debt at the Groupe Novasep subsidiary level totaling €6.3 million (\$8.6 million) with maturity dates ranging from



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2006 to 2010 and interest rates ranging from EURIBOR plus 0.7% to EURIBOR plus 1.25%. The remaining amount of assumed debt of €8.5 million (\$11.5 million) consists primarily of capital leases with maturity dates ranging from 2006 to 2013.

In addition, "Assumed long-term debt" shown in our capitalization table under the section "Capitalization" includes certain capitalized lease obligations, a full recourse receivables factoring arrangement and subsidiary preferred stock in addition to the long-term debt described in the preceding two paragraphs.

The following table details Rockwood's fixed contractual cash obligations as of December 31, 2004:

(\$ in millions)	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
Debt, including current portion(1)	\$ 5,325.5	\$ 236.9	\$ 524.4	\$ 567.0	\$ 3,997.2
Operating leases	74.7	22.0	24.1	10.8	17.8
Purchase obligations(2)	227.6	124.6	102.3	0.7	
Total(3)(4)	\$ 5,627.8	\$ 383.5	\$ 650.8	\$ 578.5	\$ 4,015.0

- (1) Amounts represent the expected cash payments of our long-term debt and do not include any fair value adjustments or bond premiums or discounts. Includes estimated scheduled cash interest payments totaling \$1,992.1 million. A portion of the debt balance outstanding as of December 31, 2004 contained a variable interest rate component. Therefore, interest was calculated on this portion based upon the average of the rates in effect as of December 31, 2004.
- (2) Purchase obligations consist of agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty.
- (3) Statutory minimum funding requirements for 2005 for defined benefit pension plans are not included as such amounts have not been determined. For 2005, we expect to make contributions of approximately \$7.2 million to pension trusts and \$16.2 million directly to plan participants as benefit payments. Future contributions are not included as they are not fixed either as to timing or amount.
- (4) Obligations relating to eventual settlement of derivative contracts are not included as the timing and amounts are not fixed. These contracts are marked to market with the related liabilities (\$38.7 million at December 31, 2004) reflected in "Other liabilities" in the balance sheet.

*Capital Expenditures*

The capital expenditures of Rockwood and Dynamit Nobel have averaged \$61.0 million and \$108.7 million, respectively, per year over the last three years. Rockwood's capital expenditures consisted primarily of replacements of worn, obsolete or damaged equipment as well as investments in new equipment, mostly for our Color Pigments and Services and Timber Treatment Chemicals business lines of our Performance Additives segment. In addition, Rockwood also made significant investments in new facilities to expand capacity across our business lines including expenditures made in connection with the expansion of our ACQ production capabilities in our Timber Treatment Chemicals business line, expansion and refurbishment of our wafer reclaim facility and production equipment in Greasque, France. In addition to maintenance capital expenditures, Dynamit Nobel's growth capital expenditures consisted of expansion of current Good Manufacturing Practice production lines and new equipment relating to multi-column chromatography in our Groupe Novasep segment, expansion of our titanium dioxide capacity for our Titanium Dioxide Pigments segment and capacity expansion for our Advanced Ceramics segment.

For the three months ended March 31, 2004, Rockwood's capital expenditures amounted to \$6.7 million. For the three months ended March 31, 2005, our capital expenditures amounted to \$35.7 million.

We may incur future costs for capital improvements and general compliance under safety, health and environmental laws. For the year December 31, 2004, our capital expenditures for SHE matters totaled approximately \$23.9 million, excluding costs to maintain and repair pollution control equipment. For 2005 and 2006, we estimate capital expenditures for compliance with SHE laws to be at similar levels; however, because capital expenditures for these matters are subject to changes in and new SHE laws, we cannot provide assurance that our recent expenditures will be indicative of future amounts required to comply with these laws.

We intend to apply our capital discipline and stringent controls to reduce our future capital expenditures as compared to historical levels for the acquired businesses of Dynamit Nobel. Our annual capital expenditures will increase in amount, but we do not believe they will change significantly from current levels in proportion to the size of the combined entity or as a percentage of net sales.

*Foreign currency related transactions*

As of March 31, 2005, based on the exchange rate of €1.00=\$1.2996, \$1,379.5 million of the debt outstanding are denominated in euros (€1,061.5 million). A weakening or strengthening of the euro against the U.S. dollar by \$0.01 would decrease or increase, respectively, by \$10.6 million the U.S. dollar equivalent of our total euro-denominated debt of €1,061.5 million. As of March 31, 2005, on a pro forma as adjusted basis after giving effect to the offering, there was \$1,261.2 million of euro-denominated debt outstanding. In order to mitigate the effect of any exchange rate changes which may have taken place prior to the closing of the Dynamit Nobel acquisition, we entered into call options, permitting us to purchase up to €750.0 million at a price of €1.00=\$1.225. We recorded a mark-to-market loss of \$2.9 million during the quarter ended June 30, 2004 on the call options. The options expired unexercised and we recorded an additional loss of \$8.0 million in the third quarter of 2004. We also entered into a forward contract in July 2004 to purchase €1,057.0 million at a fixed U.S. dollar rate of \$1.208=€1.00, which was utilized to pay for a portion of the purchase price at the closing of the Dynamit Nobel acquisition. We recorded a charge of approximately \$4.0 million in the third quarter of 2004. See " About Market Risk Foreign Currency Risk."



***Management and transaction fees***

Approximately \$21.5 million and \$9.0 million of the transaction fees, including reimbursable expenses, were paid to KKR or its affiliates and to DLJMB III, respectively. In addition, approximately \$25.5 million of financing fees was paid to Credit Suisse First Boston or its affiliates. Effective with the Dynamit Nobel acquisition, KKR and DLJMB III agreed to provide us consulting and management advisory services for an aggregate annual fee of \$2.0 million. This management services agreement will be terminated in connection with this offering for an aggregate consideration of \$10.0 million.

***Commitments and Contingencies***

***Legal Matters.*** We are involved in various legal proceedings, including product liability, intellectual property and environmental matters of a nature considered normal to our business. It is our policy to accrue for amounts related to these matters in accordance with SFAS No. 5, *Accounting for Contingencies*, if it is probable that a liability has been incurred and an amount can be reasonably estimated. It is our policy to disclose such matters when there is at least a reasonable possibility that a material loss may have been incurred. In addition, we may be required to make indemnity payments in connection with certain product liability claims. See "Risk Factors Risk Factors Relating to Our Business Product Liability Due to the nature of our business and products, we may be liable for damages arising out of product liability claims." Although we expect to continue to pay legal fees in connection with certain legal actions related to chromated copper arsenate and other product liability matters, based on currently available facts, we do not believe that these actions will have a material effect on our financial condition, results of operations or liquidity. In accordance with our policy, reserves in connection with such product liability matters do not individually exceed \$350,000 and in the aggregate \$1.5 million. Our reserve estimates are based on available facts, including damage claims and input from our internal and external legal counsel, past experience, and, in some instances where defense costs are being paid by our insurers, insurance coverage. We are unable to estimate the amount or range of any potential incremental charges should facts and circumstances change and may in the future revise our estimates based on new information becoming available. In addition, we do not believe that there is any other individual legal proceeding that is likely to have a material adverse effect on our business or financial condition. However, we cannot predict the outcome of any litigation or the potential for future litigation.

***Indemnities.*** Under the business and share sale and purchase agreement, the deed of tax covenant and the environmental deed entered into in connection with the KKR acquisition, Degussa UK Holdings Ltd., or Degussa, as successor to Laporte, plc, or Laporte, is required to indemnify us for certain legal, tax and environmental liabilities and obligations that relate to the period prior to the closing of the KKR acquisition. In addition, under the sale and purchase agreement entered into in connection with the Dynamit Nobel acquisition, mg technologies ag and MG North America Holdings Inc. are required to indemnify us for certain legal, tax and environmental liabilities and obligations that related to the period prior to the closing of the Dynamit Nobel acquisition. See "Dynamit Nobel Acquisition Sale and Purchase Agreement." Pursuant to these agreements, we have made various claims for indemnification with Degussa, mg technologies ag and MG North America Holdings, Inc. In the opinion of management, and based upon information currently available, we do not expect the ultimate resolution of any of these claims to have a material effect on our financial condition or results of operations. See " Environmental Matters."

***Environmental Matters.*** We are subject to extensive environmental, health and safety laws in the United States, the European Union and elsewhere at the international, national, state and local levels. Many of these laws impose requirements relating to clean-up of contamination, and impose liability in the event of damage to human beings, natural resources or property, and provide for

substantial fines, injunctions and potential criminal sanctions for violations. Our products, including the raw materials we handle, are also subject to rigorous industrial hygiene regulations and investigation. The nature of our operations exposes us to risks of liability for breaches of these laws and regulations as a result of the production, storage, transportation and sale of materials that can cause contamination or personal injury when released into the environment. Environmental laws are subject to change and have tended to become stricter over time. Such changes in environmental laws, or the enactment of new environmental laws, could result in materially increased capital, operating and compliance costs.

We are committed to achieving and maintaining compliance with all applicable safety, health and environmental, or SHE, legal requirements, and our subsidiaries have developed policies and management systems that are intended to identify the SHE legal requirements applicable to our operations, enhance compliance with such requirements, ensure the safety of our employees, contractors, community neighbors and customers and minimize the production and emission of wastes and other pollutants. Although SHE legal requirements are constantly changing and are often difficult to comply with, these SHE management systems are designed to assist us in meeting our compliance goals and minimizing overall risk to us.

In October 2003, the European Commission adopted a proposal for a new European Union framework for chemicals known as the Registration, Evaluation and Authorization of Chemicals, or REACH. While it is uncertain as to whether, when and in what form REACH will be finalized and become law, REACH may eventually significantly expand the European Union's regulation of chemicals. As currently proposed, REACH would include requirements that certain manufacturers and importers of chemicals register those chemicals, perform health and environmental risk analyses of those chemicals, and in certain instances, obtain authorizations for the use of the chemicals. As a specialty chemicals company, it is possible that we are the only manufacturer of one or more substances to be regulated under REACH and thus could potentially bear the full cost of compliance with REACH for some or all of our products. We estimate we have over 400 products that might be subject to REACH.

Under the European Union Integrated Pollution Prevention and Control Directive, or IPPC, European Union member governments are to adopt rules and implement a cross-media (air, water and waste) environmental permitting program for individual facilities. IPPC requires a consistent application of Best Available Techniques, or BAT, throughout the European Union. Generally, by 2007, facilities located within the European Union must be operating consistent with BAT. While the EU countries are at varying stages in their respective implementation of the IPPC permit program, we have submitted all necessary IPPC permit applications required to date, and in some cases received completed permits from the applicable government agency. We expect to submit all other IPPC applications and related documents on a timely basis as the various countries implement the IPPC permit program. Although we do not know with certainty what each IPPC permit will require, we believe, based upon our experience with the permits received to date, that the costs of compliance with the IPPC permit program will not be material to our results of operations, financial position or liquidity.

Environmental laws have a significant effect on the nature and scope of any clean-up of contamination at current and former operating facilities, the costs of transportation and storage of chemicals and finished products and the costs of the storage and disposal of wastes. In addition, "Superfund" statutes in the United States as well as statutes in other jurisdictions impose strict, joint and several liability for clean-up costs on the entities that generated waste and/or arranged for its disposal at contaminated third party sites, as well as the past and present owners and operators of contaminated sites. Each responsible party may be required to bear some or all clean-up costs regardless of fault, legality of the original disposal or ownership of the disposal site.

Environmental contamination is known to exist at certain of our present and former facilities, including our facilities located in Turin, Italy; St. Fromond, St. Cheron and Sens, France; Hainhaussen, Troisdorf, Schlebusch, Stadeln, Duisburg, Plochingen, Marktredwitz, Ronnenberg-Empelde and Langelsheim, Germany; Oss, The Netherlands; Kidsgrove and Barrow, United Kingdom; Boksborg East, South Africa; Pratteln, Switzerland; and in the United States, in Valdosta, Georgia, Beltsville, Maryland, Harrisburg, North Carolina, Laurens, South Carolina, Silver Peak, Nevada and La Mirada, California. Soil contamination is also known to exist at our facilities at Freeport, Texas, Chasse-sur-Rhone, France and Sumperk in Czech Republic; however, no further regulatory remedial actions are currently required for these facilities and any liabilities arising from such contamination is covered by indemnity obligations or the previous owners of these facilities with the exception of Freeport. We are currently operating groundwater remediation systems at our Hainhaussen, Troisdorf, Valdosta and Silver Peak facilities. We also operate ground water remediation systems at our Schlebusch, Plochingen, Marktredwitz, Stadeln, and Laurens facilities, for which prior owners or insurers have assumed responsibility and a soil remediation project at our facility in St. Cheron, and we continue to monitor groundwater at the Beltsville facility, which was previously the subject of a soil removal action. Groundwater is also monitored at the St. Fromond and Barrow facilities due to prior spills and at the Harrisburg facility due to a landfill closure. We are also required to monitor groundwater quality at our facilities at Mourenx, France and New Johnsonville, Tennessee. We believe that additional environmental studies, and possibly environmental remediations, will be required at the Turin and Harrisburg facilities. We are also in the process of determining appropriate remedial actions with the regulatory authorities at the following locations: Duisburg, Pratteln, Langelsheim, Troisdorf and La Mirada. Furthermore, as a result of facility closings, divestitures and offsite disposal activities such as a former disposal site in Laurel, Maryland, we are responsible for the following other matters: contamination beneath divested portions of the manufacturing facility in Troisdorf; contamination at a closed Chemetall Oakite facility in Houston, Texas; contamination at a former Chemetall Foote facility in Sunbright, Virginia; contribution towards the clean-up of three industrial landfills in the Basel, Switzerland area; groundwater remediation at Stadeln and former sites operated by Dynamit Nobel's previously divested explosives business. We are also a *de minimis* participant in several Superfund matters.

Although we cannot provide assurances in this regard, we do not believe that these issues will have a material adverse effect on our business or financial condition, but we do believe these issues may have a material adverse effect on the results of operations or cash flow in any given quarterly or annual reporting period. Nonetheless, the discovery of contamination arising from present or historical industrial operations at some of our and our predecessor's former and present properties and/or at sites we and our predecessor disposed wastes could expose us to cleanup obligations and other damages in the future.

During the course of our business, we may receive notices of violation, enforcement and other complaints from regulatory agencies alleging non-compliance with applicable SHE laws. Currently, we are party to a consent order with the Metropolitan Sewer District, or MSD, in Saint Louis, Missouri to reduce ammonia concentrations in wastewater discharge to a city treatment plant. The entry into the consent order resulted from violations of our wastewater discharge permit. The order is presently stayed pending MSD's negotiation of its own National Pollution Discharge Elimination System permit with the State of Missouri. Although we may be required to make capital expenditures in connection with this matter, we do not believe that this issue will have a material adverse effect on our business or financial condition.

Pursuant to the environmental deed entered into in connection with the KKR acquisition, Degussa, as successor to Laporte, is required to indemnify us and our subsidiaries for certain environmental matters that relate to the business as conducted prior to the closing of the KKR acquisition. The environmental deed provides that Degussa will indemnify us and our subsidiaries for claims for which notice is given within a period of two years for breaches of representations and

warranties, which expired in 2002, and five years for claims related to the contamination of our properties or our subsidiaries' properties (inclusive of contamination which leaks or escapes from our properties or our subsidiaries' properties), which expires in September 2005. These indemnity obligations are subject to a minimum per matter loss of \$175,000 and are further subject to a \$5.0 million deductible for the indemnity to be available. In addition, the environmental deed provides that Degussa will indemnify us and our subsidiaries for claims relating to properties that were formerly owned, occupied or used as of November 20, 2000, as well as properties owned by third parties (inclusive of disposal of waste and certain other identified issues prior to November 20, 2000). The environmental deed provides that in this instance, Degussa will be responsible for reasonable costs and expenses incurred.

In addition, pursuant to the sale and purchase agreement entered into in connection with the Dynamit Nobel acquisition, mg technologies ag and its subsidiary, MG North America Holdings Inc., are required to indemnify us and our subsidiaries for 50% of the excess amount of losses over the amount of the related reserves (in the case of known claims) and 50% of claims (in the case of unknown claims) related to the contamination of our or our subsidiaries' properties, if notified within ten years. If mg technologies and MG North America Holdings' responsibility for contamination matters cannot be proven, a sliding scale reduces the percentage further for each year during the five-year period from year six to ten. mg technologies and MG North America Holdings are also obligated to indemnify us for 85% of claims related to legacy site matters, such as environmental matters relating to properties or businesses owned or operated by Dynamit Nobel prior to, but not on, the closing of Dynamit Nobel acquisition, if notified within ten years. In addition, mg technologies and MG North America Holdings are obligated to indemnify us for 50% of the excess amount of losses over the amount of the related reserves for operational compliance matters, if notified by December 31, 2006, and 50% of the excess amount of losses over the amount of the related reserves (in the case of known claims) and 50% of claims (in the case of unknown claims) related to certain environmental damage claims unknown at the time of the closing of the Dynamit Nobel acquisition, if notified within ten years. All of these indemnity obligations are subject to different minimum per-claim thresholds depending on whether the matter was disclosed or not, and on the subject matter, ranging between €100,000 and €750,000 depending on the type of claim. The indemnity obligations are further subject to certain deductibles, exclusions and limitations. Furthermore, mg technologies and MG North America Holdings are obligated to indemnify us for certain environmental risks arising from certain "shared site" structures for a duration of ten years. This indemnity obligation is not subject to the percentages, *de minimis* exclusions, deductibles and thresholds described above, and it is not subject to most of the general limitations.

In the event we seek indemnity under any of these agreements or through other means, there can be no assurance that mg technologies, MG North America Holdings, Degussa or any other party who may have obligations to indemnify us will adhere to their obligations and we may have to resort to legal action to enforce our rights under the indemnities. In addition, we may be required to make indemnity payments in connection with certain environmental matters. See "Risk Factors Risk Factors Relating to Our Business Environmental Indemnities We may be subject to environmental indemnity claims relating to properties we have divested." However, we do not believe that resolution of the known environmental matters subject to indemnification obligations owed to us or by us will have a material adverse effect on our business or financial condition, but may have a material adverse effect on the results of operations or cash flow in any given quarterly or annual reporting period.

We have established financial reserves relating to anticipated environmental cleanup obligations, site reclamation and remediation and closure costs. Liabilities are recorded when potential liabilities are either known or believed to be probable and can be reasonably estimated. Our liability estimates are based upon available facts, existing technology, past experience and, in some instances where the remediation costs are being paid directly by our insurers, insurance

recoveries, and are generated by several means, including State-mandated schedules, environmental consultants and internal experts, depending on the circumstances. On a consolidated basis, we accrued approximately \$51.2 million and \$51.9 million for known environmental liabilities as of March 31, 2005 and December 31, 2004, respectively, all of which are classified as other non-current liabilities on our consolidated balance sheets for such periods. Included in the \$51.2 million and \$51.9 million as of March 31, 2005 and December 31, 2004 is €6.5 million (\$8.4 million using the exchange rate on March 31, 2005 of €1.00 = \$1.2996) that is discounted using 5.0% discount rate (undiscounted amount equals \$13.0 million), and €2.4 million (\$3.2 million) that is discounted using 5.5% discount rate (undiscounted amount equals \$4.9 million). In certain cases, our remediation liabilities are payable over periods of up to 30 years.

We believe these accruals are adequate based on currently available information. We may incur losses in excess of the amounts accrued, however, based on currently available information we do not believe the additional amount of potential losses would have a material effect on our results of operations or financial condition, but may have a material adverse effect on the results of operations or cash flow in any given quarterly or annual reporting period. We are unable to estimate the amount or range of any potential incremental charges should facts and circumstances change and may in the future revise our estimates based on new information becoming available.

We are obligated to undertake soil remediation at two of our facilities in Europe in the event manufacturing operations are discontinued there at some future date. We do not contemplate any such action occurring in the foreseeable future, as these facilities' remaining lives are indefinite. Given the indeterminate useful life of these facilities and the corresponding indeterminate settlement date of any soil remediation obligations we do not have sufficient information to estimate a range of potential settlement dates for the obligations. Consequently, we cannot employ a present value technique to estimate fair value and, accordingly, we have not accrued for any related costs.

We believe that these environmental matters will not have a material adverse effect on our business or financial condition. However, these matters may have a material adverse effect on our results of operations or cash flows in any given quarterly or annual reporting period.

#### **Off-Balance Sheet Arrangements**

None.

#### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. These estimates include assessing, among other things:

the fair values of assets acquired and liabilities assumed in business combinations;

the use and recoverability of inventory;

the valuation of deferred tax assets;

impairment of goodwill, property, plant and equipment and other intangible assets; and

the useful lives of tangible and intangible assets.

We evaluate our estimates on an ongoing basis, based on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

## Edgar Filing: Rockwood Holdings, Inc. - Form 424B4

See note 1 to our and Rockwood's audited consolidated financial statements included for a summary of our significant accounting policies. We believe the following to be the most critical accounting policies and estimates affecting preparation of our consolidated financial statements:

*Revenue Recognition.* We recognize revenue when the earnings process is complete. Product sales are recognized when products are shipped to the customer in accordance with the terms of the contract of sale, title and risk of loss have been transferred and collectibility is reasonably assured. We believe that we have adequate credit granting procedures in place and operating effectively so that collectibility is reasonably assured. We have a low incidence of uncollectible accounts. Additionally, credit insurance is purchased at times by certain of our businesses, particularly in Europe, to protect against collection risk. Accruals are made for sales returns based on our experience and for other allowances based on the terms of allowance programs put in place. Although we believe that sufficient experience and history exists to make reasonable estimates as to such accruals and allowances, actual results can differ depending on market conditions.

*Impairment Accounting.* The recoverability of goodwill is reviewed on an annual basis during the fourth quarter. Additionally, the recoverability of goodwill, long-lived tangible, and certain intangible assets is reviewed when events or changes in circumstances occur indicating that the carrying value of the assets may not be recoverable.

Initial goodwill impairment review begins with the estimate of fair value of each reporting unit generally based on an industry metric such as the ratio of enterprise value (commonly defined as market capitalization, plus long-term debt, less cash) to Adjusted EBITDA for the current year and the following year budget. If potential impairment is identified, we may expand the review to take into account expected future cash flows in subsequent years. Similarly, when we test for impairment of long-lived assets other than goodwill we initially review the estimated future undiscounted cash flows to be derived from the asset or asset group (collectively "asset"). If it appears that the asset is impaired based on undiscounted cash flows, the estimated fair value of the asset is calculated on a present value basis by multiplying the estimated future annual cash flows of the asset by the then current enterprise value ratio (a discounted measure) or by a discount factor appropriate to the related reporting unit, in accordance with paragraph 23 of SFAS 144. An impairment loss is recognized when the carrying value of the asset or goodwill exceeds the discounted cash flow (or other measure of) fair value.

These calculations are based on inherent assumptions and estimates about future cash flows and appropriate benchmark peer companies or groups. Subsequent changes in these assumptions could result in future impairment. Although we consistently use the same methods in developing the assumptions and estimates underlying the fair value calculations, such estimates are uncertain by nature and can vary from actual results. For example, if the peer group multiples used in 2004 had been 10% lower, no additional goodwill impairment would have been recorded. However, if the peer group multiples used in 2003 had been 10% lower, we might have had an additional goodwill impairment of approximately \$8.0 million in one of our reporting units. As noted above, if we had discovered such a potential impairment we might have expanded the review to prepare more detailed estimates of future cash flows in subsequent years which might have resulted in a different impairment assessment.

We have not to date had circumstances occur that caused us to review the values of individual long-lived assets for impairment. However, in 2004 and 2003 we did review for impairment the assets of an entire reporting unit within our Electronics segment. Had the calculation multiple in 2003 or the future cash flow estimates in 2004 been 10% lower, we would have recorded an additional impairment in this reporting unit of approximately \$3.5 million in 2003 and \$1.1 million in 2004.

## Edgar Filing: Rockwood Holdings, Inc. - Form 424B4

*Business Combinations* We account for business combinations using the purchase method of accounting as required by SFAS 141 *Business Combinations*. Under the purchase method of accounting we are required to allocate the purchase price to the estimated fair value of assets acquired and liabilities assumed. Examples of material estimates from our previous acquisitions are:

The fair values of work-in-process and finished goods inventories are estimated based on selling price less selling profit. The calculation of selling profit requires a judgment on the relative margins derived from manufacturing vs. marketing efforts.

The fair value of property, plant and equipment can be estimated by a variety of methods taking into account market values, replacement cost, and remaining useful life. Although market value and replacement cost is sometime readily obtainable, often this requires judgment, as does determining the estimated remaining useful life. When we believe that property, plant and equipment acquired will be material to our overall balance sheet, or that fair value might represent a significant difference from the historical cost (net of accumulated depreciation) of such assets, we have engaged an independent appraiser to provide us with expert advice on such estimates, as we have done in our recent acquisitions and combinations of Dynamit Nobel and Groupe Novasep. However, it is not uncommon for appraisers to differ on the valuation of items (such as manufacturing equipment) where a ready secondary market does not exist.

The fair value of identifiable intangible assets such as patents and other intellectual property, customer lists, and trademarks, can be estimated by discounted cash flow and return on royalties. The process utilized to identify intangible assets is consistent with the requirements of SFAS 141. When considered material, we have engaged an independent appraiser to provide expert advice in the identification of intangible assets acquired, valuation of such assets and determination of the estimated useful life. An independent appraiser, with management's oversight and input, is required to make judgments and estimates that could cause such appraisals to differ from those of other appraisal experts.

In order to determine the fair value of intangible assets and other long terms assets, a discount rate and royalty rate is determined in conjunction with our independent appraiser. As we are not a publicly traded company, the discount rate is based on the capital structure and a beta analysis of our closest peers in order to determine the weighted average cost of capital. The royalty rate is based on professional judgment taking into consideration the type of product, market and perceived strength. The discount rate and royalty rate has a material impact on the determination of the fair value.

Purchase accounting often involves the same critical estimates that are required in our ordinary course of business including estimates of the following items:

Deferred tax asset or liability

Pension liability

Restructuring liability

Legal and environmental reserves

We use many of the same criteria and outside expert advice when determining the range of potential amounts as their counterparts described below.

Goodwill is an intangible asset that represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed. While goodwill itself does not represent an estimate, under SFAS 141 we must assign goodwill to one or more reporting units. Allocation of goodwill to reporting units requires judgments about the relative fair values of reporting units including the fair value of their identifiable assets and estimates as to the present value of future





cash flows expected from the reporting units as adjusted by a weighted average and or risk-adjusted costs of capital. Goodwill is assessed for impairment at least annually.

Some of our business combinations have complex terms that may result in conflicting claims between buyer and seller concerning the purchase price itself. Management is required to assess the probability and amount (or range of amounts) of such claims, and, where possible, determine the most likely amount due.

*Legal Matters.* We are involved in various legal proceedings, including commercial, product liability, intellectual property and environmental matters, of a nature that can be expected in our business. It is our policy to accrue for amounts related to these matters in accordance with SFAS No. 5, *Accounting for Contingencies*, if it is probable that a liability has been incurred and an amount can be reasonably estimated. The probability that a contingent liability has been incurred is regularly assessed by our legal staff, based on periodic reviews of available facts and circumstances for our legal matters, with senior operating and finance management both at the business accountable for the potential liability and at our corporate offices. This is supplemented where applicable by consultation with outside counsel. We do not believe it is informative to quantify past experience in assessing probability or estimating exposure since material matters of this nature at Rockwood often represent unique situations with little applicability to the assessment of probability or estimation of potential liability regarding other legal matters. It is our policy to disclose such matters when there is at least a reasonable possibility that a loss may have been incurred.

*Environmental Matters.* We accrue costs of a non-capital nature related to environmental clean-up when those costs are believed to be probable and can be reasonably estimated. Expenditures that extend the life of the related property or mitigate or prevent future environmental contamination are capitalized, and expenditures related to existing conditions resulting from past or present operations and from which no current or future benefit is discernible are immediately expensed. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, advancements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation and the length of time involved in remediation or settlement. As such, it can be extremely difficult to accurately estimate such costs. We do not include anticipated recoveries from insurance carriers or other third parties in our accruals for environmental liabilities.

We have estimated and established financial reserves relating to anticipated environmental cleanup obligations, site reclamation and remediation and closure costs. On a consolidated basis, we have accrued approximately \$51.2 million for known environmental liabilities as of March 31, 2005. Included in the \$51.2 million as of March 31, 2005 is \$8.4 million that is discounted using 5.0% discount rate (undiscounted amount equals \$13.0 million), and \$3.2 million that is discounted using 5.5% discount rate (undiscounted amount equals \$4.9 million). Some of these liabilities were assumed as part of business combinations, others resulted from charges to operations when the underlying costs were probable and could be reasonably estimated. Given that these obligations may be paid/relieved over extended time periods (30 years in some cases), charges or credits to operations may be required as information is gathered and estimates refined.

We have evaluated our total environmental exposure based on currently available data and believe that such environmental matters will not have a material adverse impact on our financial position or results of operations. If matters previously identified by management are resolved in a manner different from original estimates, there is the potential for a material adverse effect on operating results or cash flows in any one accounting period. See " Commitments and Contingencies."

*Restructuring.* We record restructuring charges from time to time that represent expenses incurred in connection with consolidations and cessations of certain of our operations as well as headcount reduction programs. These charges consist primarily of write-offs of surplus assets and severance costs. These charges are based on various factors including the employee's length of service, contract provisions, salary levels and local governmental legislation. At the time a related charge is recorded, we calculate our best estimate based upon detailed analysis. Although significant changes are not expected, actual costs may differ from these estimates.

For example, we had a headcount restructuring program, initiated in late 2001, with an original estimated charge to operations of \$6.6 million. In 2002, after many of the specific restructuring actions took place, we took an additional charge of \$1.3 million to refine our estimate. Similarly, we have accrued liabilities of \$33.7 million to cover restructuring liabilities for employee severance and facility closure costs in connection with the Dynamit Nobel acquisition. Although under the rules of purchase accounting, this is not charged to operations, in the event that our estimates of such costs are too low, an additional charge to operations would be required.

*Deferred Taxes.* We record valuation allowances to reduce our deferred tax assets to the amount that is more likely than not to be realized based on available evidence weighted toward evidence that is objectively verifiable. While we consider future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for valuation allowances, if we were to determine that we would be able to realize deferred tax assets in the future in excess of our net recorded amount, an adjustment to the net deferred tax asset would increase income (or decrease goodwill for any net deferred tax assets acquired in the Dynamit Nobel acquisition) in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our recorded net deferred tax assets in the future, an adjustment to the deferred tax asset would decrease income (or increase goodwill for any net deferred tax assets acquired in the Dynamit Nobel acquisition) in the period such determination was made.

We have cumulative net operating loss carryforwards in the United States, Germany, Switzerland, Italy and the United Kingdom. We have fully reserved for net operating loss carryforwards in the United States, Switzerland, Italy and the United Kingdom and certain states in the United States as we have concluded realizability of these net operating loss carryforwards is not more likely than not. The full valuation allowance on the United States federal deferred tax assets was recorded during the fourth quarter of 2004, in accordance with our policy. We have not recorded valuation allowances on our German net operating loss carryforwards as we have considered positive evidence such as forecasted future taxable income based on historical taxable income adjusted for charges which are not indicative of future operations and as the carryforward period is indefinite.

SFAS 109, *Accounting for Income Taxes*, or SFAS 109, paragraph 105, "requires consideration of future taxable income and other available evidence when assessing the need for a valuation allowance." Various assumptions and strategies (including elections for tax purposes) are implicit in estimates of forecasted future taxable income.

We believe that, in situations in which future realization of deferred tax assets is dependent on taxable income from future operations, SFAS 109 requires the relative significance of cumulative losses be addressed within the guidance provided in paragraphs 24 and 103. Accordingly, in assessing the realization of United States jurisdiction net operating loss carryforwards for the years ended December 31, 2002, 2003 and 2004, and, considering future taxable income, we have identified the key elements of both positive and negative evidence and evaluated such evidence by applying the guidance provided by paragraphs 24 and 103 of SFAS 109.

December 31, 2002 We were not in a three-year cumulative loss position at December 31, 2002, and accordingly used our operating budgets and forecasts in evaluating taxable income

expected to be available in future years to overcome the negative evidence of current and prior period losses. Our 2003 operating budgets and forecasts indicated that we would generate taxable income in excess of the minimum amount necessary in order to fully recover the United States federal deferred tax asset. Additionally, our predecessor had been in operation for many years and was profitable in all periods prior to the KKR acquisition and our related recapitalization in November 2000.

December 31, 2003 As of December 31, 2003, we had three years of net cumulative losses in the United States. Our policy to determine income from future operations is based on determining the normalized annual taxable income, averaged over the last three years. The steady-state analysis used to determine the amount of future taxable income available to utilize the United States federal net operating losses, or NOL, adjusts items included in the financial pre-tax loss which are not taxable (permanent items), represent items considered to be non-recurring items. The steady-state analysis includes material management assumptions that relate to the appropriateness of including non-recurring items. For 2003, non-recurring adjustments in our analysis included:

fundamental change in the Timber Treatment Chemicals division of the Performance Additives segment from the EPA-mandated change from CCA to ACQ resulting in an increase in the expected profit margin on the change in underlying sales volume from CCA to sales volume of ACQ;

the restructuring charge incurred during 2001 in connection with the KKR acquisition and its resulting organization as a stand-alone company of \$9.7 million;

the write-off of deferred financing charges related to the 2003 debt refinancing of \$38.3 million; and

the temporary differences related to the interest expense associated with the pay-in-kind loans and notes and senior discount notes (the temporary difference is excluded from the steady-state analysis and included as part of the scheduling exercise as an expense in the year in which the temporary difference is estimated to reverse).

We use this steady-state analysis to determine whether any valuation allowance is required. A partial valuation allowance would be required if there is an excess amount of the net deferred tax asset over the cumulative normalized taxable income during the statutory recovery period; a full valuation allowance would be required in the event the steady-state analysis results in a tax loss. In determining whether there is an excess of deferred tax assets, the measurement period for recovery of the asset begins when the underlying temporary differences become tax deductible.

As of December 31, 2003, based on our policy and the steady-state analysis, we determined that no valuation allowance was required on the deferred tax assets related to the United States federal net operating loss carryforwards of \$78.7 million as the analysis resulted in steady-state taxable income sufficient to generate the minimum amount of taxable income of \$3.9 million necessary in order to fully recover the deferred tax asset. During 2003, the valuation allowance was increased by \$6.3 million for increases in foreign and state net operating losses (\$16.4 million balance at December 31, 2003).

December 31, 2004 During the fourth quarter of 2004, the further weakening of the dollar resulted in significant foreign exchange losses on our euro-denominated debt resulting in a cumulative three-year steady-state taxable loss. Based on our policy and the resulting cumulative steady-state loss analysis, we determined during the fourth quarter that a full valuation allowance was required on the deferred tax assets of \$48.2 million related to the United States federal net operating loss carryforwards (including acquired net operating loss carryforwards) of \$137.8 million. In addition, as a result of the cumulative steady-state loss, we recorded a full valuation allowance of \$34.1 during the fourth quarter on the remaining net United States deferred tax assets including

interest on the pay-in-kind loans and notes and the senior discount notes. The remaining increase of \$22.0 million relates to increases in valuation allowance for certain foreign and state net operating losses. The increase in the valuation allowance (\$104.3 million) during 2004 resulted in a total valuation allowance at December 31, 2004 of \$120.7 million.

**Tax Planning Strategy** We also identified a tax planning strategy as part of our evaluation of evidence needed to rebut the presumption that a full valuation allowance was required for United States NOL carryforwards at December 31, 2002 and 2003. Specifically, we identified the sale of an appreciated non-core business. While the existence of a qualifying strategy often provides more objectively determinable evidence of realization and may be given more weight than a forecast of future taxable income, in our analysis we did not rely entirely on the potential sale because we had other sources of taxable income which were sufficient for us to conclude that no valuation allowance was required at December 31, 2002 and 2003.

We are committed to buying and selling businesses within our portfolio of businesses as opportunities arise to enhance our overall results. We are committed to selling assets which are non-core and which would generate a taxable gain in the event of expiring United States federal NOL's.

**Stock-Based Compensation.** The sales of common stock and grants of stock options during the year ended December 31, 2004, which are listed in note 12 to our consolidated financial statements, were made to management and certain other employees as part of the Dynamit Nobel acquisition. Accordingly, our board of directors determined that sales and grants would be made at the same purchase price and related exercise price per share paid by KKR and DLJMB. We and KKR had negotiated this price with DLJMB on an arm's-length basis based on our financial condition, historical results of operations and forecasts of the combined entity resulting from the Dynamit Nobel acquisition.

**Determination of Fair Value** At the time the shares of common stock were sold and the stock options were granted, our board of directors determined that the price per share paid by DLJMB as part of the Dynamit Nobel acquisition provided objective evidence of the fair value of the common stock sold and options granted in the 2004 management equity program, and thus did not obtain a contemporaneous valuation by an unrelated valuation specialist.

Our board of directors further determined the fair value of the common stock sold and options granted did not change from July 31, 2004 (the date of consummation of the Dynamit Nobel acquisition) to November 30, 2004 (the date the 2004 management equity program was substantially completed) because, among other reasons:

our operations and forecasts had not changed in any material respect, largely due to the proximity in time to the consummation of the Dynamit Nobel acquisition;

uncertainty and risk surrounded the integration of the acquired Dynamit Nobel businesses with our historical businesses; and

at the time of the sales of common stock and the grants of stock options, we had not yet completed the Groupe Novasep combination which was subject to numerous closing conditions.

Subsequently, we performed a valuation of our common stock as of November 30, 2004 using a retrospective approach consistent with the valuation techniques applied in connection with the July 2004 equity investment by KKR and DLJMB. The results of this valuation approach were materially consistent with our board of director's conclusion that the fair value of the common stock on the date of sale or grant was the same as the price per share paid by DLJMB.

Additionally, we performed an implied market value analysis based on the stock price performance of our eight most comparable peers. In calculating this implied market value, we

applied the percentage change in market value of these peers on a monthly basis beginning with July 31, 2004. This analysis further validated the conclusion that the fair value of the common stock on the date of sale or grant at \$14.61 per share was reasonable.

Based on an initial public offering price of \$20.00, the intrinsic value of the options outstanding at December 31, 2004 was \$31.3 million, of which \$7.5 million related to vested options and \$23.8 million related to unvested options.

**Significant Factors, Assumptions, and Methodologies Used in Determining Fair Value** In determining the fair value of our common stock, we are required to make complex and subjective judgments. This determination represents a critical accounting estimate. Specifically, we retrospectively determined fair value as of November 30, 2004 by multiplying the adjusted EBITDA of the combined company on a pro forma last twelve months basis by the same multiple at which KKR and DLJMB valued the combined Rockwood and Dynamit Nobel businesses in July 2004. The enterprise value of the combined company was then determined by subtracting from this amount the combined company's long-term debt, net of cash and cash equivalents, as of November 30, 2004. This resulting enterprise value was then divided by the outstanding number of shares as of November 30, 2004 to determine the estimated fair value per share.

**Significant Factors Contributing to the Difference between Fair Value as of the dates of each grant and Estimated IPO Price** As disclosed more fully in note 12 to our consolidated financial statements, during the year ended December 31, 2004, we granted 2,091,852 stock options, each with an exercise price of \$14.61 per share which we also determined to be the fair value of our common stock. We believe the difference between \$14.61 per share and the estimated public offering price is due to several factors that were not anticipated on the dates of the common stock sales and stock option grants and certain events that have occurred, or are expected to occur, and have resulted, or are expected to result, in an increased fair value of our common stock in connection with the initial public offering. They include:

*Market factors*

**Successful Initial Public Offerings by Two Chemical Companies** Two chemical companies successfully completed an initial public offering in November 2004 and January 2005. This return of chemical companies to the public equity markets in an initial public offering context bolsters our equity value by significantly increasing our chances of successfully completing an initial public offering. Based on the successful initial public offering in the United States of one of these companies, previously listed in Germany, the likelihood of a successful U.S. initial public offering of a chemicals company with significant European operations, such as Rockwood, increased significantly.

**Completion of the Initial Public Offering** The completion of an initial public offering will increase the value of our common stock due to the resulting significant increase in liquidity and marketability. In addition, due to the planned repayment of our pay-in-kind loans and redemption of our pay-in-kind notes and senior discount notes, which have a high rate of interest and due to the significant reduction in the cost of equity as a public company, we believe our weighted average cost of capital will decline contributing to a higher valuation of our common stock.

*Business factors*

**Reduced Leverage** The application of a substantial portion of the net proceeds of the initial public offering to reduce our substantial leverage will improve our liquidity significantly. This will positively affect the "net equity value," increasing the overall fair value of the common stock.

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*Successful Integration of Dynamit Nobel.* The integration risk associated with the Dynamit Nobel acquisition has been largely eliminated since the time of the sales of common stock and grants of stock options.

*Completion of the Groupe Novasep Combination.* On December 31, 2004, one of our subsidiaries completed the Groupe Novasep combination. We believe this combination improved the value of this segment and our overall value.

Subsequent to December 31, 2004, there were no stock options granted other than stock options exercisable for 12,500 shares of common stock granted on the date of this prospectus.

*Pensions, Postemployment and Postretirement Costs.* In connection with the KKR acquisition, the Dynamit Nobel acquisition, and the acquisition of the pigments and dispersion business of Johnson Matthey as well as the Groupe Novasep combination, Rockwood assumed responsibility for the pension and postretirement benefits for substantially all of the employees of the businesses acquired that were active as of the date of the applicable acquisition or combination. For the KKR and pigments and dispersion business acquisitions, obligations related to retired and terminated vested employees as of such date remained the responsibility of the seller, and accordingly, these obligations are not reflected in our financial statements. Defined benefit costs and liabilities have been determined in accordance with SFAS 87, *Employers' Accounting for Pensions*. Postretirement benefit costs and liabilities have been determined in accordance with SFAS 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. Postemployment benefit costs and liabilities have been determined in accordance with SFAS 112, *Employers' Accounting for Postemployment Benefits*.

The measurement of our pension obligations, costs and liabilities is dependent on a variety of assumptions used by our actuaries. These assumptions include estimates of the present value of projected future pension payments to all plan participants, with consideration to the likelihood of potential future events such as salary increases (due to marketplace conditions and/or inflation) and demographic experience (such as retirement and mortality rates). These assumptions may have an effect on the amount and timing of future contributions or benefit payments. For funded plans, the plan trustee obtains an independent valuation of the fair value of pension plan assets and prepares estimates of expected returns based on target asset allocations multiplied by current marketplace rates of return for comparable assets. We base the discount rate assumption on investment yields available at year-end on AA-rated corporate long-term bonds. The effects of actual results differing from our assumptions are accumulated and amortized over future periods and therefore are likely to affect our recognized expense in those periods. We cannot predict these bond yields or investment returns and therefore cannot reasonably estimate whether adjustments to our stockholders' equity for minimum pension liability in subsequent years will be significant.

Estimated sensitivity of our pension funded status and stockholders' equity and annual pension expense to a 0.25% increase/decrease in the discount rate assumption is shown below as of and for the year ended December 31, 2004. The estimates were based on inquiries of the actuaries of plans representing approximately 80% of total pension funded status as of December 31, 2004. Remaining plans are assumed to have similar sensitivities. The December 31, 2004 funded status

and stockholders' equity are affected by assumptions as of December 31, 2004 while 2004 annual pension expense is affected by December 31, 2003 assumptions:

(\$ in millions)	As of December 31, 2004			2004 Pension Expense
	U.S. Plans Funded Status	Non-U.S. Plans Funded Status	Equity	
<b>Impact of a Change in Discount Rate*</b>				
+25 basis points	1.2	21.4	(12.6)	(0.5)
-25 basis points	(1.2)	(22.2)	13.7	0.5

\*

Based on sensitivities provided by actuaries for the main German and United Kingdom schemes. Other countries plan are assumed to have similar sensitivities.

As shown above, changes in the discount rate can have a significant effect on the funded status of our pension plans and stockholders' equity. As noted above, the funded status and stockholders' equity of our funded plans might also be significantly affected by assumptions concerning expected return of plan assets. However, given that most of our pension obligations do not require funding, such sensitivity would be significantly less.

#### Effects of Recently Issued Accounting Standards

On July 31, 2004, we implemented SFAS 150 and Financial Accounting Standards Board ("FASB") interpretation ("FIN") 46R. We implemented these as a result of the completion of the Dynamit Nobel acquisition on that same date; the Company did not previously implement these because they were not relevant prior to the Dynamit Nobel acquisition. Implementation of these accounting standards has had no significant impact on our financial position, results of operations, or cash flows. SFAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. These instruments are reported as a liability and accounted for at their fair value. Stock options and convertible bonds issued as remuneration are exempted from this standard. SFAS 150 is applicable to financial instruments issued or modified after May 31, 2003. The valuation rules pertaining to certain financial instruments are not applicable until further notice owing to FASB Staff Position No. 150-3 *Effective Date Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interest under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. FIN 46R, *Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51 (revised)* provides guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable-interest entity") and how to determine when an entity is the primary beneficiary and required to consolidate a variable-interest entity.

We plan to implement the financial accounting standards listed below on January 1, 2006. We do not expect any significant impact on our financial position, results of operation, or cash flows from the implementation of SFAS 151 and SFAS 153, although we are still in the process of evaluating SFAS 123R as to its potential impact, if any.

SFAS 151	<i>Inventory Costs</i>
SFAS 153	<i>Exchanges of Nonmonetary Assets</i>
SFAS 123R	<i>Share Based Payment</i>

SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This standard requires such items be recognized as

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current-period charges and is effective for inventory costs incurred during fiscal years beginning after June 15, 2005.

SFAS 153 eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. This standard is effective for nonmonetary asset exchanges occurring in fiscal years beginning after June 15, 2005.

SFAS 123R revises SFAS 123 *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS 123R requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which the employee is required to provide services in exchange for the award. This standard eliminates the alternative to use the intrinsic value method of accounting for share based payments as previously provided in APB 25. This standard is effective for us beginning in the first quarter of 2006. As we are not yet a publicly traded equity company, we will apply SFAS 123R on a prospective basis. As such, new awards, modifications to existing awards, repurchases or cancellations subsequent to February 11, 2005 (the date on which we filed our Form S-1) will be accounted for in accordance with SFAS 123R on the modified prospective basis.

In May 2004, the FASB issued FASB Staff Position ("FSP") 106-2 *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. This guidance supersedes FSP 106-1 issued in January 2004 and clarifies the accounting and disclosure requirements for employers with postretirement benefit plans that have been or will be affected by the passage of the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act"). The Act introduces two new features to Medicare that an employer needs to consider in measuring its obligation and net periodic postretirement benefit costs. The effective date for the new requirements was the first interim or annual period beginning after June 15, 2004. The adoption of FSP 106-2 did not have a material impact on us.

### **About Market Risk**

We are exposed to market risk from changes in interest rates, foreign currency exchange rates and commodity prices. We manage our exposure to these market risks through regular operating and financing activities and through the use of derivatives. When used, derivatives are employed as risk management tools and not for trading purposes.

### **Interest Rate Risk**

We had \$549.1 million of variable rate debt (after hedging) outstanding as of March 31, 2005 at the then applicable exchange rate. Any borrowings under our revolving credit facility will also be at a variable rate. We are not required under the terms of any of our long-term debt facilities to hedge, or otherwise protect against interest rate fluctuation in our variable rate debt. In August 2004, we entered into two derivative contracts to hedge interest rate risk, which currently cover notional amounts of \$652.6 million and €486.0 million. These derivative contracts effectively convert the senior secured credit facilities to fixed rate obligations, currently at weighted average interest rates of 6.14% and 6.37%, respectively. The maturity date of the U.S. dollars hedge is July 2007, and the maturity date of the euro hedge is July 2008. We may in the future consider adjusting the amounts covered by these derivative contracts to better suit our new capital structure. Each 0.125% increase or decrease in the assumed weighted average interest rate would change the annual pro forma interest expense by \$0.7 million.



### Foreign Currency Risk

We conduct operations in many countries around the world. Our results of operations are subject to both currency transaction risk and currency translation risk. We operate a geographically diverse business, with 50% of our pro forma net sales in 2004 generated from customers in Europe, 34% in North America (predominately in the United States) and 16% from the rest of the world based upon customer ship-to locations. Our diverse and extensive customer base is served by 100 manufacturing facilities in 25 countries. Although we sell and manufacture our products in many countries, our sales and production costs are mainly denominated in U.S. dollars and euros. Our results of operations and financial condition are therefore impacted by the fluctuation of the euro against our reporting currency, the U.S. dollar. As a result of the Dynamit Nobel acquisition, a significantly larger portion of our sales and production costs is now denominated in euros. Approximately 40% of our pro forma net sales would have been derived from subsidiaries whose sales are denominated in euros. This increases the impact of the fluctuation of the euro against the U.S. dollar.

We incur currency transaction risk whenever we enter into either a purchase or sale transaction using a currency other than the local currency of the transacting entity. Gains and losses on currency transactions are included in operating income and do impact our operating margins. With respect to currency translation risk, our financial condition and results of operations are measured and recorded in the relevant domestic currency and then translated into U.S. dollars for inclusion in our consolidated financial statements. Gains and losses on currency translations are recorded in our financial statements as a component of "other comprehensive income (loss)" and do not impact our operating margins. Exchange rates between these currencies and U.S. dollars in recent years have fluctuated significantly and may do so in the future.

Our financial results are subject to the effect of currency fluctuations on the translation of our euro-denominated debt. As of March 31, 2005, our total euro-denominated debt equaled €1,061.5 million (\$1,379.5 million based on the March 31, 2005 exchange rate of €1.00=\$1.2996). A weakening or strengthening of the euro against the U.S. dollar by \$0.01 would decrease or increase, respectively, by \$10.6 million the U.S. dollar equivalent of our total euro-denominated debt. Gains and losses on the translation of debt denominated in a currency other than the functional currency of the borrower are included as a separate component of "other income (expenses)" in our statement of operations and "accumulated other comprehensive income" in our balance sheet. We had previously entered into cross-currency interest rate swaps, with a June 30, 2004 notional amount of \$75.0 million that effectively converted U.S. dollar LIBOR-based debt into euro LIBOR-based debt. Gains and losses on these swaps have been included in interest expense. We settled \$53.4 million of these swaps simultaneously with the consummation of the Dynamit Nobel acquisition.

Also, in connection with the offering of the 2014 notes, we entered into cross currency interest rate swaps with a five year term and a notional amount of €155.6 million that effectively convert the U.S. dollar fixed rate debt in respect of the 2014 dollar-denominated notes sold into euro fixed rate debt. We designated this contract as a hedge of the foreign currency exposure of our net investment in its euro-denominated operations.

### Commodity Price Risk

We are subject to commodity price risk for certain of our raw materials. We have not materially hedged this commodity price exposure to date.

## DYNAMIT NOBEL ACQUISITION

The following contains a summary of the Dynamit Nobel acquisition and the sale and purchase agreement that Group entered into in contemplation of the Dynamit Nobel acquisition. The description of the sale and purchase agreement is generalized and not complete.

On April 19, 2004, certain subsidiaries of Group entered into a sale and purchase agreement with mg technologies ag and its subsidiary, MG North America Holdings Inc., to acquire its wholly-owned specialty chemicals and advanced materials business, Dynamit Nobel. We paid approximately €1,635.0 million (or \$1,968.5 million based on the July 31, 2004 exchange rate of €1.00=\$1.2040), in cash, and assumed debt of \$315.1 million and cash acquired of \$9.6 million for the businesses acquired. On July 6, 2005, we paid \$16.1 million (based on the July 6, 2005 exchange rate of €1.00=\$1.1927) in post-closing adjustments. The acquisition was consummated on July 31, 2004.

In connection with the Dynamit Nobel acquisition, Group entered into senior secured credit facilities and a senior subordinated loan facility, and we received an equity contribution of \$425.0 from affiliates of KKR and DLJMB. In addition, Rockwood Specialties International, Inc. exchanged its outstanding dollar-denominated pay-in-kind notes (including additional pay-in-kind notes issued in connection with interest payments on these notes) for euro-denominated pay-in-kind notes, after the repayment in cash of \$20.0 million of such additional pay-in-kind notes with part of the proceeds of the equity contribution from affiliates of KKR and DLJMB.

In October 2004, Group refinanced a portion of its borrowings under the senior subordinated loan facility with additional term loan borrowings under an amendment to the senior secured credit facilities and in November 2004, refinanced the remaining borrowings under the senior subordinated loan facility with proceeds from the issuance of the 2014 notes. In December 2004, Group refinanced all of its borrowings under the tranche B term loans with new borrowings of the same aggregate principal amount bearing lower interest rate under the tranche D term loans in order to reduce its interest expense.

In addition, in connection with the Dynamit Nobel acquisition, pursuant to the 2004 management equity program, members of our management and certain other employees have made cash equity investments of approximately \$7.0 million in us. As a result of these equity contributions, affiliates of KKR, DLJMB and members of our management and certain other employees currently hold approximately 69.6%, 19.7% and 8.8%, respectively, of our common stock, on a fully-diluted basis and, after giving effect to this offering, would hold approximately 50.8%, 14.4% and 6.4%, respectively.

### **Sale and Purchase Agreement**

The sale and purchase agreement contains customary seller representations and warranties of mg technologies ag and MG North America Holdings Inc., limited buyer representations and warranties of certain of our subsidiaries that are parties and customary covenants and other agreements between mg technologies and MG North America Holdings and the buyers.

The sale and purchase agreement contains several indemnification provisions for certain liabilities relating to the companies, businesses and assets that we acquired.

### **Indemnity for Breaches of Representations and Warranties**

The sale and purchase agreement provides that mg technologies will and, in the event that a representation or warranty of MG North America Holdings Inc. turns out to be inaccurate, mg technologies and MG North America Holdings will indemnify us against damages arising from breaches of their representations and warranties.

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The sale and purchase agreement does not allow us to make a claim for indemnification for any loss or damage relating to a breach of a representation or warranty unless the losses or damages for any claim or series of related claims exceed €250,000 (other than for losses relating to specified representations and warranties). The sellers' indemnification obligations with respect to breaches of representations and warranties are subject to a deductible for the first €20.0 million in damages (other than for losses relating to breaches of specified representations and warranties not subject to the deductible) and a cap of €400.0 million (other than for losses relating to breaches of specified representations and warranties not subject to this cap).

The indemnification obligations are limited in certain respects. In particular, we are not able to seek indemnification based on a claim of breach of a representation or warranty if the extent of such breach (inaccuracy of the representation or warranty) was disclosed in the due diligence materials provided to us.

The sale and purchase agreement further provides that mg technologies will be strictly liable for indemnifying us against any claims, losses and damages incurred by us after the date of the consummation of the Dynamit Nobel acquisition arising out of:

any parts of the business that were sold or carved-out of the acquired businesses with effect between December 31, 2003 and the consummation of the Dynamit Nobel acquisition;

obligations or liabilities of any of the companies acquired by us to pay any brokerage or finder's fees;

mg technologies' non-compliance with any of the pre-closing covenants; or

claims for damages made against any of the companies acquired by us by the government of Singapore in relation to the sale of short-range anti-armor weapons.

### **Tax Indemnity**

The sale and purchase agreement provides for a tax indemnity pursuant to which mg technologies ag and its subsidiary, MG North America Holdings Inc., among other things, are obligated to indemnify us, subject to certain limits and exclusions, for certain tax liabilities that arise as a consequence of actions occurring prior to the Dynamit Nobel acquisition, as well as certain other events.

### **Environmental Indemnity**

The sale and purchase agreement provides for an environmental indemnity setting out environmental related matters in connection with the Dynamit Nobel acquisition. The environmental indemnity provides that mg technologies ag and MG North America Holdings Inc., will indemnify us and our subsidiaries for 50% of the excess amount of losses over the amount of the related reserves (in the case of known claims) and 50% of claims (in the case of unknown claims) related to the contamination of our or our subsidiaries' properties, if notified within ten years. If mg technologies' and MG North America Holdings' responsibility for contamination matters cannot be proven, a sliding scale reduces the percentage further for each year during the five-year period from year six to ten. mg technologies and MG North America Holdings are also obligated to indemnify us for 85% of claims related to legacy site matters, such as environmental matters relating to properties or businesses owned or operated by Dynamit Nobel prior to, but not on, the closing of Dynamit Nobel acquisition, if notified within ten years. In addition, mg technologies and MG North America Holdings are obligated to indemnify us for 50% of the excess amount of losses over the amount of the related reserves for operational compliance matters, if notified by December 31, 2006, and 50% of the excess amount of losses over the amount of the related reserves (in the case of known claims) and 50% of claims (in the case of unknown claims) related

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to certain environmental damage claims if notified within ten years. All of these indemnity obligations are subject to different minimum per-claim thresholds depending on whether the matter was disclosed or not, and on the subject matter, ranging between €100,000 and €750,000 depending on the type of claim. The indemnity obligations are further subject to certain deductibles, exclusions and limitations.

Furthermore, mg technologies and MG North America Holdings are obligated to indemnify us for certain environmental risks arising from certain "shared site" structures for a duration of ten years. This indemnity obligation is not subject to the percentages, *de minimis* and thresholds described above, and it is not subject to most of the general limitations.

In the event we seek indemnity under any of these obligations, there can be no assurance that mg technologies and MG North America Holdings will adhere to their obligations and we may have to resort to legal action to enforce our rights under the indemnities.

## BUSINESS

### General

We are a leading global developer, manufacturer and marketer of technologically advanced, high value-added specialty chemicals and advanced materials. We believe we have leading market positions in most of our businesses, including lithium compounds, fiber anatase titanium dioxide, color pigments and services, ceramic-on-ceramic components used in hip joint prostheses systems and next generation wood protection products.

We have a number of high growth businesses such as Advanced Ceramics, Specialty Chemicals and Performance Additives, which are complemented by a diverse portfolio of businesses that historically have generated stable revenues. Our margins, strong cash flow generation, capital discipline and ongoing productivity improvements provide us with a platform to capitalize on market growth opportunities.

Our products consist primarily of inorganic chemicals and solutions and engineered materials. They are often customized to meet the complex needs of our customers and to enhance the value and performance of their end products by improving performance, providing essential product attributes, lowering costs or making them more environmentally friendly.

We generally compete in niche markets in a wide range of end-use markets, including construction, life sciences (including pharmaceutical and medical markets), electronics and telecommunications, metal treatment and general industrial and consumer products markets. No single end-use market accounted for more than 19% of our 2004 pro forma net sales.

We operate globally, manufacturing our products in 100 manufacturing facilities in 25 countries and selling our products and providing our services to more than 60,000 customers. Our customers include some of the world's preeminent companies, such as Alcoa Inc., Robert Bosch GmbH, DaimlerChrysler AG, E.I. duPont de Nemours & Company, GlaxoSmithKline plc, Motorola Inc., Novartis AG, Pfizer Inc., Rohm and Haas Company and The Sherwin-Williams Company. We believe our products are generally critical to our customers' products' performance, but account for a small percentage of the total cost of their products. No single customer accounted for more than 2% of our 2004 pro forma net sales.

On July 31, 2004, we acquired the specialty chemicals and advanced materials businesses of Dynamit Nobel. See "Dynamit Nobel Acquisition." Through this acquisition, we have created a further diversified portfolio of distinct specialty chemicals and advanced materials businesses, combining two companies with similar service-driven cultures focused on high margins; expertise in inorganic chemistry; stable profitability; growth platforms and proven management teams. In addition, we believe the Dynamit Nobel acquisition bolsters our leading competitive positions by enhancing our ability to develop innovative products and solutions for our customers, expanding our technological knowledge and further reducing our exposure to any particular raw material or end-use market.

Following the Dynamit Nobel acquisition, we operate our business through seven business segments. They are: (1) Performance Additives; (2) Specialty Compounds; (3) Electronics; (4) Specialty Chemicals; (5) Titanium Dioxide Pigments; (6) Advanced Ceramics; and (7) Groupe Novasep. The following table sets forth for each of our seven segments pro forma net sales of such

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segment and the percentage of our pro forma net sales for the year ended December 31, 2004, as well as our principal products and our principal end-use markets.

Segment	2004 Pro Forma Net Sales		Principal Products	Principal End-Use Markets
	\$ in Millions	% of Total		
Performance Additives	\$ 674.8	23%	Iron oxide pigments Wood protection products Inorganic chemicals Synthetic and organic thickeners Branded specialty pool and spa performance chemicals	Residential and commercial construction, coatings and plastics Coatings Personal care, paper manufacturing, foundries Pool products distributors, golf courses, agriculture
Specialty Compounds	\$ 200.4	7%	High specification compounds such as PVC and TPE	Voice and data transmission cables, food and beverage packaging, medical devices, footwear and automotive
Electronics	\$ 168.1	6%	High purity chemicals and printed circuit board chemicals Photo-imaging masks Recycling and repair service	Semi-conductors and printed circuit board manufacturing
Specialty Chemicals	\$ 759.6	26%	Lithium compounds and chemicals Metal surface treatment chemicals including corrosion protection/prevention oils Synthetic metal sulfides	Automotive Pre-coating metal treatment and car body pre-treatment Steel and metal working Life sciences (pharmaceutical synthesis and polymers) Polymerization initiators for elastomers Aerospace Greases and glass manufacturing Mobile batteries
Titanium Dioxide Pigments	\$ 422.0	14%	Titanium dioxide pigments Barium compounds Zinc compounds Flocculants	Synthetic fibers for clothing Plastics Paper Paints and coatings Pharmaceutical contrast media Water treatment
Advanced Ceramics	\$ 349.5	12%	Ceramic-on-ceramic ball head and liner components used in hip joint prostheses systems Ceramic tapes Cutting tools Other ceramic components	Medical (Hip replacement surgery) Mechanical systems Electronics
Groupe Novasep	\$ 338.6	12%	Pharmaceuticals compounds (advanced intermediates and active ingredients) Equipment engineering and manufacturing	Pharmaceuticals Agro chemicals Flavors and fragrances
Total	\$ 2,913.0	100%		



**Business Strengths**

**Leading market positions.** We believe that we hold leading market positions within most of our businesses. We believe that based on our 2004 pro forma net sales, we have leading market positions for the following products in each of our seven segments:

<b>Operating Segment</b>	<b>Products</b>	<b>Market Position</b>
Performance Additives	synthetic iron oxide pigments	one of top 3 globally
	wood protection products	one of top 3 globally
Specialty Compounds	value-added thermoplastics compounds for use in high-end data and video communication wire and cable	#1 in North America
Electronics	chemicals for the printed circuit board industry	a leading producer in Taiwan
	high purity chemicals for the semiconductor industry	a leading producer in Europe
Specialty Chemicals	lithium compounds and chemicals	#1 globally
	metal surface treatment chemicals and related services	#2 globally
Titanium Dioxide Pigments	anatase titanium dioxide pigment for the synthetic fiber manufacturing industry	#1 globally
	zinc- and barium-based pigments	a leading global producer
Advanced Ceramics	ceramic-on-ceramic ball head and liner components used in hip joint prostheses systems	#1 globally
	ceramics cutting tools	#1 in Europe
Groupe Novasep	hazardous chemistry and chiral technologies for the synthesis of pharmaceutical compounds	a leading global producer

**Specialty businesses in niche markets with significant barriers to entry.** We believe that nearly all of our businesses operate in niche markets protected by significant barriers to entry, including the following:

*Customized products and solutions.* We develop and manufacture products that meet specific customers' performance requirements. For example, our Performance Additives segment provides specialized pigments and color formulations to specific customers by producing synthetic iron oxide pigments in a wide range of colors, grades and physical forms to serve the construction, paints and coatings and specialty applications markets. Our Specialty Chemicals segment provides lithium compounds that are tailored to specific customer applications, including lithium batteries and high performance greases. In addition, our Groupe Novasep segment manufactures compounds for the life sciences industry through customized production processes, which are, in most cases, tailored to client-specific processes or special technologies such as hazardous chemistry and chiral separation.

*Technological know-how and expertise.* We use our technological know-how to improve and develop innovative products to meet our customers' specific requirements and needs. For example, our Performance Additives segment recently developed a proprietary chemical formulation known as Clearwood that acts as a fungicide, insecticide and water repellent to improve the performance of wood windows and doors. In addition, in our Advanced Ceramics segment, we produce ceramic-on-ceramic ball head and liner components used in FDA-approved hip joint prostheses systems in the United States.



*Significant switching costs.* We believe that many of our customers would experience significant disruption and costs if they were to switch to another supplier. For example, in our Titanium Dioxide Pigments segment, our specialty titanium dioxide pigments represent a small portion of the production cost of our customers' products; however, we believe that switching to a new supplier by a customer would require a significant period of production downtime. In addition, our pharmaceutical customers purchase our Groupe Novasep products on a long-term contract basis for use as intermediates in manufacturing FDA-approved drugs that, in many cases, are subject to patents.

***Diverse Customer and End-Use Market Base.*** We operate a diverse portfolio of distinct specialty chemicals and advanced materials businesses. We have more than 60,000 customers worldwide that cover a wide variety of industries and geographic areas. Of our 2004 pro forma net sales, 50% were shipments to Europe, 34% to North America (predominately the United States) and 16% to the rest of the world. No customer accounted for more than 2% of such net sales, and our top ten customers represented only approximately 11% of such net sales. Our largest end-use market represented approximately 19% of such net sales. The following chart provides a breakdown of our 2004 pro forma net sales by end-use markets:

Within these end-use markets, there is further diversification by sector, product and region. For example, within the construction end-use market, our Performance Additives segment companies provide materials for new construction as well as companies that focus on remodeling and renovation. In addition, we serve construction materials clients in both the residential and commercial sectors located in North America, Europe and Asia. Within the life sciences end-use market, we serve a number of sectors, including: the medical devices sector through our Specialty Compounds and Advanced Ceramics segments; the pharmaceutical intermediates sector through our Groupe Novasep segment; and the pharmaceutical ingredients sector through our Specialty Chemicals segment.

***Limited exposure to raw materials and energy prices.*** We have a broad raw material base consisting primarily of inorganic (non-petrochemical) materials, most of which are readily available and whose prices follow their own individual supply and demand relationships and have historically shown little correlation to each other. Our largest and second largest raw material purchases represented less than approximately 2% and 1% of our 2004 pro forma net sales, respectively, while our top ten raw material purchases represented less than 8% of our 2004 pro forma net sales. Further, our exposure to energy prices is limited as energy costs accounted for approximately 3% of our 2004 pro forma net sales.

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**Leading technologies and strong brand names.** We believe we are recognized as an innovative industry leader in many of our businesses due to our technological know-how and strong customer focus. We identify, commercialize and market new products, which we develop internally or with third parties, as well as license or otherwise acquire. We believe that a number of our products and business brands have gained strong recognition, including the following:

Performance Additives *Granufin*, our patented iron oxide granulated pigment, which provides significant advantages in terms of product handling, color consistency and ease of use when used with our Granumat dispensing system;

Performance Additives *Preserve* and *Preserve Plus*, our environmentally advanced ACQ timber treatment products, which we introduced as alternatives to traditional arsenic-based chemicals such as CCA;

Performance Additives *Garamite*, our clay-based additive, which is used in the manufacture of fiberglass composites and provides production efficiencies and enhanced performance of the end-product;

Performance Additives *Cloisite*, a clay mineral known as nanoclay, which is used in the production of certain plastics;

Specialty Chemicals *Ardrox*, which provides a complete range of globally recognized products specifically developed for use in aircraft maintenance programs, ranging from daily cleaning to complete aircraft overhaul;

Specialty Chemicals *OurGardo* products (such as *Gardoclear* and *Gardobond*), which provide complete process solutions for all steps of the chemical treatment of metal surfaces, often tailored for individual customers and their applications; and

Titanium Dioxide Pigments *Hombitan*, which is recognized as the world's #1 anatase titanium dioxide pigment for the synthetic fiber manufacturing industry.

**Experienced and proven management team with significant equity interests.** We have an experienced management team with a proven record of financial and operational excellence. Since joining us in 2001, Seifi Ghasemi, our chairman and chief executive officer, and Robert Zatta, our senior vice president and chief financial officer, together with other members of our senior management team, have been responsible for instilling a culture of ownership and introducing several initiatives that have resulted in significant improvement in our business including increased growth in net sales, development of new products, cost reductions, working capital improvements, capital expenditure reductions and improved customer relationships. The heads of our business lines have, on average, over 20 years of experience in the specialty chemicals and advanced materials industry and over ten years at their respective businesses. Members of management and certain other employees currently hold approximately 8.8% of the outstanding shares of our common stock on a fully-diluted basis and, after giving effect to this offering, would hold approximately 6.4%.

### Business Strategy

Building on these strengths, we plan to continue our existing strategy to grow revenue and cash flow and increase profitability as follows:

**Capitalize on Market Growth Opportunities.** We believe that our leading technology and development capabilities position us to capitalize on a number of growth trends affecting our businesses. For example:

Advanced Ceramics We expect this segment to benefit from a growing trend towards replacing plastics and metals with high-performance ceramics. For example, as the only

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manufacturer and supplier to date of ceramic-on-ceramic ball head and liner components used in FDA-approved hip joint prostheses systems in the United States, we believe that we are well-positioned to capitalize on the global increase in the market for hip implants. We expect this market to grow by approximately 8% per year over the next ten years. In addition, we expect this segment to benefit from the growth in the use of Piezo ceramic components, which are capable of converting mechanical quantities into electrical quantities or, conversely, turning electrical signals into mechanical movement or oscillation, in sensor applications.

**Performance Additives** We expect this segment to benefit from the growing trend toward the use of color in concrete paving stones and other home remodeling fuelled in part by increased exposure at "do-it-yourself" home centers.

**Specialty Compounds** We expect to grow sales of this segment for high-end data and video communication wire and cable applications as a result of our joint development agreement with DuPont to create, manufacture and commercialize new Smokeguard® compounds based on Teflon® technologies.

**Specialty Chemicals** We expect our Fine Chemicals business line to benefit from the increasing use of lithium compounds in the life sciences/pharmaceutical industry. We also expect this segment to benefit from the increased demand for lithium-based batteries for mobile electronic applications. In addition, we will benefit from the trend to replace chrome-containing products with chrome-free technologies in metal surface treatment, such as silane-based systems or our patented self-assembling molecule technology.

**Titanium Dioxide Pigments** We expect this segment to benefit from sales of our newly introduced nano-particle titanium dioxide pigments that are used to provide ultraviolet light protection for plastics and coatings.

***Achieve profitable growth through selective acquisitions.*** We intend to continue to selectively pursue cash flow accretive acquisitions and strategic alliances in order to strengthen and expand our existing business lines and enter into complementary business lines. For example, in 2004, we acquired:

the assets of the pigments and dispersions business of Johnson Matthey Plc. (purchase price of approximately \$47.1 million), which strengthened our Performance Additives segment; and

the assets of the Hamburger Color Company Inc. (purchase price of \$3.0 million), which strengthened our Performance Additives segment.

We also completed a combination of the three business lines of our Custom Synthesis segment (now known as our Groupe Novasep segment) with Groupe Novasep SAS (purchase price of approximately \$139.7 million, including assumed net debt, shares contributed and acquired cash), which strengthened this segment. Although we are not subject to any agreement or binding letter of intent with respect to potential acquisitions, we are engaged in acquisition discussions with other parties.

In addition, we set aggressive performance targets for all of our businesses and will refocus or divest those activities that fail to meet our targets or do not fit our long-term strategies. For example, in 2002 we divested our pool and spa accessories business and in 2000 sold our U.K. and Irish water treatment business line.

***Apply our proven improvement initiatives to the Dynamit Nobel businesses.*** Since 2001, following the KKR acquisition and the arrival of our new senior management team, Rockwood has implemented a series of initiatives designed to increase sales, improve productivity, reduce costs and expand margins. Key strategic initiatives included a decentralization of decision making,

enhancing accountability for Rockwood's managers, a reduction in overhead cost structure, a focus on manufacturing productivity and cash generation, selective acquisitions and a pursuit of identified organic growth initiatives. These initiatives had positive impact on cash flow and profitability of Rockwood's historic businesses in recent years. We are currently in the process of applying similar initiatives to the acquired Dynamit Nobel businesses:

*Reducing overhead costs.* Rockwood implemented measures to reduce overhead costs and eliminate redundancies. At the Dynamit Nobel businesses, we have begun to implement plans to cut costs, reduce overhead and eliminate duplicate positions. For example, we closed the former headquarters of Dynamit Nobel in Troisdorf, Germany and the New Lebanon, New York manufacturing facility of our Advanced Ceramics segment and will implement other restructuring measures at our Specialty Chemicals and Groupe Novasep segments. In addition, we eliminated 40 positions in connection with the acquisition of the pigments and dispersions business of Johnson Matthey Plc. We expect that we will achieve total annual cost savings of approximately \$17.0 million, of which we have already realized approximately \$7.0 million through March 31, 2005 in connection with these and other actions;

*Improving working capital management.* Since 2001, Rockwood has been successful in reducing its net working capital (accounts receivable and inventory net of accounts payable) as a percentage of net sales by implementing more effective systems to monitor working capital, augmenting further our "just-in-time" inventory management and creating incentives for managers to focus on working capital management. We intend to reduce net working capital as a percentage of net sales at the Dynamit Nobel businesses using the same initiatives;

*Instilling capital discipline.* Rockwood implemented stringent controls to help ensure that maintenance capital expenditures are appropriate and that expansion capital is in line with both capacity and market demands. Over the past four years, Rockwood's capital expenditures as a percentage of net sales have decreased from 6.2% in 2000 to 4.3% in 2003. From 2001 to 2003, the average capital expenditures of Dynamit Nobel were approximately 8.0% of Dynamit Nobel's net sales, of which we estimate a majority were investments in growth prospects. We intend to monitor capital expenditures in all of our segments; and

*Increasing productivity.* Rockwood improved productivity by implementing metrics that allow it to better track its manufacturing productivity, product pricing and expenses. We intend to continue to improve productivity in the Rockwood businesses and target productivity improvements in the Dynamit Nobel businesses by implementing additional productivity metrics, rationalizing plants and reducing headcount, particularly in our Groupe Novasep, Specialty Chemicals, and Advanced Ceramics segments.

**Reduce financial leverage.** We intend to reduce our financial leverage by using a significant portion of the net proceeds from this offering and a significant portion of cash flow from operations after required capital expenditures and payments to service our debt. We believe that our historically strong cash flow generation will be further strengthened by our organic growth opportunities within our existing markets, combined with our improved working capital management.

#### **Our Sponsors**

Kohlberg Kravis Roberts & Co. L.P., or KKR, is one of the world's most experienced private equity firms specializing in management buyouts. KKR's investment approach is focused on acquiring attractive business franchises and working closely with management over the long-term to design and implement value creating strategies. Over the past 28 years, KKR has raised

approximately \$25.0 billion in private equity funds and invested over \$21.0 billion of equity in more than 115 transactions. KKR has made an aggregate common equity and preferred contribution of \$572.6 million to us since its acquisition of our company from Laporte plc in November 2000.

The funds comprising DLJMB are part of DLJ Merchant Banking, which is a leading private equity investor with a 20-year history of investing in leveraged buyouts and related transactions across a broad range of industries. DLJ Merchant Banking is part of Credit Suisse First Boston's Alternative Capital Division, Credit Suisse First Boston's dedicated alternative asset platform. Since 1985, DLJ Merchant Banking has invested or committed more than \$9.0 billion in more than 140 portfolio companies. DLJ Merchant Banking is currently investing through DLJ Merchant Banking Partners III, which made an equity contribution of \$159.4 million in connection with the Dynamit Nobel acquisition.

## History

Rockwood Holdings, Inc., which was formerly known as K-L Holdings, Inc., is a Delaware corporation that was formed in September 2000. On November 20, 2000, an entity controlled by affiliates of KKR acquired certain specialty chemicals business lines with operations in Canada, Finland, France, Germany, Italy, Singapore, Spain, Sweden, Taiwan, the United Kingdom and the United States from Laporte plc, a public company incorporated in England and Wales, which was subsequently acquired by Degussa AG. Total cash consideration paid was \$1,175.0 million, plus a post-closing adjustment of \$5.6 million.

The purchase price and related fees and expenses were financed by:

\$520.0 million in term loans under senior secured credit facilities borrowed by Group and one of our U.K. subsidiaries;

\$325.0 million in senior subordinated loans under a senior subordinated loan facility borrowed by Group;

\$100.0 million in pay-in-kind loans borrowed by Rockwood Specialties Consolidated, Inc.; and

\$282.0 million in a cash common equity investment in Rockwood Holdings, Inc. by affiliates of KKR.

KKR acquired these specialty chemicals business lines from Laporte because it believed they would create an attractive business with which it could work to develop and implement value creating strategies. Rockwood retained most of the management of the acquired businesses. However, these businesses had not previously had a central senior management team. Accordingly, in 2001, KKR assisted Rockwood in identifying and hiring Seifi Ghasemi, our chairman and chief executive officer, and Robert Zatta, our senior vice president and chief financial officer. Rockwood also retained Thomas Riordan as senior vice president, law and administration, who had held a similar position with the U.S. operations of Laporte. Following their arrival, Rockwood implemented a series of improvement initiatives designed to grow sales, improve productivity, reduce costs and expand margins.

## Operating Segments

The following describes each of our operating segments, as well as the principal products or principal divisions within each segment.

### **Performance Additives (23% of 2004 pro forma net sales)**

Our Performance Additives segment consists of business lines which develop and manufacture a range of specialty chemicals that are used in industrial and consumer products and processes to

enhance performance or create unique characteristics. This segment manufactures and markets products that are based on a focused research and development effort and a strong technology base. Our Performance Additives segment generated net sales of \$443.8 million, \$477.3 million and \$630.9 million (on an actual basis) for the years ended December 31, 2002, 2003 and 2004, respectively. Our Performance Additives segment accounted for 23% of our 2004 pro forma net sales. See note 3 to our and Rockwood's audited consolidated financial statements for additional financial information regarding our Performance Additives segment.

### *Color Pigments and Services*

Our Color Pigments and Services business line is a global producer of synthetic iron oxide and other inorganic pigments in a wide range of yellow, red, orange, blue, black or blended shades, and serves the construction, paints and coatings, plastics, and specialty application markets with powder, granular and liquid grades. Color Pigments and Services focuses on developing and manufacturing high value-added inorganic pigments. The business also offers a number of unique pigment dispensing systems. Color Pigments and Services generates sales from construction pigments, which include colorings for concrete products such as paving stones, bricks, concrete blocks, roofing tiles, ready mix stucco and mortar; from paints and coatings as well as colorants for plastics, paper and rubber; and from specialty applications including security inks, toners for printers and copiers, catalysts and cosmetics.

Our Color Pigments and Services business line has been driven by product innovation, our brand names and our customer and technical service, including customer-specific color blending. We expect this segment to benefit from the growing trend towards the use of color in concrete paving stones and other home remodeling fuelled in part by increased exposure at "do-it-yourself" home centers.

An important component of Color Pigments and Services' product innovation has been our patented granulated pigment, *Granufin*, which, when used in conjunction with our *Granumat* dispensing system, offers significant advantages to customers over traditional pigment systems in the coloring of manufactured concrete products, such as ease of handling and consistency in coloring. We believe that *Granumat* is the leading granulated pigment dispensing system worldwide and is a result of Color Pigments and Services' research and development focus on process and delivery systems for its products. In addition, in May 2000 we commercialized our *Chameleon* dispensing system, which electronically controls the delivery of pigments into ready-mix concrete when used with our liquid pigment product line.

In March 2003, we acquired the assets of Southern Color Company, Inc. and its affiliates, which expanded our Color Pigments and Services product portfolio into the brick and decorative market segments and provided us with access to the packaged mortar tolling business. In addition, in March 2003, Color Pigments and Services purchased a majority interest in a manufacturer of iron oxide pigments in China. The joint venture manufactures and dry blends pigments and provides us with a continuing source of pigments, as well as an important platform to expand Color Pigments and Services' commercial activities inside the Asia Pacific region. Color Pigments and Services holds a 51% interest in the joint venture.

In June 2003, Color Pigments and Services entered into an agreement pursuant to which an affiliate of W.R. Grace & Co., which sells admixtures and fibers, distributes our liquid pigments and *Chameleon* dispensing systems to ready-mix and precast producers in the concrete industry. We believe our combined efforts will provide ready mix and precast customers with added value in the form of colored ready mix concrete.

In September 2004, we acquired the assets of the pigments and dispersions business of Johnson Matthey Plc., which included facilities located in Kidsgrove and Sudbury, U.K., and

Braeside, Australia for approximately \$47.1 million. The pigments and dispersions business produces transparent iron oxide pigments and dispersions, color concentrates and complex inorganic color pigments used in the surface and wood coatings, plastics, building materials and print ink markets. In addition, we acquired the assets of Hamburger Color Company Inc., a producer of liquid pigments, which included a facility in King of Prussia, Pennsylvania.

#### *Principal Products*

*Construction Color Pigments and Services.* We develop and manufacture principally iron oxide pigments for manufacturers of construction products for use in the coloring of concrete products, including paving stones, bricks, concrete blocks, roofing tiles, stucco and mortar. Color Pigments and Services' major U.S. brand is *Davis Colors* and its key products include *Granufin/Granumat*, *Hydrotint*, *Mix-Ready* and *Chameleon*. *Granufin* is a unique, dry, micro-granulated pigment that combines the flow characteristics of a liquid with the storage and handling advantages of a powder. The *Granumat* dispensing system offers a variety of configurations and features designed to accommodate the varying requirements and budgets of concrete product manufacturers. *Granufin* pigments and the *Granumat* system improve product handling and color consistency for our customers. The granulation technology used in *Granufin* is patented until 2007 in the United States. Our *Chameleon* system, which works in combination with our liquid pigments, automatically weighs, blends and conveys colors into a ready-mix truck using a standard personal computer and custom-developed Windows-based software.

*Paints, Coatings and Colorants.* We also develop and manufacture colored pigments for the paints, coatings, plastics, paper and rubber end-use markets including the brands *Ferroxide*, *Trans-oxide* and *Colourplex*. We produce a wide variety of pigments for these markets that include synthetic iron oxides, corrosion inhibitor pigments, complex inorganic color pigments and process natural pigments such as burnt umbers and siennas. The largest application for these products is colorant used in architectural, industrial and special purpose paints and coatings. Color, ease of dispersion and chemical stability are the primary characteristics of our products, which can be used in a wide variety of both solvent and water-borne systems. We believe that a number of Color Pigments and Services' products are considered industry standards in the markets in which we compete, such as our Mapico yellow pigment for architectural and industrial applications and our heat stable tans, which can tolerate applications requiring high temperature processing, such as plastic compounding and roofing granules.

*Specialties.* Our iron oxide pigments are also used in a wide variety of specialty applications such as toner for large printers and copiers, security inks used to print bank notes, catalysts for styrene production and cosmetics. Each of these markets requires specialized pigments with unique properties which are often as important as the coloring characteristics. For example, printer toners require specific magnetic properties whereas pigments used in cosmetics require color and purity.

#### *Competition*

We believe the global iron oxide pigments market consists of three major producers and a number of other smaller producers in the United States, Europe, Japan and China. We believe Lanxess Corporation and Elementis plc are the only other two major producers in addition to Color Pigments and Services. Competition in this market is based on customer service, product attributes such as product form and quality, and, to some degree, price. Product quality is critical in the higher end of the market on which Color Pigments and Services focuses as inconsistent product quality can have an adverse impact on the color consistency of the end-product.

*Customers*

Color Pigments and Services' key customers include Engelhard Corporation, Oldcastle (CRH plc), Pavestone Company, The Sherwin-Williams Company, Degussa, Unilock Ltd. and Xerox Corporation, each of which has been our customer for at least ten years. Color Pigments and Services' customer base is highly fragmented.

***Timber Treatment Chemicals***

Our Timber Treatment Chemicals business line is a manufacturer of wood protection products primarily in North America. Wood protection products enhance the performance of wood by increasing its longevity through protection from decay and fungal or insect attack. Our specialty timber chemicals also add water repellency and fire retardancy to wood products. Timber Treatment Chemicals' products include wood protection products based on our ACQ technology, which was awarded the EPA Presidential Green Chemistry Challenge Award in 2002, and CCA. Other products recently introduced include Clearwood, our wood protection product for wood windows and doors, as well as a range of specialty additives with fire retardant, water repellent or moldicide properties. Applications include wood protection products used for decking, fencing, playground equipment, garden furniture, house construction materials, utility poles, and other wood constructions.

Timber Treatment Chemicals also manufactures inorganic chemicals such as nitrates and chlorides for various industrial applications, including chemicals that are added to concrete as curing accelerants and corrosion inhibitors, chemicals that are used for odor control in water treatment, galvanizing fluxes, micronutrients, pesticides, and catalysts used in the manufacture of textile resins.

Many of our Timber Treatment products are registered pesticides and subject to extensive regulation. In February 2002, the EPA announced a voluntary decision by CCA manufacturers, including our subsidiary, to amend their registrations for CCA to limit use of CCA-treated lumber in most residential settings. In the culmination of that process, in March 2003, the EPA amended the registrations for CCA prohibiting CCA treatment of wood, effective December 31, 2003, for use in most residential settings, including play structures, decks, picnic tables, landscaping timbers, residential fencing, patios and walkways and boardwalks. Similar initiatives were enacted in Canada by the Pest Management Regulatory Agency which imposed similar limitations on the use of CCA-treated wood. The EPA is currently conducting a risk assessment of CCA-treated wood. The results are expected in June 2006 and may lead to further restrictions on CCA-treated wood products and the use of CCA generally. In addition, in June 2001, special interest groups petitioned the Consumer Products Safety Commission, to ban and recall all CCA-treated wood in playground equipment and refund consumers the cost of the CCA-treated wood playground equipment that they purchased. In November 2003, the Consumer Products Safety Commission denied the petition.

In Japan, the use of arsenic-based chemicals, such as those used in the manufacture of CCA wood protection products, is restricted through legislation limiting the levels of arsenic allowed in rainwater runoff from outdoor wood product storage areas. Due in part to the effect of this legislation, we have been able to attain a significant portion of the Japanese timber treatment chemicals market through our ACQ product line. Various types of restrictive legislation which would further affect the ability to use arsenic-based chemicals are currently being proposed in various jurisdictions in the United States, Canada and Australia. In European Union markets, restrictions were enacted in mid-2004.

We believe that Timber Treatment Chemicals is a leading provider in North America of new generation alternative timber treatment chemicals, such as ACQ, which does not contain chrome, arsenic or any other chemicals classified as "hazardous" by the EPA. We developed this technology to produce ACQ pursuant to a license agreement with Domtar Inc. and through the



acquisition of the Kemwood business from Kemira OY. We have further developed this technology and created our own proprietary line of ACQ products under the brand names *Preserve* and *Preserve Plus*. As a result, in February 2001, we signed a licensing agreement with Osmose, Inc., another major producer of timber treatment chemicals, to license our proprietary ACQ technology to Osmose. Our ACQ technology is patent protected in the United States through mid-2007.

ACQ demand has increased following an industry-wide voluntary transition to non-arsenic-chrome-based wood protection products discussed above. As a result, we invested approximately \$8.5 million to build a new plant in Harrisburg, North Carolina to produce ACQ. This new plant was completed and commenced full production in October 2002.

In addition, Timber Treatment Chemicals provides a broad range of technical expertise and services to its customers. In particular, Timber Treatment Chemicals works closely with its customers to assist them in reducing the total cost of their manufacturing process, by supplying timber treatment chemicals as well as treatment equipment, along with technical support.

#### *Principal Products*

We develop and manufacture a broad range of wood protection products, fire retardant and specialty chemicals for use in residential and industrial wood applications. In addition, we provide treatment equipment which facilitates the handling and treatment of wood and chemicals and we provide comprehensive technical support services to timber treaters. Timber Treatment Chemicals' key brands include *Preserve*, *Preserve Plus*, *Ultrawood*, *SupaTimber*, *D-Blaze* and *Clearwood*.

We also develop and manufacture inorganic metallic chemicals for certain specialty markets. These include zinc chloride-based products, other chlorides, and a range of nitrates and other chemicals. Some of these products are manufactured using by-products from other large chemical companies.

#### *Competition*

We believe that Timber Treatment Chemicals was one of the leading manufacturers of wood protection products in North America in 2004, along with Arch Chemicals, Inc. and Osmose, Inc. BASF Corporation, Kurt Obermeier GmbH & Co. KG and Weyl GmbH are other competitors, particularly in Europe. Competition for wood protection products is mainly based on price, customer support services, innovative technology and product range. In the inorganic chemicals market, we operate in niche areas, and therefore have few overall competitors. Competition in the inorganic chemicals market is mainly based on quality, customer support services and price.

#### *Customers*

Timber Treatment Chemicals sells its products primarily to wood processors who pressure-treat wood. Major customers include Aljoma Lumber, Inc., BB&S Treated Lumber of New England, Coos Bay Lumber Company, Culpeper Wood Preservers, Inc., Eastex Forest Products, Koshii Preserving Co. Ltd., Jeld-Wen, Inc. and Sunbelt Forest Products Corporation. Customers of our inorganic chemicals product line include Degussa AG, Rohm and Haas Company, Nalco Company and W.R. Grace & Co. Each of these companies has been our customer for at least ten years.

#### *Clay-based Additives*

Our Clay-based Additives business line is a developer and manufacturer of specialty clay-based rheological additives. These additives are used in a wide variety of products and applications to modify viscosity, thickness and flow characteristics, keep solids in suspension, maintain levels of coloration with a lower amount of pigment, and collect suspended solids into larger particles. End-products in which these additives are used include industrial and architectural coatings, oilfield

drilling fluids and carbonless copy paper. The principal end-uses for Clay-based Additives' products are paints, inks and paper-making, household care products, oilfield fluids and other end-uses.

During the last several years, we have strategically refocused Clay-based Additives' operations by discontinuing or divesting commodity-based, undifferentiated product lines, while providing significant new capital and research and development for the creation of new high-growth and high-margin products for selected industries. As a result, this business line has developed a number of new value-added products and applications. One of Clay-based Additives' recently developed applications is the use of our *Laponite* synthetic clay as a retention aid in the paper-making process. In addition, we are currently developing new products, including anti-static coatings for paper and variants of *Laponite* to replace current types of thickeners in personal care products. Other products recently introduced by Clay-based Additives include *Garamite*, a cost-effective and easy-to-use thickener which provides low volatile organic compounds capability compared to traditional additives used in the manufacture of fiberglass composites; and *Cloisite*, used in the manufacture of nanocomposite plastics, which are specially engineered composite materials exhibiting superior mechanical, barrier and fire resistant properties compared to traditional plastics and which result in lighter plastic end products. In 2001, our Clay-based Additives business working with General Motors introduced the first commercial exterior automotive application of a new lightweight nanocomposite material based on *Cloisite* nanoclay on the step assist of the GMC Safari and Chevrolet AstroVan. In addition, in January 2004, General Motors adopted this lightweight nanocomposite technology for the body side molding of the 2004 Chevrolet Impala, GM's highest volume car. Although sales of these nanocomposite materials were modest in 2004, we continue to explore additional applications for this product with GM and other strategic partners.

#### *Principal Products*

*Coatings and Inks.* We offer a comprehensive line of additives which modify the viscosity, flow and suspension properties of coatings and inks, including *Claytone* for the manufacture of special purpose coatings, such as bridge, marine and maintenance paints, and architectural coatings, and *Laponite* for the manufacture of automotive coatings. Our *Garamite* additives are used in the manufacture of high solids, low volatile organic compounds epoxy coatings for industrial applications.

*Paper-Making.* We serve the paper industry with a product line that includes bentonite retention aids, which are used in the paper-making process to reduce fiber losses and aid in water drainage from the sheet, and an additive which provides fade-resistant color for carbonless copy paper. We also produce a form of *Laponite* which is used in the production of clear, flexible and moisture-resistant films and coatings with conductive, anti-static and anti-sticking properties, that are used in the manufacture of specialty photographic and anti-static papers, ink jet papers and anti-static packaging.

*Consumer and Household Care Products.* We develop and manufacture a wide range of natural clay-based rheology modifiers, including *Gelwhite* and *Bentolite*, for the consumer and household care markets. In addition, *Laponite* also has functional properties that improve the performance of a wide range of consumer products, such as personal care products, creams, lotions, cosmetics and hard surface household cleaning products for the kitchen and bathroom.

*Oilfield.* We offer a line of *Claytone* organoclays, which are a type of specially treated clays, for use in diesel and synthetic oilfield drilling fluids, which help to control viscosity and flow properties. These additives also help to suspend the cuttings in the fluid, so that they can be expelled from the well efficiently. We recently introduced a *Garamite* additive for use in deep well drilling that requires higher performance.

*Other.* We developed the *Cloisite* range of clays for the manufacture of nanocomposite plastics. Although *Cloisite* has not yet been released for large-scale commercial sale, we have entered into a joint development agreement in the United States with General Motors Corporation in connection with our efforts to develop nanoclays for automotive components, such as external trim and fascia. In January 2004, General Motors adopted this technology for the body side molding on the 2004 Chevrolet Impala. *Cloisite* clays are also being evaluated in a wide range of rubber-based formulations for industrial applications. In addition, our *Garamite* range of clays is used in the manufacture of fiberglass composites.

#### *Competition*

Clay-based Additives operates in specialty markets, and competes based on its research and development capabilities, its ability to produce innovative high-value product solutions and technical support. Our direct competitors in these markets include Elementis plc, Süd-Chemie Ag and R.T. Vanderbilt Company, Inc. We also compete with manufacturers who produce non-clay-based alternatives to our end-users.

#### *Customers*

We supply major coatings manufacturers such as International Paint Limited, BASF Corporation, E.I. duPont de Nemours and Company, Hempel A/S, PPG Industries Inc., and The Sherwin-Williams Company; paper chemical and paper-making companies such as Mitsubishi Hi Tec Paper; ink-makers such as Sun Chemical Corporation; and oil drilling and services companies such as M-I SWACO L.L.C. Each of these companies has been our customer for at least ten years.

#### *Water Treatment Chemicals*

Our Water Treatment Chemicals business line is a producer of pool and spa specialty chemicals in the United States. This business line also develops and manufactures surface water chemicals. Our pool and spa specialty chemicals, which are primarily non-chlorine based, are all sold under premium brand names as well as private label brands mainly through distributors to pool and spa professionals and retailers that then sell to consumers. The surface water chemicals portion of this business serves the professional aquatic applicator, turf and ornamental, aquaculture, vegetation management and agricultural irrigation industries. In addition to developing and manufacturing surface water chemicals, we offer professional treatment services for lakes, ponds and reservoirs.

We sell our pool and spa specialty chemicals under a number of premium brands, such as *GLB*, *Rendézvous*, *Leisure Time*, *Robarb* and *Applied Biochemists*, as well as under private label brands. In surface water chemicals, our premium branded products include *Applied Biochemists*, *Citrine-Plus* and *Aquashade*, and we have developed innovative products for surface water treatment, such as *Clearigate*, an environmentally advanced herbicide for irrigation systems.

#### *Principal Products*

Our pool and spa chemicals are primarily non-chlorine based specialty chemicals such as algaecides, clarifiers, fragrances and foam reducers. Our major pool and spa product lines include *GLB Pool & Spa*, which offers a comprehensive selection of pool and spa specialty chemicals and sanitizers under the *GLB* and *Rendézvous* brand names; *Leisure Time*, which offers a complete spa water care treatment line; and *Robarb*, which includes *Super Blue*, a leading water clarifier with over 20 years of history as a brand. In addition, our *Applied Biochemists* brand offers a full line of pool chemicals including specialty algaecides for service professionals.

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Our surface water chemicals include copper-based algaecides and herbicides to control aquatic plant growth, dyes to control aquatic weed and algae growth, and a range of enzyme and microorganism blends for use in septic and waste water systems. Our surface water treatment product lines include *Clearigate* which is a patented, environmentally advanced herbicide developed to control nuisance aquatic vegetation especially for the agricultural irrigation market. Our *Applied Biochemists* brand of surface water treatment chemicals includes specialty algaecides and aquatic herbicides. *Citrine Plus* is a liquid algaecide which can be used in a wide range of applications, and *Aquashade* is a line of aquatic dyes which help to control aquatic plant growth in lakes and ponds.

### *Competition*

We believe that Water Treatment Chemicals is a leading pool and spa specialty chemicals producer in the United States. Other competitors include Arch Chemicals, Inc. and Biolab, Inc. In the surface water chemicals segment, competitors include Baker Hughes Incorporated and SePro Corporation. Some of our competitors are also customers in other product areas. Competition in these markets is mainly based on brand identity, technical competence, price and customer relationships. In addition, a number of the products in the water treatment chemicals market are subject to governmental environmental regulation and registration requirements, which can affect the ability of other manufacturers to offer competing products.

### *Customers*

The majority of Water Treatment Chemicals' sales are through distributors that then sell to mainly local or regional dealers. We also sell directly to some of the larger pool and spa dealers. Pool and spa specialty chemicals customers include Keller Supply Company, Leslie's Poolmart, Inc. and SCP Pool Corporation. Surface water customers include Cygnet Enterprises, Inc. and Helena Chemical Company. Each of these companies has been our customer for at least five years.

### **Specialty Compounds (7% of 2004 pro forma net sales)**

Our Specialty Compounds segment develops and manufactures thermoplastic materials possessing specialized characteristics, such as fire and smoke retardance, reduced weight or barrier properties, which are tailored to the specific needs of each intended end-product. These products are grouped into six key end-product areas: wire and cable, consumer performance products, medical devices, automotive components, regulated packaging and footwear. Specialty Compounds segment had net sales of \$168.8 million, \$176.4 million and \$200.4 million for the years ended December 31, 2002, 2003 and 2004, respectively. Our Specialty Compounds segment accounted for 7% of our 2004 pro forma net sales. See note 3 to our and Rockwood's consolidated financial statements for additional financial information regarding our Specialty Compounds segment.

Our Specialty Compounds segment focuses on sales of high margin products and operates as a global specialty performance plastic compounding business. We developed and commercialized *SmokeGuard*, our specialty compound for use in high-end data and video communication wire and cable, which must meet stringent fire retardant and low smoke generation standards. We also developed a compound for beverage closure seals and caps. This new compound prevents ozone from attacking the cap and seal and does not affect the taste of water and carbonated beverages, therefore significantly increasing the shelf life of these beverages. We also focus on thermoplastic elastomer, or TPE, compounds in our consumer performance and automotive products areas. In addition to our product offerings, we provide strong, comprehensive customer service and technical expertise by developing innovative products to satisfy our customers' unique needs.

We intend to invest in next generation plastic compounding technologies. For example, in 2003, Specialty Compounds entered into a joint development agreement with E.I. duPont de

Nemours and Company to create, manufacture and commercialize new Smokeguard® compounds based on Teflon® technologies to further raise the safety and performance standards for a variety of wire and cable compounds. Specialty Compounds is also working closely with our Clay-Additives business to create a patented composite material that exhibits superior flame retardancy for wire and cable jacketing and sheathing.

#### *Principal Products*

*Wire and Cable Compounds.* We develop and manufacture low-smoke vinyl alloys, such as *SmokeGuard*, which are used in high-end data and video communication, fiber optic and fire alarm wire and cable; halogen-free plastics, such as *Sentra*, which are used in industrial, aerospace, shipboard or oil rig cables as well as in communication cables; and a variety of TPE compounds, such as *Garaflex*, which are used in flexible cords, tray cables, booster cables, welding cables and automotive wiring. We believe that there is significant growth potential for the wire and cable product line in Europe as a result of the evolution of a common market standard with higher specifications for wire and cable compounds. Unlike in North America, European wire and cable standards dictating certain safety specifications such as fire and smoke resistance have not yet been enacted. However, we anticipate that European legislation mandating specific guidelines for wire and cable will be implemented within the next several years, providing significant new market opportunities for the *SmokeGuard* and *Sentra* product lines.

*Consumer Performance Products.* We develop and manufacture custom-made plastic compounds for use in products such as moldings, sealing gaskets, tool handles, writing instruments and ladder feet as well as other TPE-based products. Our product line includes *Garaflex*, *Garaflex V*, *Garaflex E*, *GE Series* and *GM Series*. We have also developed a soft-touch compound, *Evoprene*, that is currently undergoing approval processes for a number of applications, including synthetic wine corks and seals for consumer storage devices.

*Medical Devices Compounds.* We develop and manufacture a series of high-quality polyvinyl chloride, or PVC, compounds which are used to manufacture products such as tubing, disposable masks, and extraction resistant compounds used to make products to handle blood and bodily fluids.

*Automotive Compounds.* We develop and manufacture compounds for interior and exterior automotive applications such as airbag covers, steering wheel covers, gear shift knobs and boots, handle grips, body side molding and window gaskets.

*Regulated Packaging.* Under the *Alphaseal* trademark, we develop and manufacture specialty closure materials for soft drinks, beer, bottled water, juice, and other beverage applications which have proven their performance, including purity in taste and odor, consistency in the force needed to remove the closures, reliable carbonation retention, and performance on a variety of molding machine types in various applications.

*Footwear Compounds.* We develop and manufacture a broad range of compounds for unit soles, uppers, mid-soles, slippers and heels for the diverse requirements of the footwear market. Applications include industrial boots, deck shoes, casual dress shoes, snow boots, slippers and athletic wear.

#### *Competition*

Specialty Compounds' key competitors are Advanced Elastomers Systems, L.P., Colorite Plastics Co., DS Chemie GmbH, European Vinyls Corporation, Georgia Gulf Corporation, Norsk Hydro ASA, PolyOne Corporation, Teknor Apex Company and W.R. Grace & Co., most of which serve only a subset of Specialty Compounds' markets. We believe that only Teknor Apex is active in

all of Specialty Compounds' markets. Competition in specialty compounds occurs primarily on the basis of quality, product innovation and the ability to meet demanding customer and regulatory specifications.

#### *Customers*

Specialty Compounds sells products to a wide range of customers. Its major customers include Alcoa Inc., Belden/CDT Inc., Berk-Tek Consolidated, Coleman Worldwide Corporation, CommScope/ Systimax, Inc., Corning Incorporated and Judd Wire Inc. Each of these companies has been our customer for at least ten years.

#### **Electronics (6% of 2004 pro forma net sales)**

We supply our customers in the semiconductor and printed circuit board industries with chemicals used in the manufacture of semiconductors, printed circuit boards, and photomasks from our Electronic Chemicals business line, photo-imaging masks from our Photomasks business line, and silicon wafer refurbishment services from our Wafer Reclaim business line. Our Electronics segment generated net sales of \$147.3 million, \$143.6 million and \$168.1 million for the years ended December 31, 2002, 2003 and 2004, respectively. Our Electronics segment accounted for 6% of our 2004 pro forma net sales. See note 3 to our and Rockwood's consolidated financial statements for additional financial information regarding our Electronics segment.

#### *Electronic Chemicals*

Our Electronic Chemicals business line is a producer of process chemicals, known as high purity chemicals, used in the manufacture of semiconductors, with market positions in Europe and Singapore, as well as chemicals used by printed circuit board manufacturers and photomask manufacturers, with market positions in the United States and Taiwan. In addition, we are in the process of expanding our manufacturing capabilities for printed circuit board chemicals in China to enable us to supply this expanding market. We expect this facility to be operational in the second quarter of 2005. We also offer related outsourcing services to manage the process chemical needs of semiconductor manufacturers. Electronic Chemicals' key products include acids, bases, solvents and mixtures used principally for cleaning and etching silicon wafers and printed circuit boards.

Electronic Chemicals bundles high-quality tailor-made formulations and patented products with technical service and strong systems capabilities. These characteristics also enable us to offer our customers a service we call total chemicals management, through which we are able to manage a customer's supply of electronic process chemicals, including chemicals supplied by third parties, and related logistics.

#### *Principal Products*

*Printed Circuit Board Chemicals.* We develop and manufacture chemicals for the printed circuit board industry, such as oxide treatments, electroplating additives, etching technology, electroless copper processes, *Co-Bra Bond*, the newer oxide replacement technology and a proprietary direct metallization process known as *Shadow*.

*High Purity Chemicals.* We develop and manufacture a wide range of ultra-pure chemicals used in the manufacture of electronic and computer components such as semiconductors, silicon chips, wafers, and liquid crystal displays. These products include chemicals used to remove controlled portions of silicon and metal, cleaning solutions, photoresist strippers, which control the application of certain light-sensitive chemicals, edge bead removers, which aid in the uniform application of other chemicals, and solvents.

*Photomask Chemicals.* We also develop and manufacture a broad range of chemicals used in the manufacture of photomasks. Like the high purity chemicals, these products are subject to strict purity specifications, although these specifications are generally not as stringent as those for our high purity chemicals.

*Electronic Chemicals Services.* We provide a range of analytical, logistical and development support services to the semiconductor industry. These include total chemicals management, primarily offered in Singapore, under which we manage our clients' entire electronic process chemicals operations including providing logistics services, development of application-specific chemicals, analysis and control of customers' chemical distribution systems and quality audit and control of all inbound chemicals, including third party products.

#### *Competition*

Key competitors in printed circuit board chemicals are Atotech Deutschland GmbH, Cookson Group plc, MacDermid Incorporated, Rohm and Haas Electronic Materials (Shipley). Key competitors in high purity chemicals include Honeywell International, Inc., Air Products & Chemicals, Inc., Kanto Corporation, Mitsubishi Chemical Corporation and Mitsubishi Gas Chemical Company, Inc. The key competitor in photomask chemicals is Air Products & Chemicals, Inc. Competition in this market is based mainly on customer service, product quality and technological advancements.

#### *Customers*

We supply our electronic chemicals and related services to semiconductor and printed circuit board manufacturers, including Compeq Manufacturing Co. and Motorola, Inc. Both of these companies have been our customers for at least ten years.

#### *Photomasks*

We manufacture photomasks both in Europe and North America under the *Compugraphics* brand name. Photomasks are a key enabling technology to the semiconductor and integrated circuit industries, and perform a function similar to that of a negative in conventional photography.

We believe that Photomasks has achieved its success through its technical abilities and product quality, as well as through customer service and its low cost base, both of which have been especially significant in the recent semiconductor industry downturn. We have achieved high standards of specification, quality, delivery and manufacturing efficiency through our use of statistical process control and other advanced manufacturing techniques. Our equipment is designed to serve the mainstream semiconductor industry.

#### *Principal Products*

We manufacture photomasks, which are used as master images to transfer integrated circuit detail onto semiconductor wafers during the fabrication of integrated circuits and other types of electronic components, such as thin film magnetic recording heads and optoelectronic devices, which emit or detect light. In addition, we refurbish and replace pellicles for photomasks manufactured by us and other photomask manufacturers.

#### *Competition*

Photomasks competes primarily with Toppan Photomasks, Inc., formerly DuPont Photomasks, Inc. prior to its acquisition by Toppan Printing Company, and Photronics Inc. Competition occurs primarily on the basis of technical specification, product quality, delivery performance, price and customer service and support.

*Customers*

Photomasks' customer base includes many major semiconductor manufacturers such as Philips Semiconductors and Freescale, Inc., both of which have been our customers for at least ten years.

***Wafer Reclaim***

Our Wafer Reclaim business line is a provider of semiconductor wafer refurbishment services with market positions in the United States and Europe. Silicon wafers that have been used to monitor or test semiconductor manufacturing processes are generally reclaimed and reused as test pieces. We estimate that three out of every ten wafers used in an established semiconductor manufacturing facility are test wafers.

We work with semiconductor manufacturers to refurbish used test wafers and return them to the manufacturer for reuse in test and process monitor applications. We also believe that we benefit from the fact that many of these semiconductor manufacturers are also customers of Electronic Chemicals and Photomasks and can gain an advantage from these established relationships.

In January 2003, we announced a \$7.0 million expansion and refurbishment project for our Greasque Wafer Reclaim facility located in the South of France. The project focused on increasing capacity and enhancing capabilities, particularly in the area of 8" (200mm) reclaimed silicon wafers. The project was completed in September 2003. In December 2003, we acquired a majority interest in a wafer reclaim business in Germany that is capable of reclaiming next-generation 12" (300mm) wafers and in December 2004 acquired the remaining interests from the minority shareholders.

*Principal Products*

Wafer Reclaim does not manufacture products, but rather is a service business that refurbishes used wafers for global semiconductor manufacturers and returns them for reuse in the testing process. We clean and inspect the wafers, restore surfaces, and remove film from the wafer surface in order to improve the performance of the wafer. We have the ability to reclaim 4" (100mm), 5" (125mm), 6" (150mm), 8" (200mm) and 12" (300mm) wafers.

*Competition*

Wafer Reclaim's primary competitors include Hamada Heavy Industries Limited, Kobe Precision Inc., Mimasu Semiconductor Industry Co. Ltd. and Rasa Industries Limited and Pure Wafer. We also compete to a degree with manufacturers of virgin test wafers. The primary bases of competition for this business line are quality of service and price.

*Customers*

Wafer Reclaim's customers include most of the major semiconductor producers including Atmel Corporation, Cypress Semiconductor Corporation, Freescale Semiconductor, Inc., International Rectifier Corporation, National Semiconductor Corporation, Philips Semiconductors and Tower Semiconductor Ltd. Each of these companies has been our customer for at least ten years.

**Specialty Chemicals (26% of 2004 pro forma net sales)**

Our Specialty Chemicals segment, which we acquired in the Dynamit Nobel acquisition and operates under the *Chemetall* brand name, develops and manufactures metal surface treatment products and services, lithium chemicals and fine chemicals for a wide range of industries and end markets. This segment is comprised of two business lines: (1) Surface Treatment, which supplies surface treatment products and solutions for metal processing industries; and (2) Fine Chemicals, which supplies lithium products across the entire value chain from raw materials to specialty lithium



compounds and advanced metal-based specialty chemicals to niche markets. Our Specialty Chemicals segment generated net sales of \$759.6 million on a pro forma basis for the year ended December 31, 2004, or 26% of our 2004 pro forma net sales. Actual net sales for the five months ended December 31, 2004 were \$321.1 million. Prior to the Dynamit Nobel acquisition, the Specialty Chemicals segment generated net sales of \$568.2 million for the year ended September 30, 2002 and \$659.7 million for the year ended December 31, 2003. We expect this segment to benefit from the increased demand for lithium-based batteries for mobile electronic applications. In addition, we expect to benefit from the trend to replace chrome-containing products with chrome-free technologies in metal surface treatment, such as silane-based systems or our patented self-assembling molecule technology. See note 3 to our audited consolidated financial statements for additional financial information regarding our Specialty Chemicals segment.

### *Surface Treatment*

We believe that our Surface Treatment business line is a leading global supplier of surface treatment products and solutions. Surface Treatment's products are used for a variety of applications and serve the automotive, aerospace and general industrial markets, including steel and metalworking industries. This business line supplies more than 5,000 different products, many of which are based on proprietary formulations and extensive application know-how, to over 30,000 customers and operates in 29 different locations for production and research and development in over 20 countries. Surface Treatment operates along the following four business divisions based on its core end-markets: (1) Advanced Technologies; (2) Performance Products; (3) Automotive Technologies; and (4) System Technologies.

In Surface Treatment, we develop and supply products and solutions for the chemical pretreatment of metals and other substrates, some of which are customized for individual customers and applications. Our products and solutions are critical to many areas of the metal processing industry because they protect metals from corrosion, facilitate forming and machining, allow parts to be processed in a clean and grease-free environment and ensure good coating adhesion. Other products are used in the cleaning and maintenance of aircraft. As an integrated part of the business, we also offer a full range of customer services, including process control and analysis of chemical baths at clients' facilities.

Surface Treatment competes in markets characterized by significant barriers to entry, proprietary manufacturing technologies and know-how, demanding product-handling requirements, rigorous product quality and performance standards and specifications and longstanding service-intensive customer relationships. In order to remain competitive, we are currently focused on developing new products, improving process technologies and expanding our customer base and broadening our technology capabilities in existing and new markets through internal research and development. For example, we have recently introduced new generations of organic coatings for coil manufacturers and iron-phosphating products for the smaller customer market in the United States. We currently have a number of significant joint ventures across Asia, which we believe provide us with the opportunities to further penetrate these high growth regions.

### *Principal Business Divisions*

*Advanced Technologies.* Advanced Technologies comprises three separate units:

*Automotive suppliers.* We offer cleaning and pretreatment products and services to automotive parts manufacturers for use in the making of automotive parts, such as axles, seats and other metal components. We believe that products for the treatment of steel and aluminum wheels, including a new generation of products based on self-assembling molecules, represent an attractive growth area in this market.

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*Cold forming.* We provide products and services used to facilitate the cold forming of tubes, wire drawing and cold extrusion of metal.

*General industry.* We offer a range of products and services to a broad range of industrial end-markets that have metal surface treatment applications, including cleaning, activation, conversion coating and final rinsing. Markets include household appliances manufacturing, can producers, heating, ventilation and aluminum finishing markets.

*Performance Products.* Performance Products serves the largest number of customers among Surface Treatments' business units. In Performance Products, we develop a wide range of products such as cleaners, iron phosphates, coolants, paint strippers and flocculants for diverse end-markets, which include various types of small to medium-sized users of cleaners and other surface treatment products. Our *Gardo* products (such as *Gardoclean* and *Gardobond*) provide complete process solutions for all steps of the chemical treatment of metal surfaces, often tailored for individual customers and their applications. We have recently introduced a new generation of iron-phosphating products in the U.S. market, which we expect will provide growth in the next few years.

*Automotive Technologies.* We provide surface treatment products and solutions for automotive OEMs, including an entire range of products and services for use in the "paint shop" step of car body manufacture. The products and services we provide typically represent a low percentage of total car body production costs, but have high value in terms of corrosion protection and surface quality. Major applications include car body pretreatment (zinc-phosphating) and paint coagulation. Our services typically include intensive process control and chemical management function in the customers' production processes.

*System Technologies.* System Technologies comprises three separate units:

*Aerospace Technologies.* We provide products and services for aerospace OEMs, airlines and maintenance companies. Aerospace Technologies focuses on four major application areas: cleaning; corrosion protection; maintenance chemicals; and sealants. Cleaning products are used for the interior and exterior cleaning of airplanes. *Ardrox* products provide a complete range of globally recognized products specifically developed for use in aircraft maintenance programs, ranging from daily cleaning to complete aircraft overhaul. Corrosion protection products include waxes used to protect airframes. Maintenance chemicals for aircraft engines and turbines include high performance cleaners and products for non-destructive testing of engines. Aircraft sealants provide high technology sealing solutions for airplanes and are expected to contribute significantly to growth in the next few years.

*Coil.* We provide products and services used in forming, cleaning and pretreating metal sheets used in the production of steel and aluminum coil.

*Glass Technologies.* This business division operates in a very specialized niche market and produces specialty products, which are similar to metal surface treatment products but are used on the glass substrates, for glass manufacturers including specialty cleaners, polishing products, cutting oils and cooling lubricants.

### *Competition*

We believe that the top five competitors in the global metal surface treatment market held an estimated market share of more than 50% in 2004. We believe that Henkel Surface Technologies is the global market leader, followed by Surface Treatment. The remaining main competitors include Japan-based Nihon Parkerizing, PPG and Nippon Paint Co., Ltd. Competition in this market is based primarily on customer service, product quality and technological capabilities.

*Customers*

Surface Treatment serves a large customer base. Surface Treatment's largest customers include Daimler Chrysler AG, RNUR (Renault), Arcelor and Volkswagen AG. The composition of the customer base varies widely by business division. Advanced Technologies business division serves approximately 7,500 customers globally in a broad range of industries. Performance Products business division serves approximately 39,500 small and mid-size customers. Automotive Technologies business division serves approximately 20 customers, primarily global OEMs, and Aerospace Technologies business division serves approximately 3,500 customers worldwide.

*Fine Chemicals*

Our Fine Chemicals business line consists of our lithium, special metals, metal sulfides and rubber chemicals product lines. We believe that our Fine Chemicals business line is the leading global producer of basic and specialty lithium compounds and chemicals and advanced metal-based specialty chemicals.

Fine Chemicals develops and manufactures a broad range of basic lithium compounds, including lithium carbonate, lithium hydroxide, lithium nitrate, lithium chloride, and value added lithium reagents, including butyllithium and lithium aluminum hydride. Lithium is a key component in products and processes used in a variety of applications and industries, which range from lithium batteries, high performance greases, thermoplastic elastomers for car tires, rubber soles and plastic bottles to intermediates in the pharmaceutical industry. In our Fine Chemicals business, we operate our lithium business along the following four business divisions reflecting its core end-markets: (1) Life Sciences; (2) Base Chemicals; (3) Elastomers; and (4) Electronics.

Lithium brine, which is the primary raw material source for all lithium chemicals, is found in only a small number of locations, including, most importantly, the Atacama Desert in Chile. We have a long-term contract with the Chilean government to produce lithium carbonate from brine in the Atacama Desert, which we believe provides us a secure long-term source.

Lithium carbonate can be resold or used as a primary raw material for more specialized forms of lithium-based materials. We have developed an integrated, low cost manufacturing capability based on a range of proprietary technologies and advanced equipment, including brine processing technology and aqueous chemistry for a broad variety of lithium salts. In addition to developing and supplying lithium compounds, we provide technical service, including training of customers' employees, for handling reactive and air-sensitive lithium products. We also offer our customers recycling services for lithium containing by-products resulting from synthesis with organolithium products, lithium metal and other reagents. Product quality is critical in the life sciences, elastomers and electronics industries. We believe that these services and our ability to handle highly reactive compounds in large quantities serve to build customer loyalty. In Lithium, we plan to continue to focus on the development of new products and applications. Over the last 20 years, the use of lithium products has grown substantially in a variety of applications, such as life sciences and electronics, largely as a result of innovation and product development. Currently, we are in the process of developing lithium compounds for several near- to medium-term, new and potentially high growth products for applications such as fuel cells, batteries for electric vehicles or lithium-aluminum alloys.

Fine Chemicals also develops and manufactures advanced metal-based specialty chemicals along two business divisions based on its principal product groups: (1) Metal Sulfides, which develops and manufactures natural and synthetic metal sulfides used in brake pads and clutch facings and cutting and grinding wheels and (2) Special Metals, which develops and manufactures cesium products for the chemical and pharmaceutical industries and zirconium barium and titanium products for various applications including the airbag industry. Fine Chemicals is the only

commercial producer of certain metal compounds, which are used for X-ray image intensifiers and displays for digital X-ray technology. Fine Chemicals also sells accelerators for the rubber industry.

In our metal-based specialty chemicals business, we are well positioned in the field of metal sulfides and special metals, offering a broad range of products and fully integrated production processes, as a result of which we are a single source supplier for many of our customers. Fine Chemicals benefits from a long-standing expertise in handling, processing and developing new specialty metal products. Fluctuations in purity grades of the products can lead to significant losses in customers' production processes. Fine Chemicals has a reputation among its customers for consistently producing highly customized, quality products. We have had strong sales growth over the past three fiscal years in our metal-based specialty chemicals business, driven by the shift towards synthetic sulfides in brake pads. Currently, we are a major supplier of synthetic metal sulfides for use in brake pads. In addition, we hold several key patents, which, we believe, gives us a competitive advantage in the fast growing synthetic metal sulfides market. In order to further strengthen our competitive position in metal-based specialty chemicals market, we are focused on the production of new variations of synthetic metal sulfides, and new cesium products for organic synthesis. We also continually monitor our customers' industries for potential new applications for our products and often achieve a sole supplier position by being the first to offer our products to potential new customers. In addition, we plan to expand our business by penetrating growth areas such as the United States and Asia.

We believe that demand for metal sulfides and, in particular, synthetic metal sulfides will increase significantly in the future as a result of the continuing substitution of asbestos-based friction linings, transition from naturally occurring sulfides to synthetic sulfides worldwide and the transition from drum to disk brakes in Asia and the Americas. We also believe that the market for cesium compounds will grow as a result of new applications being developed in the chemicals industry, the pharmaceutical industry, the defense industry and for use as catalysts. As a result of our competitive strengths as a supplier of cesium products for established markets, we believe we are well-positioned to take advantage of this market trend.

#### *Principal Business Divisions*

##### *Lithium*

*Life Sciences.* We develop and manufacture lithium compounds and other products for life science applications, such as special reagents for the synthesis of drug intermediates as well as for the flavor and fragrances industry. The two principal lithium compounds are butyllithium and lithium aluminum hydride, in which we believe we have strong market positions. Various other compounds include lithium metal, grignard reagents and alkoxides. Development of life science applications usually requires regulatory approvals, such as FDA approvals. Our research and development team often works closely together with research and development departments of pharmaceutical companies, especially in the European market in order to develop products and solutions tailored for the customers' needs.

*Base Chemicals.* We develop and manufacture basic lithium compounds which serve a wide range of industries and applications. Our products include (1) lithium carbonate, which is used as a fluxing agent for enamels, glass and ceramic production to lower process temperature in aluminum electrolysis, and as a cement additive for construction applications; (2) lithium hydroxide, which is principally used in high performance greases for automotive and industrial applications; (3) lithium nitrate, which is principally used in rubber industry and (4) lithium chloride, which is principally used in gas and air treatment.

*Elastomers.* We develop and manufacture high-technology lithium compounds for use in rubber and elastomer applications. Our main product, butyllithium, is used as a polymerization initiator for synthetic rubber and thermoplastic elastomers. Generally, these products require a high degree of handling, transport and application know-how and customer service due to their high reactivity. We benefit from being a major supplier with butyllithium manufacturing facilities in all three geographic regions with plants in the United States, Germany and Taiwan.

*Electronics.* We develop and manufacture lithium products for electronic applications, mainly for the primary (disposable) and secondary (rechargeable) battery industries. Our major product is lithium metal, which is used as anode material for primary batteries. Lithium ion-based batteries are used extensively in consumer electronics, such as mobile phones, camcorders and laptops. We are currently developing a new generation of conductive lithium salts used for the battery market, which, we believe, has the potential to drive significant growth in the future.

#### *Metal-based Specialty Chemicals*

*Metal Sulfides.* This business division has two major product lines: friction stabilizers and abrasive additives. Friction stabilizers enhance the power and performance of brake pads and clutch facings and primarily serve the automotive supplier industry while abrasive additives are additive compounds. When bound with synthetic resin, additive compounds act as active fillers in cutting wheels, enhancing cutting effectiveness and tool life of cutting and grinding wheels and primarily serve the mechanical engineering industry. The demand for metal sulfides is driven primarily by the demand in the automotive supplier industry.

*Special Metals.* In this business division, we develop and manufacture a unique range of products based on special metal compounds derived from cesium, rubidium, titanium, zirconium and barium. These products are used in highly specialized, technology-driven end-applications such as X-ray diagnostic systems, airbags, television cathode ray tube and vacuum lamps and serve various end-markets, such as chemical, pharmaceutical, metallurgical, automotive, electronics and pyrotechnical industries.

*Rubber Chemicals.* In this business division, we develop and manufacture products for the rubber and latex industry such as high-speed vulcanization accelerators that are used in latex and solid rubber production and processing. In addition, this business division produces antioxidants that are used in the production and processing of natural and synthetic rubbers, thermoplastic materials and adhesives, and plasticizers that are used for rubber production.

#### *Competition*

*Lithium.* We believe the global lithium market consists of three major producers and a number of other small producers. We believe that we are the global market leader in the lithium market. While we offer a diverse range of products from raw materials to specialty lithium compounds, FMC Corporation offers mainly specialty lithium compounds and Sociedad Quimica y Minera de Chile S.A. (SQM) offers a more limited product line focused on basic lithium compounds. Competition in this market is based on product quality, reliability of products and customer service.

*Metal-based Specialty Chemicals.* We believe that in the metal-based specialty chemicals business, Fine Chemicals has a leading market position in its niche markets. It has a leading position in friction materials and is the only supplier offering a full product range of friction stabilizers and abrasive additives based on metal sulfides. Most competitors only offer single product lines in this market. Key competitors include: Dow Corning Corporation, Frimeco Productions GmbH, and American Minerals, Inc., in Metal Sulfides division and Cabot Corporation and SAES Getters, S.p.A. in Special Metals division. Competition in the metal-based specialty

chemicals markets in which Fine Chemicals competes is based on product quality and product diversity.

#### *Customers*

Fine Chemicals serves approximately 1,000 customers worldwide in its lithium business and 700 customers worldwide in its metal-based specialty chemicals products business. Fine Chemicals' customers of lithium products include Bayer CropScience, Kraton Polymers U.S. LLC, Energizer and DSM N.V. Fine Chemicals' largest customers of metal-based specialty chemicals products include Bayer, Federal Mogul Corporation, Thorn Microwave Devices Ltd and BASF.

#### **Titanium Dioxide Pigments (14% of 2004 pro forma net sales)**

Our Titanium Dioxide Pigments segment, which we acquired in the Dynamit Nobel acquisition and operates under the *Sachtleben* brand name, is a leading producer of high quality chemical products with a unique range of small inorganic particles that add significant value to customers' products and enhance the economics of customers' production processes. Titanium Dioxide Pigments comprises three business lines: (1) Titanium Dioxide; (2) Functional Additives; and (3) Water Chemistry. Our Titanium Dioxide Pigments segment generated net sales of \$422.0 million on a pro forma basis for the year ended December 31, 2004, or 14% of our 2004 pro forma net sales. Actual net sales for the five months ended December 31, 2004 were \$175.7 million. Prior to the Dynamit Nobel acquisition, the Titanium Dioxide Pigments segment generated net sales of \$321.3 million for the year ended September 30, 2002 and \$381.8 million for the year ended December 31, 2003. See note 3 to our audited consolidated financial statements for additional financial information regarding our Titanium Dioxide Pigments segment.

#### **Titanium Dioxide**

Our Titanium Dioxide business line is a leading producer of specialty grade titanium dioxide ( $\text{TiO}_2$ ), serving a wide variety of customers in the synthetic fibers, plastics, paints, coatings, life sciences, cosmetics, pharmaceuticals and paper industries.  $\text{TiO}_2$  is a fine white powder that derives its value from its unparalleled whitening strength and opacifying ability, which is commonly referred to as hiding power. Our Titanium Dioxide business line's principal products include  $\text{TiO}_2$  in anatase form,  $\text{TiO}_2$  in rutile form and titanium specialties. This business line also provides recycling services for sulfuric waste acid.

There are two ways of producing  $\text{TiO}_2$ : the sulfate process and the chloride process. The chloride process permits production of only rutile  $\text{TiO}_2$  and is primarily suited for large volume production of standard  $\text{TiO}_2$  grades. The sulfate process is capable of producing both the rutile and anatase grade of  $\text{TiO}_2$ . Approximately 58% of the globally installed  $\text{TiO}_2$  capacity uses the chloride process with the remaining using the sulfate process. Unlike rutile grades, anatase grades can only be made through the sulfate process. We employ sulfate process for  $\text{TiO}_2$  production and thus, the output from approximately 58% of the globally installed  $\text{TiO}_2$  production capacity does not compete with our anatase products.

We believe that we have a competitive advantage in fiber anatase production and special high margin anatase applications based on our strong technological capabilities, long-term customer relationships and extensive test runs with regular monitoring of product and process parameters. While representing a negligible part of the fiber material cost,  $\text{TiO}_2$  application know-how is critical for the production of a value-added product without production interruptions. Due to the process critical nature of the  $\text{TiO}_2$  in man-made fiber production, customers demand a longstanding anatase application track record. For over thirty years, we have worked closely with fiber producers on the optimization of their product and processes and as a result we have built up a significant wealth of

customer-problem solution know-how. We intend to grow our Titanium Dioxide business line by focusing the rutile business on selected markets and applications, increasing production capacity by means of enhancing our manufacturing processes and further developing our titanium specialties business. We expect this segment to benefit from sales of newly introduced nano-particle titanium dioxide pigments that are used to provide ultraviolet light protection for plastics and coatings.

#### *Principal Products*

*TiO<sub>2</sub> in Anatase Form.* We develop and manufacture anatase TiO<sub>2</sub> pigments. These pigments can only be produced by the sulfate process and are sold primarily to the global synthetic fiber industry, as well as paper, food and pharmaceutical industries. Our anatase pigments, sold under the brand name *Hombitan®*, are the leading global selling TiO<sub>2</sub> product for applications in the synthetic fiber industry. For synthetic fiber manufacturers, any production downtime is very costly, and the usage of not perfectly formed or homogenous anatase TiO<sub>2</sub> crystals can result in excessive equipment wear and breakdowns. Therefore, while anatase TiO<sub>2</sub> pigments represent a small portion of overall material costs to synthetic fiber manufacturers, they represent a critical component to the manufacturing process due to quality and value added to the end product. We believe our Titanium Dioxide business line produces a high quality anatase TiO<sub>2</sub> and supplies most major producers of synthetic fibers.

*TiO<sub>2</sub> in Rutile Form.* We develop and manufacture rutile TiO<sub>2</sub> pigments, which are mainly used in special applications such as selected coatings, paints, plastics and laminated paper production processes. In this product area, we are geographically focused on the European market. Rutile-based TiO<sub>2</sub> pigments generally possess performance characteristics different from anatase-based pigments. Rutile-based pigments significantly improve the weatherability and durability of polymer products by providing protection against yellowing and preventing embrittlement of the material. Our rutile grades are state of the art products and are used in applications with high technical requirements. However, given the relatively higher selling price of the anatase-based TiO<sub>2</sub> pigments, we produce rutile-based TiO<sub>2</sub> mainly in order to fully utilize the production capacity of our plant.

*Titanium Specialties.* Our titanium specialties products primarily include "nano-particles", which are exceptionally fine-particled, transparent and easy-to-use pigment formulations that are used across a large and diverse range of applications in small volumes. For example, the specialty grade TiO<sub>2</sub> products are used as UV-absorbers in sun protection cosmetics. In addition, the new nano-particles form the basis for innovative wood-protection products and innovative color variations, by the paints and coatings industry. Other uses include catalysts, gas cleansing, photocatalysts and intermediates for special ceramics.

*Recycling Services.* We operate a recycling waste acid recovery plant in Europe in our production facility in Duisburg, Germany. The sulfuric waste acid, which results from the production of TiO<sub>2</sub>, is recycled and used in the production process. This service is also offered to other TiO<sub>2</sub> manufacturers in Europe, and we have a long-term contract with one of our competitors to provide this service.

#### *Competition*

Titanium Dioxide's key competitors include: (1) Fuji Titanium Industry Co., Ltd. and Kronos Worldwide, Inc. for anatase-based TiO<sub>2</sub>; (2) DuPont Titanium Technologies, Millennium Chemicals, Inc., Kerr-McGee Corporation, Huntsman LLC, and Kemira oyj for rutile-based TiO<sub>2</sub>; (3) Kemira, Tayca Corporation, Ishihara Corporation and Degussa for TiO<sub>2</sub> specialties; and (4) captive capacity of manufacturers for recycling services. Competition in the markets in which Titanium Dioxide

competes is generally based on technological capabilities, product quality, price in rutile form and customer service.

*Customers*

Titanium Dioxide's customers include Kronos-Titan, Smurfit, Nan Ya Plastics Corporation, BASF Group and Invista Inc.

***Functional Additives***

Our Functional Additives business line is a leading global manufacturer of barium-based and zinc-based inorganic fine white pigments and additives. The main function of these products is to improve brilliance of colors and shine of coatings, improve the mechanical strength of plastic parts and prevent degradation due to exposure to light. Our Functional Additives business line serves diverse end-markets, including the plastics industry, the coatings industry and the pharmaceutical industry.

*Principal Products*

***Barium-based Additives.*** We produce highly dispersed powders of barium sulfate and are the largest global producer of precipitated synthetic barium sulfates (Blanc Fixe). We provide a unique range of barium-based additives customized for applications in coatings, plastic, colorants, lubricants, PVC stabilizers and thermoplastics, fibers and paper to improve optical, chemical and mechanical properties. We also produce an X-ray-grade barium sulfate used as contrast agent in medical applications, such as X-rays for the stomach and intestine area. The barium-based products also include nano-particle barium sulfates, which are mainly used in coatings and plastics. Barium hydroxide grades are used as intermediates, including for the production of PVC stabilizers and as an additive in phenolic resin synthesis, including for the production of phenolic-resin-based plastics used for sanitary products and electrical insulations.

***Zinc-based Additives.*** We believe we are also a leading producer of pure zinc sulfide pigments, mainly used in glass fiber reinforced plastic parts and coatings and a leading supplier of Lithopone, a white zinc sulfide pigment, which is used in plastics and coatings. Lithopone is manufactured by our Huali Sachtleben joint venture in Guangzhou, China.

*Competition*

Key competitors for barium-based additives include Solvay S.A., Gruppo Chimico Dalton S.p.A., Sakai Chemical Industry Co., Ltd. and Chinese barium-producers. Key competitors for zinc-based additives include Chinese lithopone producers. Competition in the functional additives market is primarily based on application know-how, brand recognition, product quality and, to a certain extent, price.

*Customers*

Functional Additives' customers include duPont de Nemours, Ampacet Corporation, BASF Group, Akzo Nobel Coatings and A. Schulman Plastics.

***Water Chemistry***

We believe that our Water Chemistry business line is a leading manufacturer of polyaluminium chloride, or PAC, and polyaluminium nitrate-based flocculants. Flocculants are added to water to improve its purity before, during and after its use in industrial, commercial and municipal



applications. PAC flocculants are widely used in public, industrial and swimming pool water treatment and as a process agent in the paper industry.

We believe we have achieved a strong market position in Europe due to our comprehensive customer service arrangements, well-established brand names, competitive cost structure and innovative products. Customers in this market increasingly prefer full service offers, which include supply of water treatment chemicals together with services. Given this market trend, we believe that our ability to provide full services will help us maintain our market position. We also believe that demand for PAC flocculants will increase as a result of increased demand from the paper industry and moderate growth in public water treatment.

#### *Competition*

We believe that our Water Chemistry business line competes in a €190.0 million niche market for inorganic flocculants in Europe. The relevant market is characterized by production overcapacity and is geographically constrained to an approximately 300 mile radius around the production plant because the delivered product contains 80 to 90% water. Key competitors of this business line include Kemira, Rhodia ECO Services, TotalFina Elf and Israel Chemical Ltd./Giulini. Competition in the water chemistry market is primarily based on customer service, brand recognition and location.

#### *Customers*

Water Chemistry's customers include Sappi Limited, Akzo Nobel, Brenntag AG, LEIPA Georg Leinfelder GmbH and Stora Enso oyj.

#### **Advanced Ceramics (12% of 2004 pro forma net sales)**

Our Advanced Ceramics segment was acquired in the Dynamit Nobel acquisition and operates under the *CeramTec* brand name. We believe it is a leading global producer of high-performance advanced ceramics materials and products. Advanced Ceramics serves four principal end-markets: (1) medical; (2) electronics; (3) industrial; and (4) automotive, with strong market positions in various niche markets such as medical products, cutting tools and mechanical applications. Our Advanced Ceramics segment generated net sales of \$349.5 million on a pro forma basis for the year ended December 31, 2004, or 12% of our 2004 pro forma net sales. Actual net sales for the five months ended December 31, 2004 were \$146.3 million. Prior to the Dynamit Nobel acquisition, the Advanced Ceramics segment generated net sales of \$224.8 million for the year ended September 30, 2002 and \$286.0 million for the year ended December 31, 2003. See note 3 to our audited consolidated financial statements for additional financial information regarding our Advanced Ceramics segment.

The global ceramics market comprises products and components based on inorganic, non-metallic, microcrystalline materials that are manufactured at high temperatures. The global ceramics market can be divided into traditional ceramics, such as bricks, tiles and white ware, and high-performance ceramics, which are ceramic materials and products optimized for special purposes. High performance ceramics have superior physical, electrical, chemical or biological properties as compared to traditional ceramics and competing materials, like metals or plastics. Accordingly, they have increasingly replaced plastics and metals as key engineering materials. We compete in the high-performance ceramics segment of the market, offering a wide range of high-performance ceramics products from sealing discs for sanitary fittings to ceramic components for hip joint prostheses to injection components for diesel engines based on piezo technology. These products serve the market's needs for materials that are light, strong, corrosion-resistant and capable of performing in high-temperature environments.

High-performance ceramics materials include ceramic powders, ceramic additives, structural ceramics and functional ceramics. Ceramic powders and ceramic additives are inputs to the manufacturing processes of structural and functional ceramics. Structural ceramics, also called engineering ceramics, take advantage of the mechanical properties such as hardness and wear-resistance to produce load-bearing or engineered components. Due to their resistance to corrosion and heat properties, structural ceramics are also used to perform under special chemical conditions or at high temperatures. We believe that we are one of the leading suppliers in the structural ceramics market. Functional ceramics, also referred to as electronic ceramics, focus on the unique electrical and magnetic properties of ceramics. Ceramic applications in electronic components, such as integrated circuit packages, capacitors and transformers, account for the majority of today's high-performance ceramic materials. We believe that increasing demand for electronic components will continue to offer significant growth opportunities for high-performance ceramics, such as piezo ceramics. As a leading supplier of electronic ceramics materials, we believe we are well-positioned to take advantage of these growth opportunities.

We believe that we have achieved success in the Advanced Ceramics segment as a result of our focus on selected segments of the high-performance ceramics market and our close customer relationships. Almost all of Advanced Ceramics' products are made to order, taking into account specific customer requirements. In many cases, our engineers work in close cooperation with our customers during the design and development phase of new products to ensure highest quality and customer satisfaction. Through its extensive experience, Advanced Ceramics has gained detailed expertise and know-how in the applications areas it is active in. We also benefit from a global network of 12 production sites.

#### *Principal Products*

*Medical.* We currently serve the medical applications market with two product groups: ceramic components for hip joint prostheses, such as ball heads and liners; and ceramic moulds for high-quality latex gloves. The ceramic components for hip joint prostheses are supplied to orthopaedic implant manufacturers in the United States and Europe. Besides their high wear-resistance and good friction behavior, high-performance ceramics are biologically inert, making them one of the few materials that are durable and stable enough to withstand the corrosive effects of bodily fluids. As a result, high-performance ceramics are increasingly becoming more common for medical applications, such as for repair and replacement of hips, knees and other human body parts.

We expect the global market for hip implants to grow by approximately 8% per year over the next ten years, with the largest portion of the growth captured by the North American market. We believe that ceramic-on-ceramic hip implants benefit from additional substitution effects as young people and more active elderly people are better suited to use ceramic implants, given their numerous attractive properties. Currently, the penetration rate for ceramic-on-ceramic hip-implants in Europe is significantly higher than in North America because the first FDA approval for ceramic-on-ceramic hip joint prostheses systems was granted only in 2003. However, given the relative superior performance and positive early acceptance levels in the United States, we expect the market for ceramic-on-ceramic hip joint prostheses systems to grow rapidly over the next ten years. We believe we are well positioned to take advantage of the growing market as we are currently the only manufacturer of ceramic-on-ceramic hip implant components used in FDA-approved hip joint prostheses systems in the United States to date. Given the difficulties and time involved in obtaining an FDA approval, we believe that we will be the sole supplier in the intermediate term. We also enjoy strong relationships with the largest U.S. and European orthopaedics implant manufacturers. In order to expand capacity and complement our existing medical production facility in Plochingen, Germany, we have started to build a new factory at our

site in Marktredwitz, Germany, which will exclusively produce medical ceramics and allow us to serve the volumes required by the growing North American market. We expect to commence production in early 2006.

*Electronics.* We develop and manufacture substrates, electrical resistor cores and ceramic tapes as carriers for electronic circuits. Substrates are ceramic plates with electrical, thermal and mechanical properties that serve as carriers in electronic applications. These highly specialized products are used in a wide range of industries, such as automotive, consumer electronics, aeronautics and telecommunications industries. The demand for these products is driven, in large part, by the activity levels of the semiconductor market. We believe that the expected recovery of the semiconductor market, as well as a positive substitution effect for ceramic applications, will increase the demand for our products.

*Cutting Tools.* We develop and manufacture products used in cutting tools, tools and tooling systems. Ceramic material properties such as high melting points, excellent hardness and good wear resistance make ceramics an excellent high-speed cutting tool material. We enjoy a strong market position as a supplier of ceramic cutting tools, tools and tooling systems for high speed processing in the automotive, metalworking and mechanical engineering industries, with automotive OEMs being our main customers. We believe that ceramic cutting tools are benefiting from a positive substitution trend, allowing them to grow faster than the underlying cutting tools market. The longer life and faster cutting speeds possible with ceramic tools allow customers to save costs by increasing their throughput and reducing the downtimes for replacing the cutting tools.

*Mechanical Applications and Systems.* We also develop and manufacture high performance ceramic components that are used in mechanical applications and systems. Key product groups in mechanical systems include cutting blades, drawing and forming tools, drawing cones and capstans, guide elements, precision parts, preforms and friction discs. Mechanical systems include products used in the sanitary fittings and automotive supplier industries in areas where fluids are pumped, compressed or stirred such as bushings, face seal rings, pump components and valve shims and discs. We primarily supply the general industrial machinery, metalworking, automotive and textile industries with a large number of products customized to the customer requirements.

Industrial machinery has wear parts, such as pump parts and components for paper and textile machinery, which are exposed to abrasive materials and fluids. High performance ceramic components are critical to increasing the durability and performance of machines and plant equipment. The good friction behavior and thermal resistance properties of ceramics reduce the tendency toward deformation of the materials and machinery utilized in production processes.

Our customers are currently located mainly in Germany and other parts of Europe. However, we plan to expand our geographic reach. For example, we recently opened a new plant in China and plan to grow over the next five years by further penetrating the rapidly growing Asian market.

*Other products.* We also produce various products in other smaller niche markets. Some of these products are used for applications in certain niche markets with limited growth potential, such as electrical/thermal and ceramic metal connections. Other products, such as piezo ceramic components, are used for applications in certain niche markets with significant growth potential the next few years, primarily in the automotive sector.

#### *Competition*

Advanced Ceramics' key competitors are Kyocera Corporation, CoorsTek, Inc., Saint Gobain, The Morgan Crucible Company plc and NGK Ceramics Europe S.A. However, each of these competitors has either a different geographical focus or product strategy with respect to small niche

applications. Competition in the high performance ceramics market is primarily based on product quality, product specifications and customer service.

#### *Customers*

Advanced Ceramics' key customers include Robert Bosch GmbH, Stryker Corporation, EPCOS AG, Texas Instruments Incorporated, Siemens AG, De Puy Orthodics, MC and Vishay Europe GmbH.

#### **Groupe Novasep (12% of 2004 pro forma net sales)**

We acquired our Groupe Novasep (then known as Custom Synthesis) segment in the Dynamit Nobel acquisition. On December 31, 2004, we completed a combination of the three business lines of this segment that were acquired from Dynamit Nobel (Dynamit Nobel Special Chemistry, Finorga and Rohner) with Groupe Novasep SAS (which consisted of four businesses: Novasep, Applexion, Orelis and Seripharm). Groupe Novasep specializes in innovative production of active pharmaceutical ingredients from biotechnological or chemical processes, focuses on developing new purification solutions and processes and the design, installation and on site qualification of these innovative purification processes and specializes in large scale chromatography, continuous chromatography processes (VARICOL®), ion exchange and membranes.

As a result of the combination, we own 79% of the combined company and Groupe Novasep SAS' management owns the remaining 21%. We believe this combination strengthens this segment by joining together Groupe Novasep SAS' proprietary separation technologies with our capabilities of developing and manufacturing advanced intermediates and active ingredients for the pharmaceutical and performance chemical industries. We believe the capabilities of new Groupe Novasep will enhance our ability to meet our customers' demands for higher purity levels, cost efficient solutions, strict regulatory and operational controls, and shorter times to market.

As a result of the combination, our Groupe Novasep segment consists of two divisions: (1) Novasep Synthesis; and (2) Novasep Process, each of which has a specific technology focus. These two divisions serve customers across the entire life cycle of a pharmaceutical product. Our Novasep Synthesis business line focuses on the custom manufacturing of complex molecules through multi-step synthesis and is comprised of four units:

Dynamit Nobel Special Chemistry, which specializes in scale-up and commercial production of hazardous chemistry with special expertise in azide chemistry;

Finorga, which focuses on chiral technologies, such as asymmetric synthesis and multi-column chromatography, or MCC;

Rohner, which offers a range of multi-step synthesis products, including transition metal catalysis, or TMC; and

Seripharm, which specializes in the production of high-potent active pharmaceutical ingredients.

Our Novasep Process business line specializes on the development and optimization of purification processes, as well as the design, installation and on-site qualification of the customized purification systems in the pharmaceuticals and bio-chemical industries. This business line is comprised of the following units:

Novasep, which offers the development, design and installation of purification equipment and systems for molecules; and

Applixion and Orelis, which offer separation solutions to purify molecules from natural biological sources.

Groupe Novasep generated net sales of \$338.6 million on a pro forma basis for the year ended December 31, 2004, or 12% of our 2004 pro forma net sales. Actual net sales for the five months ended December 31, 2004 were \$101.0 million. Prior to the Dynamit Nobel acquisition (and not including Groupe Novasep), the Custom Synthesis segment generated net sales of \$307.6 million for the year ended September 30, 2002 and \$268.4 million for the year ended December 31, 2003. See note 3 to our audited consolidated financial statements for additional financial information regarding our Groupe Novasep segment.

### *Novasep Synthesis*

Modern drugs require multiple steps of production to create the end product. These steps often involve highly complex chemical reactions. While pharmaceutical companies have the technical capability to carry out certain of these manufacturing steps in-house, they also use custom synthesis manufacturers to provide additional production capacity as well as creative chemical solutions to reduce the production cost of the intermediates, reduce time to market, and hence the overall cost of the end drug. Typically, pharmaceutical companies will contract for a certain annual volume of one or more production steps for a particular drug based on their expectations for demand for the end-product. Therefore, custom synthesis manufacturers play a critical partnership role for their pharmaceutical customers.

The intermediates used to produce modern drugs can be characterized by where they lie in the multi-step manufacturing process. Basic commodity intermediates are used in the early steps of the manufacturing process. These intermediates tend to require simple chemistry, have a low unit cost and can be provided by a large number of custom synthesis manufacturers. Barriers to entry for this market segment are low, and competition is primarily based on price. As a result, an increasing proportion of commodity intermediates are manufactured by Asian companies, particularly in India and China, as these companies have a significant labor and overhead cost advantage over North American and European companies. The later stages of the drug manufacturing process involve greater complexity in the chemical reactions necessary to produce the intermediates and a higher level of customization. A much smaller number of custom synthesis manufacturers have the expertise and available production facilities to offer the requisite level of service and volume to the customers. The manufacturing process for advanced intermediates and active pharmaceutical ingredients used in pharmaceutical products approved by FDA or other applicable foreign regulatory agencies are also subject to FDA's current Good Manufacturing Practice and similar requirements by foreign regulatory agencies. These requirements create additional barriers to entry. Unit prices and barriers to entry are, therefore, much higher in this segment of the market. Groupe Novasep is active in this segment of the market.

We have a strong research and development team, and six facilities operated by us have implemented standards intended to meet current Good Manufacturing Practice requirements. Four have been inspected by the FDA and found to be in compliance with current Good Manufacturing Practice requirements. We have also developed strong customer relationships based on our research and development, rapid response to customers, consistent product quality and reliability of supply. Custom synthesis manufacturers tend to have close relationships with their pharmaceutical customers because specific manufacturing and related confidentiality requirements, which are common in the pharmaceutical industry, make substitution by alternative products and suppliers difficult. Some of our products are thus supplied to customers on a long-term basis or are produced for patented drugs whose patent expiration is not due for several years and where we act as a key supplier of intermediates. Leveraging our strong technological capabilities and customer relationships, we are currently developing a broad and diversified project pipeline across a number

of customers, including advanced intermediates for potential new drugs. We are also focused on continued technological innovation. For example, we are currently introducing or using cutting edge technologies such as diborane chemistry at Dynamit Nobel Special Chemistry, MCC facilities at Finorga and TMC at Rohner.

Currently, Europe has the highest commercial significance for our Groupe Novasep segment. However, we believe growth opportunities exist in North America, particularly the United States. Though half of the production capacity for custom synthesis is installed in Europe, the majority of demand originates in North America. We intend to leverage our existing client base in the United States and significant supply relationship with one leading U.S. pharmaceutical company to further penetrate the North American market.

*Principal Business Lines*

Novasep Synthesis consists of the following four business lines:

*Dynamit Nobel Special Chemistry, or DNSC.* DNSC is a global market leader in hazardous chemistry, focusing on key technologies such as azide, carbon disulfide and diborane chemistries. The majority of compounds manufactured by DNSC is produced for pharmaceutical companies, with the remainder for agrochemicals and other industrial applications. DNSC operates two facilities in Schlebusch (Leverkusen) and Troisdorf, both in Germany. DNSC offers a unique portfolio of core technologies based on hazardous starting materials, including explosive compounds, shock and friction sensitive compounds, highly inflammable gases and liquids, as well as toxic materials. DNSC's strength is in azide chemistry, which is used to synthesize intermediates of final molecules that have anti-inflammatory, anti-bacterial and blood pressure reducing characteristics. Azide chemistry requires extremely high safety standards, state-of-the art purpose built infrastructure and trained employees. Few companies in Europe and the United States have the capabilities and permits to handle azide chemistry. Hazardous chemistry frequently offers a short and efficient synthetic route for the manufacturing of active pharmaceutical ingredients and advanced intermediates. Pharmaceutical companies are usually neither equipped nor licensed to handle hazardous chemistry in-house. DNSC benefits from its know-how, safety standards, permits and its reputation as a reliable supplier to the pharmaceutical industry.

*Finorga.* Finorga specializes in custom manufacturing of new chemical compounds and active pharmaceutical ingredients, involving complex and sophisticated chemical reactions used in multi-step synthesis. Finorga's products are primarily aimed at the pharmaceutical industry, but also include selective fine chemicals for fast growing electronic industry applications, such as liquid crystals. Finorga offers a broad service platform, including quality control, regulatory support, research and development, process transfer, pilot and large scale production. Finorga operates from two separate sites intended to meet current Good Manufacturing Practice requirements at Chasse-sur-Rhone and Mourenx, both in France. Finorga is contributing to the production of one of the top ten drugs worldwide.

Finorga differentiates itself from its competitors through its focus on sophisticated "chiral synthesis" technologies, which includes asymmetric synthesis and continuous chromatography. Chiral pharmaceutical compounds typically have two chiral forms, each of which can have different potency and side effects on a patient. Pharmaceutical companies are increasingly focused on isolating and producing the more effective chiral form of the compound, or the "enantiomerically pure" drug. We believe approximately 75% of drugs in the current industry pipeline fall into this category. However, the process of isolating the required chiral form during drug manufacturing requires highly complex chemistry and in the separation and purification of the enantiomers. Finorga is one of only a few companies worldwide to offer VARICOL® chiral separation, which is a highly effective and cost efficient way to separate and purify enantiomers.

*Rohner.* Rohner produces chemicals on a custom synthesis and toll manufacturing basis. Rohner is less focused on the pharmaceutical industry than DNSC and Finorga. Between 2000 and 2002, we invested approximately €45 million in a new state-of-the-art multi-purpose production facility, which is dedicated to the production of complex molecules and active pharmaceutical ingredients. Rohner's technologies include TMC, which includes asymmetric hydrogenation and metal catalyzed C-C coupling. TMC refers to a technology platform that enables a highly selective and efficient transformation of specific functional groups of very complex molecules. Asymmetric hydrogenation is a technology that enables a synthesis of molecules with a high degree of purity cost-effectively. Metal catalyzed C-C coupling is a technology that helps build important core structures.

*Seripharm.* Seripharm is a former subsidiary of Aventis specializing in the production of high-potent (especially cytotoxic) active pharmaceutical ingredients. Seripharm also develops new high potent active pharmaceutical ingredients for pharmaceutical companies using our purification technologies.

### ***Novasep Process***

Novasep Process specializes in the development and optimization of purification processes as well as the design, installation, and on-site qualification of these customized purification systems in the pharmaceutical and bio-chemical industries. Novasep Process offers a broad range of proprietary technologies for industrial purification including preparative chromatography, large-scale chromatography, continuous chromatography processes (VARICOL®), ion exchange, crystallization and membranes. Novasep Process employs its full portfolio of purification technologies to address customers growing demand for customized purification solutions throughout their new product development process.

### ***Principal Business Lines***

Novasep Process consists of the following business lines:

*Novasep.* Novasep offers innovative solutions to pharmaceutical companies to assist them with the purification of molecules. Novasep's core technologies are large scale preparative high pressure chromatography (batch or continuous) and crystallization. Novasep also assists pharmaceutical companies in developing second generation processes able to produce an existing active pharmaceutical ingredients under better technical and economic conditions and in designing, installing and qualifying tailor made purification systems.

*Applexion and Orelis.* Applexion and Orelis offer separation solutions to purify molecules from natural biological sources. The key technologies include low pressure chromatography (normally in continuous mode), ion-exchange, continuous crystallization and membranes (organic or mineral). Key markets addressed by these divisions are the sugar and sweetener industries and the production of bulk enzymes and antibiotics.

### ***Competition***

Competition in the market in which our Groupe Novasep segment competes is based on technological capabilities and know-how across a broad range of synthesis technologies, consistent product quality, reliability of supply and ability to meet customers' production demands on a timely basis. Depending on the relevant technology, the main competitors are: Aerojet Fine Chemicals, Avecia Limited, Degussa, DSM N.V., Isochem, Lanxess, Lonza Group Ltd., Omnicem, Orgamol S.A. and PPG Sipsy.

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Competition in our separation technologies is based on technological capabilities, consistent product quality, reliability of supply and ability to meet customers' production demands on a timely basis. Some competitors include Bayer Technology Services, GE Healthcare and Millipore Corporation.

### *Customers*

Groupe Novasep has a concentrated customer base. In this segment, our customers include some of the largest and most successful pharmaceutical companies, including Altana Pharma AG, Bristol-Myers Squibb Company, Novartis Pharma AG and Pfizer.

### **Raw Materials**

We purchase raw materials and chemical intermediates from a large number of third parties. We have a broad raw material base, with the cost of no single raw material representing more than 5% of our pro forma cost of products sold in 2004. Raw materials constituted approximately 48% of our 2004 pro forma cost of products sold on the same pro forma basis. The table below lists the most significant raw materials in 2004 and the principal products for which the materials were used.

Raw Material	Segment	Products
Titanium-bearing slag	Titanium Dioxide Pigments	Titanium dioxide
PVC resin	Specialty Compounds	Compounds
Iron oxide	Performance Additives	Iron oxide pigments
Quaternary amines	Performance Additives	Organoclays/wood protection products
Solvents	Performance Additives	Wood protection products
Copper	Performance Additives	Wood protection products
Plasticizers	Specialty Compounds	Compounds
Lithium	Specialty Chemicals	Lithium compounds

Titanium-bearing slag, our largest raw material (in terms of dollars), is the most important raw material used in the production of specialty grade titanium dioxide in our Titanium Dioxide business line of our Titanium Dioxide Pigments segment. We purchase Titanium-bearing slag from two suppliers. Our supply agreement with one of them is for a fixed term until December 31, 2007, subject to automatic annual renewal until December 31, 2011, unless earlier terminated, and contains a fixed price with an annual escalation clause. Our supply agreement with the other supplier is for a fixed term until December 31, 2006 and provided for a fixed price until December 31, 2004. Price negotiations for the year 2005 have been finalized; the price for the year 2006 will be negotiated in 2006.

PVC resin is a commodity product and its pricing is directly related to the price of ethylene and chlorine, as well as PVC industry operating rates and energy prices. Historically, we have received iron oxide from multiple sources and have not experienced any significant supply shortages. Iron oxide is primarily sourced from our plants in the United States, Italy and China, as well as from third parties in India and China.

As a result of the conversion from CCA to ACQ, in 2004 our principal raw material for our Timber Treatment Chemical business in our Performance Additives segment has shifted from chromic acid to quaternary amines, solvents and copper. In our Timber Treatment Chemical business, we predominately source quaternary amines under a contract that expires in late 2008, with automatic annual renewals subject to termination by either party. We source solvents used in our Timber Treatment Chemical business from two suppliers under contracts that expire in December 2006, subject to automatic annual renewals except where terminated by either party, and



December 2008. Prices under our solvent and quaternary amine contracts are tied to the ethylene price index. We source copper, which is a commodity, from several sources. Prices for our copper purchases are tied to market conditions.

In our Clay-based Additives business line of our Performance Additives segment, quaternary amine is sourced under a long-term contract, which expires in late 2008 and is subject to quarterly adjustment for the price of tallow, the base component of quaternary amine. In our Specialty Compounds segment, some of the plasticizers we use are generic and considered a commodity product, while others are specific and considered a specialty product. Our supply contracts for plasticizers do not specify a fixed price, and most of them contain market price and discount adjustments.

Lithium brine is a primary raw material source for all lithium chemicals and is found in only a small number of locations, including most significantly for us, the Atacama Desert in Chile. We have a long-term contract with the Chilean government to mine lithium brine in the Atacama Desert in Chile, which we believe provides a secure long-term access to lithium.

Major requirements for our key raw materials and energy are typically satisfied pursuant to contractual agreements and medium- or long-term relationships with suppliers. We are not generally dependent on any one supplier for a major part of our raw materials requirements, but certain important raw materials are obtained from a few major suppliers. In general, where we have limited sources of raw materials, we have developed contingency plans to minimize the effect of any interruption or reduction in supply, such as sourcing from different facilities and multiple suppliers and utilizing alternative formulations.

Temporary shortages of raw materials may occasionally occur and cause temporary price increases. In recent years, these shortages have not resulted in unavailability of raw materials. However, the continuing availability and price of raw materials are affected by unscheduled plant interruptions occurring during periods of high demand, domestic and world market and political conditions, as well as the direct or indirect effect of governmental regulations. During periods of high demand, our raw materials are subject to significant price fluctuations, and, in the past, such fluctuations have had an adverse impact on the results of operations of our business. The impact of any future raw material shortages on our business as a whole or in specific geographic regions cannot be accurately predicted.

### **Intellectual Property**

Our business is dependent to a large extent on our intellectual property rights, including patents and other intellectual property, trademarks and trade secrets. We believe that our intellectual property rights play an important role in maintaining our competitive position in a number of the markets we serve. We rely on technological know-how and formulation and application expertise in many of our manufacturing processes in order to develop and maintain our market positions. Where appropriate, we protect our new technology, applications and manufacturing processes by seeking patent protection. We have more than 2,000 patents and patent applications in key strategic markets worldwide, reflecting our commitment to invest in technology and covering many aspects of our products and processes for making those products. We also own and register in multiple jurisdictions numerous trade names and marks applicable to our business and products, which we believe are important to our business. In addition, we have entered into agreements, pursuant to which we license intellectual property from third parties for use in our business and we license certain intellectual property to third parties. For example, we developed the technology to produce ACQ pursuant to an exclusive license agreement with the right to sublicense from Domtar Inc. Under the term of the license, our Timber Treatment chemicals business of our Performance Additives segment pays a royalty to Domtar based upon the percent

of net sales less certain costs. The license agreement expires in May 2007 in connection with the expiration of the patent and may be terminated by either party upon a material breach of the other party and the failure to cure. We also develop intellectual property with third parties as discussed below in " Research and Development."

### **Research and Development**

We are committed to further investing in our asset base and research effort. Our pro forma research and development costs were approximately 2% of our pro forma net sales in 2004. We believe that our research and development costs are a small percentage of our net sales due in part to the fact that we do not allocate expenses to this category unless they relate directly to research and development. We incur certain expenses related to modifications and improvements in current products. In addition, we believe we allocate our research and development resources selectively based on the need and requirements for each business line to develop innovative products. Research and development costs are charged to expense, as incurred. For historic Rockwood businesses such costs were \$8.1 million, \$8.7 million and \$10.1 million in 2002, 2003 and 2004, respectively, and such costs for Dynamit Nobel were \$29.4 million and \$32.4 million in the year ended September 30, 2002 and in the year ended December 31, 2003, respectively.

The objective of our research and development effort is to develop innovative chemistries and technologies with applications relevant within targeted key markets. Research and development efforts are generally focused on both process development, which is the stage at which products move from development to manufacturing, and new product development. Each business line, however, also has selected long-term strategic projects with the aim to develop new competencies and technologies.

Each of our business lines manages its own research and development effort and has separate research and development facilities dedicated to its specific area. However, where technologically applicable, advances and findings are shared between business lines to foster greater cross-fertilization of ideas and applications.

In certain cases, we conduct research and development efforts with third parties, including universities, customers and other entities. We endeavor to obtain ownership of or license on terms favorable to us the intellectual property developed with a third party.

### **Seasonality**

There is a seasonal effect on a portion of our sales due to the end-use of some of our products. In our pool and spa chemicals operations in our Water Treatment Chemicals business line of our Performance Additives segment, it is industry standard practice to offer significantly extended payment terms to customers prepared to purchase their spring and early summer requirements in the fourth quarter of the previous year. Following this pattern, the fourth quarter customarily includes large sales and shipments although the associated cash payments are not received until the second quarter of the following year. In addition, our Color Pigments and Services and Timber Treatment Chemicals business lines of our Performance Additives segment show some seasonality related to the outdoor construction market. As such, the first quarter has historically been the quarter where we experience the lowest sales. Also, along with the accounts receivable build in the first quarter discussed above, during this quarter we typically build inventory for the pool and spa business, as well as our construction related businesses, in anticipation of increased sales during the spring and summer months. Thus, the first quarter is usually the quarter with the highest working capital requirements for us. Other than these seasonal trends in particular end-use markets, our overall results of operations tend to show few seasonal effects.

**International Operations**

The following table presents net sales based on geographic area (attributed based on seller's location):

	Year ended December 31,		
	2002	2003	2004
	(millions)		
<b>Net sales:</b>			
United States	\$ 505.4	\$ 523.0	\$ 741.0
Germany	30.8	34.3	483.7
Rest of Europe	171.0	183.0	391.7
Rest of world	52.7	57.0	127.1
Total	\$ 759.9	\$ 797.3	\$ 1,743.5

Because of the Transactions, the net sales set forth in the table above may not be indicative of current or future operations.

The following table presents our long-lived assets, other than financial instruments and deferred tax assets, located in the regions indicated:

	Year ended December 31,	
	2003	2004
	(millions)	
<b>Long-lived assets:(1)</b>		
United States	\$ 190.1	\$ 198.7
Germany	27.0	703.0
Rest of Europe	190.7	470.6
Rest of world	10.8	194.5
Total	\$ 418.6	\$ 1,566.8

- (1) We have not finalized the allocation of purchase price related to the Groupe Novasep combination as discussed in note 2 to our financial statements. As such, the long-lived asset amounts may change upon finalization of the Groupe Novasep combination purchase price allocation.

**Sales and Marketing**

We sell our products and services globally. We generally sell our products and services primarily by using our direct sales forces, although we also sell through distributors in certain of our business lines, such as Color Pigments and Services, Clay-based Additives and Water Treatment Chemicals of our Performance Additives segment and Electronic Chemicals business line of our Electronics segment or by using third party sales representatives. Each of our direct sales forces is responsible for marketing only one of our business lines, and is administered pursuant to policies established by the management of that business line. Within each business line, these direct sales forces are organized based on geographic regions, end-use applications or sub-business divisions within the business line. As of March 31, 2005, our in-house sales forces consisted of 1,368 personnel worldwide.

Our direct sales forces interact with our customers to provide both purchasing advice and technical assistance. In general, our sales forces arrange and coordinate contact between our customers and our research and development personnel to provide quality control and new product solutions. In certain of our businesses, such as Surface Treatment and Fine Chemicals business



lines of our Specialty Chemicals segment, most sales managers have a chemical engineering background with advanced degrees and significant technical experience in applying our products, and they play a critical role in developing client relationships and acquiring new clients. Our close interaction with our customers and tailored solutions have allowed us to develop and maintain strong customer relationships as well as focus our sales efforts on those customers who we believe will provide us with higher profit margins in recognition of our superior products, service and technical support.

Sales in each of our business lines are generally made on a purchase order basis. However, longer term arrangements have been established with certain key customers.

Our marketing strategy is generally aimed at working directly with customers to gauge the success of our products, evaluate the need for improvements in product and process technology, and identify opportunities to develop new product solutions for our customers and their end-use markets. We also use media activities and lectures and participate in tradeshow as part of our sales and marketing effort.

## **Regulation**

### *Environmental Regulation*

We are subject to extensive environmental, health and safety laws in the United States, the European Union and elsewhere at the international, national, state and local levels. Many of these laws impose requirements relating to clean-up of contamination, and impose liability in the event of damage to human beings, natural resources or property, and provide for substantial fines, injunctions and potential criminal sanctions for violations. Our products, including the raw materials we handle, are also subject to rigorous industrial hygiene regulations and investigation. The nature of our operations exposes us to risks of liability for breaches of these laws and regulations as a result of the production, storage, transportation and sale of materials that can cause contamination or personal injury when released into the environment.

Environmental laws are subject to change and have tended to become stricter over time. Such changes in environmental laws, or the enactment of new environmental laws, could result in materially increased capital, operating and compliance costs. In October 2003, the European Commission adopted a proposal for a new European Union framework for chemicals known as the Registration, Evaluation and Authorization of Chemicals, or REACH. While it is uncertain as to whether, when and in what form REACH will be finalized and become law, REACH may eventually significantly expand the European Union's regulation of chemicals. As currently proposed, REACH would include requirements that certain manufacturers and importers of chemicals register those chemicals, perform health and environmental risk analyses of those chemicals, and in certain instances, obtain authorizations for the use of the chemicals. As a specialty chemicals company, it is possible that we are the only manufacturer of one or more substances to be regulated under REACH and thus could potentially bear the full cost of compliance with REACH for some or all of our products. We estimate we have over 400 products that might be subject to REACH.

Environmental laws have a significant effect on the nature and scope of any clean-up of contamination at current and former operating facilities, the costs of transportation and storage of chemicals and finished products and the costs of the storage and disposal of wastes. In addition, "Superfund" statutes in the United States as well as statutes in other jurisdictions impose strict, joint and several liability for clean-up costs on the entities that generated waste and/or arranged for its disposal at contaminated third party sites, as well as the past and present owners and operators of contaminated sites. Each responsible party may be required to bear some or all clean-up costs regardless of fault, legality of the original disposal or ownership of the disposal site.

Environmental contamination is known to exist at certain of our present and former facilities, including our facilities located in Turin, Italy; St. Fromond, St. Cheron and Sens, France; Hainhaussen, Troisdorf, Schlebusch, Stadeln, Duisburg, Plochingen, Marktredwitz, Ronnenberg-Empelde and Langelsheim, Germany; Oss, The Netherlands; Kidsgrove and Barrow, United Kingdom; Boksburg East, South Africa; Pratteln, Switzerland; and in the United States, in Valdosta, Georgia, Beltsville, Maryland, Harrisburg, North Carolina, Laurens, South Carolina, Silver Peak, Nevada and La Mirada, California. Soil contamination is also known to exist at our facilities at Freeport, Texas, Chasse-sur-Rhone, France and Sumperk in Czech Republic; however, no further regulatory remedial actions are currently required for these facilities and any liabilities arising from such contamination is covered by indemnity obligations or the previous owners of these facilities with the exception of Freeport. We are currently operating groundwater remediation systems at our Hainhaussen, Troisdorf, Valdosta, and Silver Peak facilities. We also operate ground water remediation systems at our Schlebusch, Plochingen, Marktredwitz, Stadeln and Laurens facilities, for which prior owners or insurers have assumed responsibility and a soil remediation project at our facility in St. Cheron, and we continue to monitor groundwater at the Beltsville facility, which was previously the subject of a soil removal action. Groundwater is also monitored at the St. Fromond and Barrow facilities due to prior spills and at the Harrisburg facility due to a landfill closure. We are also required to monitor groundwater quality at our facilities at Mourenx, France and New Johnsonville, Tennessee. We believe that additional environmental studies, and possibly environmental remediations, will be required at the Turin and Harrisburg facilities. We are also in the process of determining appropriate remedial actions with the regulatory authorities at the following locations: Duisburg, Pratteln, Langelsheim, Troisdorf and La Mirada. Furthermore, as a result of facility closings, divestitures and offsite disposal activities such as a former disposal site in Laurel, Maryland, we are responsible for the following other matters: contamination beneath divested portions of the manufacturing facility in Troisdorf; contamination at a closed Chemetall Oakite facility in Houston, Texas, contamination at a former Chemetall Foote facility in Sunbright, Virginia, contribution towards the clean-up of three industrial landfills in the Basel, Switzerland area, groundwater remediation at Stadeln and former sites operated by Dynamit Nobel's previously divested explosives business. We are also a *de minimis* participant in several Superfund matters. Although we cannot provide assurances in this regard, we do not believe that these issues will have a material adverse effect on our business or financial condition, but may have a material adverse effect on the results of operations or cash flow in any given quarterly or annual reporting period. Nonetheless, the discovery of contamination arising from present or historical industrial operations at some of our and our predecessor's former and present properties and/or at sites we and our predecessor disposed wastes could expose us to cleanup obligations and other damages in the future.

Pursuant to the environmental deed entered into in connection with the KKR acquisition, Degussa, as successor to Laporte, is required to indemnify us and our subsidiaries for certain environmental matters that relate to the business as conducted prior to the closing of the KKR acquisition. The environmental deed provides that Degussa will indemnify us and our subsidiaries for claims for which notice is given within a period of two years for breaches of representations and warranties, which expired in 2002, and five years for claims related to the contamination of our properties or our subsidiaries' properties (inclusive of contamination which leaks or escapes from our properties or our subsidiaries' properties), which expires in September 2005. These indemnity obligations are subject to a minimum per matter loss of \$175,000 and are further subject to a \$5.0 million deductible for the indemnity to be available. In addition, the environmental deed provides that Degussa will indemnify us and our subsidiaries for claims relating to properties that were formerly owned, occupied or used as of November 20, 2000, as well as properties owned by third parties (inclusive of disposal of waste and certain other identified issues prior to November 20, 2000). The environmental deed provides that in this instance, Degussa will be responsible for reasonable costs and expenses incurred.

In addition, pursuant to the sale and purchase agreement entered into in connection with the Dynamit Nobel acquisition, mg technologies ag and its subsidiary, MG North America Holdings Inc., are required to indemnify us and our subsidiaries for 50% of the excess amount of losses over the amount of the related reserves (in the case of known claims) and 50% of claims (in the case of unknown claims) related to the contamination of our or our subsidiaries' properties, if notified within ten years. If mg technologies and MG North America Holdings' responsibility for contamination matters cannot be proven, a sliding scale reduces the percentage further for each year during the five-year period from year six to ten. mg technologies and MG North America Holdings are also obligated to indemnify us for 85% of claims related to legacy site matters, such as environmental matters relating to properties or businesses owned or operated by Dynamit Nobel prior to, but not on, the closing of Dynamit Nobel acquisition, if notified within ten years. In addition, mg technologies and MG North America Holdings are obligated to indemnify us for 50% of the excess amount of losses over the amount of the related reserves for operational compliance matters, if notified by December 31, 2006, and 50% of the excess amount of losses over the amount of the related reserves (in the case of known claims) and 50% of claims (in the case of unknown claims) related to certain environmental damage claims unknown at the time of the closing of the Dynamit Nobel acquisition, if notified within ten years. All of these indemnity obligations are subject to different minimum per-claim thresholds depending on whether the matter was disclosed or not, and on the subject matter, ranging between €100,000 and €750,000 depending on the type of claim. The indemnity obligations are further subject to certain deductibles, exclusions and limitations. Furthermore, mg technologies and MG North America Holdings are obligated to indemnify us for certain environmental risks arising from certain "shared site" structures for a duration of ten years. This indemnity obligation is not subject to the percentages, *de minimis* exclusions, deductibles and thresholds described above, and it is not subject to most of the general limitations. In the event we seek indemnity under any of these agreements or through other means, there can be no assurance that mg technologies, MG North America Holdings, Degussa or any other party who may have obligations to indemnify us will adhere to their obligations and we may have to resort to legal action to enforce our rights under the indemnities. However, we do not believe that resolution of the known environmental matters subject to indemnification obligations owed to us will have a material adverse effect on our business or financial condition as such amounts are not significant.

### ***FDA Regulation***

Our Groupe Novasep, Advanced Ceramics and to a lesser extent, our Specialty Chemicals segments are also subject to regulation by the FDA with respect to certain products we produce, including pharmaceutical intermediates, active pharmaceutical ingredients and ceramic-on-ceramic ball head and liner components used in hip joint prostheses systems. Foreign, state, local and other authorities also may regulate us and our products. Regulatory agencies have established requirements that apply to the design, manufacture and marketing of pharmaceutical and medical device products. We sell our pharmaceutical intermediates, active pharmaceutical ingredients and ceramic-on-ceramic components to other companies that also may be regulated by such authorities.

*Premarket Approval.* While we are not required to seek FDA approvals for our pharmaceutical intermediates and active pharmaceutical ingredients, the customers to whom we supply such products may be subject to FDA approval requirements prior to testing a new drug on humans as well as marketing a new drug for commercial use in the United States. Our customers with FDA approval for the finished drug may also be required to obtain FDA approval of design, manufacturing or labeling changes to the pharmaceutical intermediates and active pharmaceutical ingredients used in their finished products.

Medical devices also are subject to extensive regulation by the FDA prior to commercial distribution in the United States, including premarket approval, or PMA, which is required for

devices deemed to pose the greatest risk and certain other devices. Our Advanced Ceramics segment currently supplies ceramic-on-ceramic ball head and liner components to manufacturers for incorporation into their total hip prostheses systems, which are subject to the FDA's PMA approval requirements. In addition, our Advanced Ceramics business or our customers who have obtained PMA approval may be required to obtain FDA approval for changes to the design, manufacturing or labeling of our ceramic-on-ceramic ball head and liner components.

*Compliance Requirements.* Once on the market, drug manufacturers, the suppliers of drug intermediates, and medical device manufacturers are subject to numerous post-market regulations. For our pharmaceutical intermediates business within our Groupe Novasep segment, we are required to comply with the FDA's current Good Manufacturing Practices, which cover all facets of drug manufacturing and distribution including: organization and personnel; buildings and facilities; equipment; control of components and drug product containers and closures; production and process controls; packaging and labeling control; holding and distribution; laboratory controls; recordkeeping and reporting; and returned and salvaged drug products.

Finished device manufacturers such as our customers who manufacture hip prostheses systems are subject to the FDA's Quality System Regulation, or QSR, which requires quality assurance practices and procedures that address, among other things: management responsibility, audits and training; design controls; purchasing controls; identification and traceability of components; production and process controls; acceptance activities; handling of nonconforming product; the initiation of corrective and preventive actions; labeling and packaging controls; handling, storage and distribution of products; and complaint handling and record keeping. The FDA does not directly require component suppliers of finished medical devices to comply with the QSR. However, because our ceramic-on-ceramic ball head and liner components are critical elements of hip joint prostheses systems, our customers may require us to comply with some or all of the QSR. Moreover, the FDA may in the future take the position that the types of components that we supply meet the definition of a finished device and are thus subject to the QSR. Our current contracts with our customers of ceramic-on-ceramic ball head and liner components require us to comply or assist our customers in complying with various FDA regulatory requirements.

The FDA's inspectional authority extends to both component suppliers and pharmaceutical intermediates manufacturers. Pursuant to this authority, the FDA has the ability to conduct inspections at our facilities at which we manufacture our pharmaceutical intermediates or ceramic-on-ceramic ball head and liner components.

If we or our customers violate FDA or other governmental regulatory requirements during either the pre- or post-marketing stages, there may be various adverse consequences. For example, in the United States, the FDA has the authority to impose: fines, injunctions, and civil penalties; recall or seizure of products; operating or import restrictions, partial suspension or total shutdown of production; the FDA's delay in granting approval or refusal to grant approval of new products; or withdrawal of the submission or the approved product from the market.

## **Employees**

As of March 31, 2005, we had 10,198 employees, with 72.8% located in Europe, 19.6% in the United States and the remaining 7.6% located in the rest of the world. Of our employees, approximately 34% are subject to either collective bargaining agreements or other similar arrangements.

We observe local customs, legislation and practice in labor relations and, where applicable, in negotiating collective bargaining agreements. Management believes that its relations with employees and their representatives are good. We have not suffered any material work stoppage or strike in our world-wide operations in the last five years.



**Manufacturing Facilities**

We are an international business serving customers worldwide. To service our customers efficiently, we maintain 100 manufacturing facilities in 25 countries around the world with a strategy of global, regional and local manufacturing to optimize our service offering and minimize production cost to our customers.

We are dedicated to maintaining updated and technologically advanced manufacturing facilities. To that end, we made capital expenditures of \$36.0 million, \$34.3 million and \$112.8 million, for the periods ended December 31, 2002, 2003 and 2004, respectively, to expand, upgrade and maintain our manufacturing capabilities. The 2004 amount includes the capital expenditures during the five months of operations for the Dynamit Nobel businesses, including Advanced Ceramics' major expansion at its Marktredwitz, Germany facility related to hip replacement products. During this three-year period, we constructed new plants for our Timber Treatment Chemicals business line of our Performance Additives segment in Harrisburg, North Carolina and for our wafer reclaim business line of our Electronics segment in Prescott, Arizona and upgraded our wafer reclaim facility and operations in Greasque, France. For the years ended September 30, 2001 and 2002 and the year ended December 31, 2003, Dynamit Nobel made capital expenditures of \$125.1 million, \$112.0 million and \$122.0 million, respectively, which included expansion of our current Good Manufacturing Practice production lines and new equipment relating to multi-column chromatography in our Groupe Novasep segment, expansion of our titanium dioxide capacity for our Titanium Dioxide Pigments segment and capacity expansion for our Advanced Ceramics segment. We believe that our plants and facilities are maintained in good condition and are adequate for our present and currently expected future needs.

The table below presents summary information with respect to the manufacturing facilities we currently operate.

Segment	Country	Locations	Leased/Owned	Major Applications/Industry
<b>Performance Additives</b>				
Color Pigments and Services	Australia	Braeside, Melbourne	Leased	Master batches
	Canada	Bromont, Quebec	Owned	Construction
	China	Xinzhuang, Changshu	Leased	Construction
	Germany	Walluf	Owned	Construction and coatings
		Hainhausen	Owned	Construction and coatings
	Italy	Turin	Owned	Coatings, specialties and construction
	United Kingdom	Matlock Bath	Leased	Construction
		Kidsgrove	Owned	Coatings and specialties
	U.S.A.	Sudbury	Owned	Coatings and specialties
		Los Angeles, CA	Owned	Coatings, specialties and construction
		St. Louis, MO	Owned	Coatings, specialties and construction
		Beltsville, MD	Owned	Coatings, specialties and construction
		Ocala, FL	Owned	Coatings, specialties and construction
		Cartersville, GA	Owned	Coatings, specialties and construction
Timber Treatment Chemicals	United Kingdom	Barrow-in-Furness	Owned	Wood protection products and treatment
		U.S.A.	Freeport, TX	Owned
	U.S.A.	Valdosta, GA	Owned	Wood protection products and treatment
		Harrisburg, NC	Owned	Wood protection products and treatment
Clay-based Additives	United Kingdom	Baulking(1)	Owned	Paper-making; metal castings; civil engineering applications; coatings; paper; coatings
		Widnes, Cheshire	Owned	Paper-making; consumer and household care; coatings and paper

(1) We expect to close this facility in the third quarter of 2005.

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Segment	Country	Locations	Leased/Owned	Major Applications/Industry
	U.S.A.	Gonzales, TX	Owned	Paints; inks and oilfields; paper-making
Water Treatment Chemicals	U.S.A.	Alpharetta, GA	Leased	Water treatment
<b>Specialty Compounds</b>				
	Canada	Stoney Creek, Ontario	Owned	Footwear products, consumer products
	Italy	Azeglio	Owned	Rubber compounds
	United Kingdom	Melton Mowbray	Owned	TPE/Consumer products, packaging products, medical products, automotive products
	U.S.A.	Pineville, NC	Owned	Wire and cable sheathing products; packaging products; medical products in consumer goods products; footwear products; automotive products
		Leominster, MA	Owned	Wire and cable sheathing products; packaging products; medical products in consumer goods products; footwear products; automotive products
<b>Electronics</b>				
Electronic Chemicals	France	Saint-Fromond	Owned	Semiconductor manufacturing
		St. Cheron	Owned	Semiconductor manufacturing
	Singapore	Singapore	Leased	Semiconductor manufacturing
	Taiwan	Chung-Li	Leased	Printed circuit boards
	United Kingdom	Riddings	Leased	Semiconductor manufacturing
	U.S.A.	Maple Plain, MN	Owned	Printed circuit boards, semiconductor manufacturing
		Fremont, CA	Leased	Photomasks, semiconductor manufacturing
Photomasks	United Kingdom	Glenrothes, Scotland	Owned	Masks and pellicle replacement
	U.S.A.	Austin, TX	Leased	Repairs
		Los Gatos, CA	Leased	Masks and pellicle replacement
Wafer Reclaim	France	Greasque	Owned	Wafer reclaim
	Germany	Erlangen	Leased	Wafer reclaim
	United Kingdom	Riddings(2)	Leased	Wafer reclaim
	U.S.A.	Prescott, AZ	Leased	Wafer reclaim
		Providence, RI(2)	Owned	Wafer reclaim
<b>Specialty Chemicals</b>				
Surface Treatment	Australia	Bayswater North	Owned	Automotive and advanced technologies
		Girraween	Leased	Aerospace and advanced technologies
	Brazil	São Paulo	Leased	Automotive technologies and advanced technologies
	Canada	Bramalea, Ontario	Owned	Advanced technologies, aerospace and performance products
	China	Chonggin	Leased	Automotive and advanced technologies
		Shanghai	Leased	Automotive and advanced technologies
	France	Sens	Owned	Automotive technologies and advanced technologies
		Soissons	Owned	Aerospace
	Germany	Mönchengladbach	Owned	Performance products
		Langelshiem(3)	Owned	Automotive technologies, advanced technologies and aerospace
	India	JV in Worli	Owned	Automotive and Advanced Technology
		JV in Pune	Owned	Automotive and Advanced Technology

- (2) We expect to close these facilities in the first quarter of 2006.
- (3) This facility is shared by both business divisions of the Speciality Chemicals segment.

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Segment	Country	Locations	Leased/Owned	Major Applications/Industry
	Italy	Guissano	Leased	Automotive technologies, advanced technologies, aerospace and performance products
	Mexico	JV in Roveceto in Piano Mexico City	Leased Leased	Performance Products Automotive technologies, advanced technologies, aerospace and performance products
	The Netherlands	Oss	Owned	Automotive technologies and advanced technologies
	Poland	Warszawa	Leased	Automotive and advanced technologies
	Singapore	Singapore	Leased	Advanced technologies and aerospace
	South Africa	Boksburg	Owned	Automotive technologies and advanced technologies
	Spain	Canovelles	Owned	Automotive technologies, advanced technologies, aerospace and performance products
	Sweden	Bålsta	Owned	Automotive technologies and advanced technologies
	Switzerland	Dintikon	Leased	Advanced technologies and performance products
	Turkey	Istanbul	Owned	Automotive and advanced technologies
	United Kingdom	Bletchley	Leased	Automotive technologies, advanced technologies, aerospace and performance products
	U.S.A.	La Mirada, CA	Leased	Advanced technologies and aerospace, performance products
		Romulus, MI	Owned	Automotive technologies, advanced technologies, aerospace and performance products
Fine Chemicals	Austria	Arnoldstein	Leased	Metal sulphides
	Chile	La Negra	Owned	Lithium-carbonate and lithium chloride
	Germany	Langelsheim(3)	Owned	Butyl-Lithium, lithium-hydroxide, specialty products, metal and battery, lithium-hydrides, cesium and special metals and accelerators
	Taiwan	Taichung	Owned	Butyl-Lithium
	U.S.A.	Silver Peak, NV	Owned	Lithium-carbonate and lithium hydroxide
		New Johnsonville, TN	Owned	Butyl-Lithium and specialty products
		Kings Mountain, NC	Owned	Metal and battery
<b>Titanium Dioxide Pigments</b>				
Titanium Dioxide	Germany	Duisburg(4)	Owned	Fibers, plastics, paints, coatings and paper
Functional Additives	China	JV in China	Leased	Plastics
	Germany	Duisburg(4)	Owned	Coatings, plastics, fibers, paper, pharmaceuticals, PVC stabilizers and glass fiber reinforced plastics
Water Chemistry	Germany	Duisburg(4)	Owned	Flocculants
		Ibbenbueren	Leased	Flocculants
		Schwarzheide	Leased	Flocculants

(3) This facility is shared by both business divisions of the Specialty Chemicals segment.

(4) This facility is shared by all three business divisions of the Titanium Dioxide Pigments segment.



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Segment	Country	Locations	Leased/Owned	Major Applications/Industry
<b>Advanced Ceramics</b>				
	China	Suzhou	Leased	General industry
	Czech Republic	Sumperk	Owned	General industry
		Dolni Rychnov	Owned	Electronics
	Germany	Plochingen	Owned	Medical, automotive and general industry
		Ebersbach	Owned	Automotive, electronics and general industry
		Lauf	Owned	Automotive, electronics and general industry
		Marktredwitz	Owned	Electronic, automotive and general industry
	Malaysia	Seremban	Owned	Medical
	South Korea	Suwon	Leased	Electronics
	United Kingdom	Colyton	Owned	Electronics
	U.S.A.	Laurens, SC	Owned	Automotive, electronics and general industry
<b>Groupe Novasep</b>				
DNCS	Germany	Leverkusen-Schlebusch	Owned	Pharmaceutical, agrochemical and others
		Troisdorf	Owned	Agrochemical
Finorga	France	Chasse-sur-Rhone	Owned	Pharmaceutical and others
		Mourenx	Owned	Pharmaceutical
Rohner	Switzerland	Pratteln	Owned	Pharmaceutical, agrochemical and others
Novasep	France	Pompey	Leased	Pharmaceuticals and equipment engineering and manufacturing
		LeMans	Owned	Pharmaceuticals
		Epone	Owned	Equipment engineering and manufacturing
		Saint-Maurice de Boynost	Leased	Equipment engineering and manufacturing
	U.S.A.	Boothwyn, PA	Leased	Pharmaceuticals and equipment engineering and manufacturing

**Legal Proceedings**

We are involved in legal proceedings from time to time in the ordinary course of our business, including with respect to product liability, intellectual property and environmental matters. In addition, we may be required to make indemnity payments in connection with certain product liability and environmental claims. See "Risk Factors Risk Factors Relating to Our Business Environmental Indemnities We may be subject to environmental indemnity claims relating to properties we have divested," "Risk Factors Risk Factors Relating to Our Business Product Liability Due to the nature of our business and products, we may be liable for damages arising out of product liability claims" and "Risk Factors Risk Factors Relating to Our Business Product Liability Due to the nature of our business and products, we may be liable for damages arising out of certain indemnity claims." Although we do not believe that there is any other individual legal proceeding that is likely to have a material adverse effect on our business or financial condition, we cannot predict the outcome of any litigation or the potential for future litigation.

## MANAGEMENT

Set forth below is certain information regarding our directors and executive officers.

Name	Age	Position
Seifi Ghasemi	60	Chairman and Chief Executive Officer
Robert J. Zatta	55	Senior Vice President and Chief Financial Officer
Thomas J. Riordan	56	Senior Vice President, Law & Administration
Brian F. Carroll	33	Director
Todd A. Fisher	39	Director
Edward A. Gilhuly	45	Director
Perry Golkin	51	Director
Douglas L. Maine	56	Director
Alex Morey	38	Director
Susan Schnabel	43	Director
Fredrik Sjödin	30	Director

**Seifi Ghasemi** has been Chairman and Chief Executive Officer of Rockwood Holdings and Rockwood Specialties Group since November 2001. From 1997 to 2001 he was with GKN, plc, a \$6.0 billion per year global industrial company. He served as a Director of the Main Board of GKN, plc and was Chairman and Chief Executive Officer of GKN Sinter Metals, Inc and Hoeganes Corporation. Before that, for 18 years, Mr. Ghasemi was with the BOC Group, plc, a \$7 billion per year global industrial gas company. He was a Director of the Main Board of the BOC Group, plc; President, BOC Gases Americas and Chairman and Chief Executive Officer of BOC Process Plants, LTD and Cryostar. Mr. Ghasemi has a Masters of Science degree in Mechanical Engineering from Stanford University.

**Robert J. Zatta** has been Senior Vice President and Chief Financial Officer of Rockwood Holdings and Rockwood Specialties Group since April 2001. Prior to joining Rockwood, he spent 12 years with the Campbell Soup Company, where he held several significant financial management positions, including his final position as Vice President responsible for Corporate Development and Strategic Planning. Prior to joining Campbell Soup Company in 1990, he worked for General Foods Corporation and Thomas J. Lipton, Inc. Mr. Zatta has a B.S. in Business Administration and a M.B.A. in Finance.

**Thomas J. Riordan** has been Senior Vice President, Law & Administration of Rockwood Holdings and Rockwood Specialties Group since 2000 and prior to that was Vice President, Law & Administration since 1992. Mr. Riordan joined Laporte in 1989 from UOP, where from 1975 to 1989 he held various positions, most recently Chief Litigation Counsel. Prior to 1975, Mr. Riordan was within Operations Management at Time, Inc. Mr. Riordan has a B.A. in Liberal Arts, a M.B.A. and a J.D., is admitted to the Illinois Bar and is a member of the American Bar Association, and has taken part in the Wharton/Laporte Business Program.

**Brian F. Carroll** has been a Director of Rockwood Holdings since 2000 and an executive of KKR since 1999. In addition, Mr. Carroll was an executive at KKR from 1995 to 1997, at which time he left KKR to attend business school at Stanford University. Prior to joining KKR in 1995, Mr. Carroll was with Donaldson Lufkin & Jenrette Securities Corporation. Mr. Carroll is a member of the Board of Directors of Sealy Corporation. Mr. Carroll has a B.S. from the University of Pennsylvania and a M.B.A. from Stanford University.

**Todd A. Fisher** has been a Director of Rockwood Holdings since 2000, a member of Kohlberg Kravis Roberts & Co. LLC, which serves as a general partner of KKR since January 2001 and an executive of KKR since 1993. Prior to joining KKR, he was with Goldman, Sachs & Co. in its Corporate Finance Department. Mr. Fisher is a member of the Board of Directors of Accuride Corporation, Alea Group Holdings (Bermuda) Ltd, Bristol West Holdings, Inc., Duales System Deutschland AG and Koninklijke Vendex KBB BV. Mr. Fisher has a B.A. from Brown University, a

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M.A. from Johns Hopkins University, and a M.B.A. from The Wharton School, University of Pennsylvania.

**Edward A. Gilhuly** has been a Director of Rockwood Holdings since 2000. Mr. Gilhuly has been a member of Kohlberg Kravis Roberts & Co. L.L.C., which is the general partner of KKR, since 1996. Prior thereto, he was a general partner of KKR. Mr. Gilhuly is a member of the Board of Directors of Demag Holdings S.a.r.l., Medcath Corporation, Legrand SA and Wincor Nixdorf AG. Mr. Gilhuly has a B.A. from Duke University and a M.B.A. from Stanford University.

**Perry Golkin** has been a Director of Rockwood Holdings since 2000. Mr. Golkin has been an executive with KKR and a general partner of KKR since 1995. In 1996, he became a member of Kohlberg Kravis Roberts & Co. L.L.C. which serves as the general partner of KKR. Mr. Golkin is also a member of the Board of Directors of Bristol West Holdings, Inc., PRIMEDIA, Inc., Alea Group Holdings (Bermuda) Ltd, Willis Group Holdings Limited and Walter Industries, Inc. Mr. Golkin has a B.S., M.S. from The Wharton School, University of Pennsylvania and a J.D. from the University of Pennsylvania.

**Douglas L. Maine** has been a Director of Rockwood Holdings since August 1, 2005. Mr. Maine joined International Business Machines, in 1998 as Chief Financial Officer following a 20 year career with MCI, where he was Chief Financial Officer from 1992-1998. He was named General Manager of ibm.com in 2000 and General Manager of Consumer Products Industry in 2003 and retired in 2005. Mr. Maine has a B.S. from Temple University and a M.B.A. from Hofstra University.

**Alex Morey** has been a Director of Rockwood Holdings since July 2004. Mr. Morey is a Director of Credit Suisse First Boston's Alternative Capital Division (CSFB-ACD), based in London. Since January 2005, Mr. Morey has been responsible for CSFB's European private equity fund investment activities. Prior to this, Mr. Morey was a Director of DLJ Merchant Banking, another group within CSFB-ACD, which he joined in 1996. Previously, Mr. Morey was an Assistant Director with Arthur Andersen Corporate Finance which he joined in 1993 after spending five years with Price Waterhouse. Mr. Morey graduated with a B.Sc. from Cardiff University in 1988 and is a Chartered Accountant.

**Susan Schnabel** has been a Director of Rockwood Holdings since July 2004. Ms. Schnabel joined DLJ's Investment Banking Division in 1990 and DLJ Merchant Banking in 1998. In 1997, she left DLJ's Investment Banking Division to serve as Chief Financial Officer of PETsMART, a high growth specialty retailer of pet products and supplies, and joined DLJ Merchant Banking in her present capacity in 1998. Ms. Schnabel is a director of DeCrane Aircraft Holdings, Inc., and Environmental Systems Products, Inc. Ms. Schnabel received a B.S. from Cornell University in 1983 and a M.B.A. from Harvard Business School in 1988.

**Fredrik Sjödin** has been a Director of Rockwood Holdings since 2003 and an executive of KKR since 2000. Prior to joining KKR, Mr. Sjödin was with Salomon Brothers International Ltd. Mr. Sjödin has a M.Sc. from the Stockholm School of Economics, Sweden and the Leonard N. Stern School of Business, New York University.



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Set forth below is certain information regarding certain key employees of our subsidiaries. The information is given as of December 31, 2004.

Name	Age	Position
Stephen B. Ainscough	58	President <i>Timber Treatment Chemicals</i>
Stephen M. D'Onfro	46	President <i>Water Treatment Chemicals</i>
Monika Engel-Bader	45	President <i>Fine Chemicals</i>
Robert Gingue	60	President <i>Specialty Compounds</i>
Wolf-Dieter Griebler	59	President <i>Titanium Dioxide Pigments</i>
Alexander Loh	50	Vice President, Human Resources of Rockwood Specialties Group
Roger-Marc Nicoud	42	President <i>Groupe Novasep</i>
Bruce R. Olson	52	President <i>Surface Treatment and Electronic Chemicals</i>
Ronald L. Rapaport	60	President <i>Color Pigments and Services</i>
Vernon Sumner	53	President <i>Clay-based Additives</i>
Ulf D. Zimmermann	55	President <i>Advanced Ceramics</i>

**Stephen B. Ainscough** has been President of the Timber Treatment Chemicals business line since 1990. Mr. Ainscough originally joined Laporte in 1970, and spent five years with Interlox Chemicals Ltd. before rejoining Laporte in 1985. Mr. Ainscough has a B.Sc. in Industrial Chemistry, a degree in Business Administration and has taken part in the Wharton/Laporte Business Program.

**Stephen M. D'Onfro** has been President of the Water Treatment Chemicals business line since 1997. Mr. D'Onfro joined the Gary Corporation in 1987, which became a part of the Laporte group as AlphaGary following an acquisition in 1993, where he was the Chief Financial Officer and General Manager. Mr. D'Onfro joined the Gary Corporation from Price Waterhouse, where he was a Manager in their Comprehensive Financial Services group. Mr. D'Onfro has a B.Sc. in Accounting, earned his C.P.A. certificate and has taken part in the Wharton/Laporte Business Program.

**Monika Engel-Bader** has been President of the Fine Chemicals business line since February 2004. Prior to joining Dynamit Nobel AG, Mrs. Engel-Bader spent 15 years with Celanese (former Hoechst AG) in various positions, including as Vice President of Ticona, the technical Polymer Division of Celanese since 2002. Engel-Bader has a PhD in Chemistry from the University of Mainz in Germany, and a degree from the University of Economics, Cologne.

**Robert Gingue** has been President of the Specialty Compounds segment since 1997. Mr. Gingue joined the Gary Corporation in 1979, where he was Vice President and General Manager. Mr. Gingue has a B.Sc. in Polymer Technology, an Associates degree in Mechanical Engineering, and has taken part in the Wharton/Laporte Business Program.

**Wolf-Dieter Griebler** has been President of the Titanium Dioxide Pigments segment since 1999. Dr. Griebler joined mg technologies ag in 1980 and has served in various positions, including as the president of the Executive Board of Sachtleben Chemie GmbH, the Titanium Dioxide Pigments business segment of Dynamit Nobel AG since 1998. Dr. Griebler has a degree in Chemistry from the University of Marburg in Germany.

**Alexander Loh** has been our Vice President, Human Resources of Rockwood Specialties Group since the Dynamit Nobel acquisition and a member of the Executive Board of Dynamit Nobel AG since 1998. Mr. Loh joined mg technologies ag in 1995 and served in several positions, including as Head of Global Human Resources. He has a degree in Economics from the University of Tübingen in Germany.

**Roger-Marc Nicoud** has been the President of our Groupe Novasep segment since December 2004. Mr. Nicoud is the founder and has been the President of Groupe Novasep SAS since 1995. Prior to forming Novasep, he worked for Separex from 1987 to 1995 where he was a research engineer and managing director. In addition, from 1993 to 1995, Mr. Nicoud was a Professor of Chemical Engineering at the University of Nancy (France). In 1995, Mr. Nicoud formed

Novasep, which in December 2004 was combined with our segment formerly known as the Custom Synthesis segment. Mr. Nicoud holds a Ph.D. in Chemical Engineering.

**Bruce R. Olson** has been President of Surface Treatment and Electronic Chemicals business lines since September 2004. Prior to joining Rockwood, Mr. Olson spent four years with Bayer AG in Leverkusen, Germany during which he held the positions of Business Unit Manager Polymer Additives, Business Group General Manager Specialty Products, and Member of the Board of Management Bayer Chemicals. Before joining Bayer AG, Mr. Olson spent 22 years with Air Products in various sales, marketing, and general management positions. Mr. Olson has a B.S. from Valparaiso University and a M.B.A. from Lehigh University.

**Ronald L. Rapaport** has been President of the Color Pigments and Services business line since 1998. Mr. Rapaport joined Rockwood Pigment NA, Inc. in 1978, which became part of Laporte following an acquisition in 1992. Mr. Rapaport served as a Naval Supply Officer from 1967 to 1971. Mr. Rapaport has a B.S. in Accounting, a M.B.A. from the University of Michigan, has been a C.P.A., and has taken part in the Wharton/Laporte Business Program.

**Vernon Sumner** has been President of the Clay-based Performance Additives business line since 2001. Previously, he was President and General Manager of Air Products Polymers LP. Mr. Sumner has a degree in Chemistry and a M.B.A. from Lehigh University and spent 27 years in various management roles with Air Products.

**Ulf D. Zimmermann** has been President of the Advanced Ceramics business segment since 2001. Dr. Zimmerman had been President of the Westfalia Separator AG, a GEA AG Group Company, which became a part of mg technologies ag in 1998 by an acquisition since 1996. He has also been a member of the Executive Board of Dynamit Nobel AG since 2001. Dr. Zimmermann has a degree in Engineering and Business Administration from the University of Berlin in Germany.

## Board of Directors

### *Composition of the Board of Directors*

Our board of directors consists of nine directors, including one independent director, Douglas L. Maine. Under the stockholders' agreement we entered into with affiliates of KKR and DLJMB in connection with the Dynamit Nobel acquisition, DLJMB will have the right to designate a director to our board of directors so long as they own at least 10% of our outstanding common stock. See "Related Party Transactions Agreements with KKR, DLJMB and/or Management Stockholders' Agreement with Affiliates of KKR and DLJMB."

Upon the closing of this offering, our board of directors will be divided into three classes. The members of each class will serve for a three-year term. The classes will be comprised as follows:

Edward A. Gilhuly, Susan Schnabel and Fredrik Sjödin will be Class I directors whose terms expire at the 2006 annual meeting of stockholders;

Seifi Ghasemi, Perry Golkin and Alex Morey will be Class II directors whose terms expire at the 2007 annual meeting of stockholders; and

Brian F. Carroll, Todd A. Fisher and Douglas L. Maine will be Class III directors whose terms expire at the 2008 annual meeting of stockholders.

Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of our directors. This classification of our board of directors may have the effect of delaying or preventing a change in control of our company.

We intend to avail ourselves of the "controlled company" exception under the New York Stock Exchange rules which eliminates the requirements that we have a majority of independent directors

on our board of directors and that we have compensation and nominating and corporate governance committees composed entirely of independent directors, but retains the requirement that we have an audit committee composed entirely of independent members and consisting of at least three members within one year of the offering. Consequently, we will add an additional independent member within 90 days of the offering and a third independent member within one year of the offering. We intend to remove a current member at the time each of these two independent members are added.

#### *Committees of the Board of Directors*

*Audit Committee.* Our audit committee currently consists of Brian F. Carroll, Douglas L. Maine and Alex Morey. Douglas L. Maine, an independent director, serves as chairperson. We expect a second new independent member to replace Alex Morey within 90 days thereafter and a third new independent member to replace Brian F. Carroll within one year thereafter so that all of our audit committee members will be independent as such term is defined in Rule 10A-3(b)(i) under the Exchange Act and under the NYSE Rule 303(A).

Our audit committee will be responsible for (1) selecting the independent auditors, (2) approving the overall scope of the audit, (3) assisting the board in monitoring the integrity of our financial statements, the independent accountant's qualifications and independence, the performance of the independent accountants and our internal audit function and our compliance with legal and regulatory requirements, (4) annually reviewing an independent auditors' report describing the auditing firms' internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the auditing firm, (5) discussing the annual audited financial and quarterly statements with management and the independent auditor, (6) discussing earnings press release, as well as financial information and earnings guidance provided to analysts and rating agencies, (7) discussing policies with respect to risk assessment and risk management, (8) meeting separately, periodically, with management, internal auditors and the independent auditor, (9) reviewing with the independent auditor any audit problems or difficulties and managements' response, (10) setting clear hiring policies for employees or former employees of the independent auditors, (11) handling such other matters that are specifically delegated to the audit committee by the board of directors from time to time and (12) reporting regularly to the full board of directors.

Our board of directors will adopt a written charter for the audit committee which will be available on our website.

#### *Compensation Committee*

Our compensation committee currently consists of Brian F. Carroll, Todd A. Fisher, and Susan Schnabel. Our compensation committee is responsible for (1) reviewing key employee compensation policies, plans and programs, (2) reviewing and approving the compensation of our executive officers, (3) reviewing and approving employment contracts and other similar arrangements between us and our executive officers, (4) reviewing and consulting with the chief executive officer on the selection of officers and evaluation of executive performance and other related matters, (5) administration of stock plans and other incentive compensation plans and (6) such other matters that are specifically delegated to the compensation committee by the board of directors from time to time.

Our board of directors will adopt a written charter for the compensation committee which will be available on our website.

*Corporate Governance and Nominating Committee*

Immediately prior to the closing of this offering, we will form a corporate governance and nominating committee that will consist of Brian F. Carroll, Todd A. Fisher and Susan Schnabel. The corporate governance and nominating committee will be responsible for (1) developing corporate governance guidelines, (2) developing and recommending criteria for selecting new directors, (3) overseeing evaluations of the board of directors and its members, (4) screening and recommending to the board of directors individuals qualified to become executive officers and (5) handling such other matters that are specifically delegated to the corporate governance and nominating committee by the board of directors from time to time.

Our board of directors will adopt a written charter for the corporate governance and nominating committee which will be available on our website.

*Compensation Committee Interlocks and Insider Participation.* The compensation levels of our executive officers are currently determined by our compensation committee as described above. None of our executive officers has served as a director or member of the compensation committee, or other committee serving an equivalent function, of any entity of which an executive officer is expected to serve as a member of our compensation committee.

**Director and Executive Compensation**

*Director Compensation*

We pay \$30,000 annually as compensation for our non-management directors for fulfilling their duties as directors, together with reimbursement of expenses. Our management director is not separately compensated for his services as a director.

After this offering, we expect to pay each non-management director an annual retainer of \$75,000. In addition, we expect to pay an additional annual retainer of \$25,000 and \$12,500 to the chairman of the audit committee and each member of our audit committee, respectively. We also expect to grant each non-management director stock options and/or restricted stock awards under the stock plan.

*Executive Compensation*

The following table shows all compensation awarded to, earned by, or paid to our chief executive officer and our other two executive officers during the years 2004, 2003 and 2002 whose salary and bonus exceeded \$100,000. We refer to them as the "named executive officers."

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation
		Salary	Bonus	Other Annual Compensation (1)	Restricted Stock Award(2)	Securities Underlying Options(#)	LTIP Payouts (\$)	
Seifi Ghasemi Chairman and Chief Executive Officer	2004	\$ 1,150,000	\$ 3,207,899	\$ 230,736	\$ 277,778		\$ 1,120,130(3)	
	2003	1,037,500	648,690	46,732	333,335		608,280(3)	
	2002	1,000,000	1,421,727	49,364	333,335		3,204,280(3)	
Robert J. Zatta Senior Vice President and Chief Financial Officer	2004	396,938	831,487	29,053			20,850(4)	
	2003	368,313	149,685	27,662			18,000(4)	
	2002	351,250	328,064	32,949			17,500(4)	
Thomas J. Riordan Senior Vice President, Law & Administration	2004	313,500	656,978	31,449			43,156(5)	
	2003	290,500	118,062	4,239			42,725(5)	
	2002	276,500	258,754	22,496			31,694(5)	

(1) For each of Mr. Ghasemi, Mr. Zatta, and Mr. Riordan, the amounts for 2004, 2003 and 2002 include gross up and taxable portion of company-provided basic life insurance and auto allowances. The amounts for Mr. Ghasemi include a car allowance of \$32,724 for 2004 and approximately \$36,000 for 2003 and 2002. The amount for Mr. Ghasemi in 2004



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includes \$192,000 (four payments of \$48,000) in lieu of contributions into his supplemental pension pursuant to the terms of Mr. Ghasemi's amended employment agreement. See " Employment and Other Agreements Agreements with Seifi Ghasemi." The amounts include car allowances for Mr. Zatta of \$26,168 for 2004, and \$30,000 for 2003 and 2002; and car allowances of \$30,288, \$3,500 and \$20,000 for Mr. Riordan for 2004, 2003 and 2002, respectively.

- (2) These restricted stock units (payable in shares of our common stock) were granted under Mr. Ghasemi's employment agreement with us and are fully vested. See " Employment and Other Agreements Agreements with Seifi Ghasemi." Amounts reported represent the dollar value of the aggregate restricted stock units held by Mr. Ghasemi which vested during the respective years.
- (3) For 2004, represents (i) \$384,000 (\$48,000 per month for eight months) into a non-qualified supplemental pension; (ii) a one-time payment of \$200,000 in connection with the termination of the non-qualified supplemental pension; (iii) \$501,000 cumulative net gain on rabbi trust; (iv) \$20,850 in company contributions into a qualified plan and (v) \$14,280 of annual premium paid by us with respect to a life insurance benefit of Mr. Ghasemi. For 2003, represents (i) \$576,000 (\$48,000 per month) into a non-qualified supplemental pension; (ii) \$18,000 in company contributions into a qualified plan and (iii) \$14,280 of annual premium paid by us with respect to life insurance benefit of Mr. Ghasemi. For 2002, represents (i) an initial contribution of \$2.5 million to a non-qualified supplemental pension benefit made in January 2002, (ii) an aggregate contribution of \$576,000 (\$48,000 per month) into the grantor trust established for the benefit of Mr. Ghasemi, plus (iii) an additional contribution of \$96,000 into the trust for November and December 2001 that had been deferred until 2002, and (iv) \$14,280 of annual premium paid by us during 2002 with respect to life insurance for the benefit of Mr. Ghasemi. The contributions to the non-qualified supplemental pension are fully vested. See " Employment and Other Agreements Agreements with Seifi Ghasemi."
- (4) Represents our contributions into various qualified plans.
- (5) Represents our contributions into various qualified and non-qualified plans.

### Aggregated Option/SAR Exercises in Last Fiscal Year and FY-End/SAR Values

Name	Shares Acquired on Exercise (\$)(1)	Value Realized (\$)(1)	Number of Securities Underlying Unexercised Options/SARs at FY-End (%)		Value of Unexercised In-the-Money Options/SARs at FY-End (\$) Exercisable/ Unexercisable
			Exercisable (2)	Unexercisable (2)	
Seifi Ghasemi			246,423	686,222	
Robert J. Zatta			52,022	153,331	
Thomas J. Riordan			75,296	164,282	

- (1) None of the named executive officers exercised any stock options during 2004.
- (2) Effective as of April 29, 2005, when Group's annual report on Form 10-K, was filed, a portion of Mr. Ghasemi's, Mr. Zatta's and Mr. Riordan's unexercisable options became exercisable in the following amounts: 61,605 options for Mr. Ghasemi, 23,684 options for Mr. Zatta, and 27,380 options for Mr. Riordan.

### Employment and Other Agreements

#### *Agreements with Seifi Ghasemi*

We have entered into an employment agreement, dated as of September 28, 2001, as amended as of August 9, 2004 and September 24, 2004, with Mr. Ghasemi pursuant to which he is serving as our Chairman and Chief Executive Officer. The agreement automatically renews for successive one-year periods, unless either party gives 60 days advance written notice not to renew the term of the agreement prior to any such extension date. Either party may terminate the agreement at any time; however, Mr. Ghasemi must give at least 180 days advance written notice to terminate his employment (other than in connection with his notice not to renew the terms of the employment agreement, as otherwise described above).

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The agreement initially provided Mr. Ghasemi with an annual base salary of \$1,000,000 and as amended, provided Mr. Ghasemi with an annual base salary of \$1,250,000 effective August 1, 2004, and a target annual bonus award equal to 125% of his base salary (subject to our achievement of

specified performance targets), both of which may be increased in the discretion of our board of directors.

Pursuant to the first amendment, Mr. Ghasemi's supplemental executive retirement plan, or SERP, and the related rabbi trust, were terminated and the assets were distributed to him. We will continue to make payments of \$48,000 per month to Mr. Ghasemi as a supplemental pension benefit. In addition, in connection with the termination of the SERP, Mr. Ghasemi was granted a special one-time payment of \$200,000.

Pursuant to the original agreement, Mr. Ghasemi agreed to purchase a certain number of shares of our common stock, and in connection therewith, received a grant of 68,452 restricted stock units (payable in shares of our common stock) which vest in equal quarterly installments over a three-year period and a grant of time options to purchase a certain number of shares of our common stock which vest over a five-year period. Except in the event of a sale of shares of our common stock by affiliates of KKR giving rise to tag-along or drag-along rights under Mr. Ghasemi's amended and restated sale participation agreement, the shares of common stock underlying vested restricted stock units are issuable upon the later of (i) the date such shares can be sold in the public market without restriction on transfer, which, given this offering, is expected to be November 1, 2006 and (ii) the termination of Mr. Ghasemi's employment. Pursuant to the agreement governing the restricted stock units, if a cash dividend is paid on the outstanding shares of common stock, Mr. Ghasemi will receive, at the time he becomes entitled to receive the shares of our common stock underlying the restricted stock units, an additional number of shares of our common stock equal to the quotient of (a) the product of the amount of the dividend paid with respect to one share of our common stock multiplied by the number of vested restricted stock units then held by Mr. Ghasemi (plus any number of shares of our common stock previously calculated in respect of any other cash dividend) divided by (b) the fair value per share of our common stock at the time the dividend is paid. The number of shares of our common stock issuable is subject to adjustment in the event of a stock dividend, split, combination, recapitalization, change of control or other similar event.

In connection with the second amendment, Mr. Ghasemi agreed pursuant to the amended and restated management stockholder's agreement to purchase an additional number of shares of our common stock, and in connection therewith, was granted a time/performance option to purchase an additional number of shares of our common stock. At the same time, Mr. Ghasemi was granted a separate time option to purchase a certain number of shares of our common stock. The time/performance option vests over a five-year period as to 40% of the shares of our common stock subject to the option and vests, as to the remaining 60%, over a five-year period and to the extent certain performance targets are achieved. The time option vests over a period ending January 1, 2008.

Mr. Ghasemi's agreement also provides that if his employment is terminated by us without "cause" (which includes our nonrenewal of the term of the employment agreement as described above), or if he resigns for "good reason," he will be entitled to receive:

accrued but unpaid current compensation and supplemental pension benefit;

continued payment, in equal installments over the 24-month period following any such termination, of an amount equal to two times the sum of (x) his then base salary and (y) the average of his annual bonuses, if any, earned or payable in respect of our two full fiscal years prior to the date of his termination; and

continued monthly supplemental benefit contributions for a period of 12 months following such termination.

Mr. Ghasemi's employment agreement also contains certain restrictive covenants relating to confidentiality, non-competition and non-solicitation.



***Agreements with Robert Zatta***

We have entered into an employment agreement with Mr. Zatta, dated as of March 21, 2001, as amended as of October 19, 2004, pursuant to which he is serving as our Senior Vice President and Chief Financial Officer. The agreement provides for an annual base salary, subject to potential increase on an annual basis, a signing bonus, a company automobile and entitles him to participate in our health, welfare, retirement and bonus programs.

Mr. Zatta's employment agreement may be terminated upon twelve months' prior written notice by us or six months' prior written notice by Mr. Zatta. Mr. Zatta's employment agreement also provides that if his employment is involuntarily terminated, other than for "cause," as defined in the agreement, or he resigns with "good reason," as defined in the agreement, he will be entitled to (i) a lump sum cash payment equal to his three months base salary, (ii) continuation of health care coverage, to the extent applicable for a specified period of time, (iii) continued use of a company car for a period of twelve months, (iv) a severance payment equal to two weeks base salary plus one week salary for each year of service and (v) a further severance payment of three months salary.

Under his employment agreement, Mr. Zatta was entitled to purchase shares of our common stock in accordance with the terms and conditions of the management stockholder's agreement, which he did, and in connection therewith, was granted a time/performance option to purchase an additional number of shares of our common stock. In October 2004, Mr. Zatta was granted the right to purchase an additional number of shares of our common stock, which he did, and in connection therewith, was granted a time/performance option and a performance option to purchase an additional number of shares of our common stock in accordance with the terms and conditions of the amended and restated management stockholder's agreement.

Mr. Zatta's employment agreement also contains certain restrictive covenants relating to confidentiality and non-competition.

***Agreements with Thomas Riordan***

We have entered into an employment agreement with Mr. Riordan, dated October 13, 1994, pursuant to which he is serving as our Senior Vice President, Law & Administration. The employment agreement provides for base monthly salary, subject to potential increase on an annual basis, a company automobile, and entitles him to participate in our health, welfare, retirement and bonus programs.

Mr. Riordan's employment agreement may be terminated upon twelve months' prior written notice by us or six months' prior written notice by Mr. Riordan. Mr. Riordan's employment agreement also provides that if his employment is involuntarily terminated, other than for "cause," as defined in the agreement, or he resigns with "good reason," as defined in the agreement, he will be entitled to (i) a lump sum cash payment equal to his three months base salary, (ii) continuation of health care coverage, to the extent applicable for a specified period of time, (iii) continued use of a company car for a period of twelve months, (iv) a severance payment equal to two weeks base salary plus one week salary for each year of service and, (v) a further severance payment of three months salary.

Mr. Riordan's employment agreement contains provisions relating to confidential information and covenants not to compete for a period of one year in the event we continue to pay current salary and benefits for that period.

Under the management stockholder's agreement Mr. Riordan entered into in 2001, he purchased shares of our common stock and in connection therewith, was granted a time/performance option to purchase an additional number of shares of our common stock. In October 2004, Mr. Riordan was granted the right to purchase an additional number of shares of our

common stock, which he did, and in connection therewith, was granted a time/ performance option and a performance option to purchase an additional number of shares of our common stock in accordance with the terms and conditions of the amended and restated management stockholder's agreement.

### **Stock Purchase and Option Plan**

We have adopted the 2005 Amended and Restated Stock Purchase and Option Plan of Rockwood Holdings, Inc. and Subsidiaries (formerly the Amended and Restated 2003 Stock Purchase and Option Plan of Rockwood Holdings, Inc. and Subsidiaries, which was formerly the 2000 Stock Purchase and Option Plan of Rockwood Holdings, Inc. and Subsidiaries), which provides for the grant of incentive stock options (within the meaning of Section 422 of the Internal Revenue Code), options that are not incentive stock options, and various other stock-based grants, including the shares of our common stock sold to, and options granted to the executive officers and other key employees, as described below under " Management Equity Programs." The total shares available for grant under the stock plan are 10,000,000, of which 878,531 shares of common stock have been sold and issued, and 3,892,285 stock options to purchase shares of common stock and 68,452 shares of common stock underlying the restricted stock units have been granted to date. As of the date of this prospectus, we have granted under the stock plan certain options as incentive stock options to the maximum extent permitted by applicable law and the remainder as non-incentive stock options. The options are generally granted as follows: 50% vest and become exercisable over the passage of time, which we refer to as "time options," assuming the optionee continues to be employed by us, and 50% vest and become exercisable over time based upon the achievement of certain performance targets, which we refer to as "performance options."

*Exercise Price.* The exercise price of the options is the fair market value of the shares underlying the options on the date of the grant of the option, unless otherwise specified for particular options.

*Vesting of Time Options.* Time options granted in 2004 generally become exercisable by the holder of the option in installments of 20% on each of the first five anniversaries of the "initial vesting date" which is generally defined as the grant date. Time options granted prior to 2004 vest as follows: 10% in year one, 10% in year two, 25% in year three, 25% in year four and 30% in year five.

*Vesting of Performance Options.* Performance options generally become exercisable as to 100% of the options on the eighth anniversary of the grant date; however, they will become earlier exercisable as to 20% of the total performance options on December 31 of each fiscal year beginning with the 2004 fiscal year upon the completion of the audit for the then ending period, subject to certain employment restrictions to the extent that we, or a division of ours, as applicable, achieves certain performance targets. Certain option holders have "company-wide performance targets," which targets are based on our achievement of certain implied equity values. Other option holders have "divisional performance targets," which targets are based on a particular division's achievement of annual or cumulative EBITDA. In the event that performance targets are not achieved in any given fiscal year but the cumulative targets are achieved in a subsequent year, the performance option will become exercisable as to the previously unexercisable percentage of the performance options from the missed years, as well as with respect to the percentage of the performance options in respect of the fiscal year in which the performance targets are achieved. Options generally are not exercisable as to any shares following the termination of an optionee's employment with us or our subsidiaries.

*Effect of Change in Control.* In addition, upon the occurrence of a change in control, as defined in the stock plan, the exercisability of the time options will automatically accelerate with respect to 100% of the shares of our common stock subject to the time options. Immediately prior

to a change of control, a ratable portion of unvested performance options will automatically vest if our board of directors makes a good faith determination that the applicable performance target(s) would have been met for the year in which the change of control occurs, but for the change of control. Our board of directors, in its discretion, may further determine to accelerate the vesting of all performance options.

*Miscellaneous.* The options will only be transferable by will or pursuant to applicable laws of descent and distribution upon the death of the optionee. The stock plan may be amended or terminated by our board of directors at any time.

*Management Equity Programs.* In connection with the KKR acquisition, we implemented a management equity program, which we refer to as the 2001 management equity program, under which members of our management and certain other employees, including our executive officers, were given the opportunity to purchase shares of our common stock, and were entitled to receive options to purchase additional shares of our common stock, depending upon the initial number of shares each employee purchased. In connection with the 2001 management equity program, 401,103 shares were purchased and options to purchase 1,787,933 shares were granted, net of subsequent redemptions and forfeitures, each at the same price per share paid by affiliates of KKR.

In connection with the Dynamit Nobel acquisition, we implemented a new management equity program, which we refer to as the 2004 management equity program, under which members of our management and certain other employees, including our executive officers, in the United States, Germany and other countries were given the opportunity to purchase shares of our common stock and were entitled to receive options to purchase additional shares of our common stock, depending upon the initial number of shares each employee purchased. In connection with the 2004 management equity program, 477,428 shares were purchased and options to purchase 2,091,852 shares were granted, each at the same price per share paid by affiliates of KKR and DLJMB.

As a result of the 2001 management equity program and the 2004 management equity program, members of our management and certain other employees currently hold approximately 8.8% of the outstanding shares of our common stock and, after giving effect to the offering, will hold approximately 6.4%, in each case, on a fully-diluted basis.

Pursuant to the 2001 management equity program, we made loans to ten employees including Mr. Zatta and Mr. Riordan in order to assist them in purchasing, in whole or in part, their shares of our common stock. The loans are repayable on the earliest to occur of (i) the fifth anniversary of the date the employee purchases his or her shares of our common stock, (ii) certain terminations of employment or (iii) the receipt by the employee of any proceeds from the sale or other disposition of his or her shares of our common stock. We have full recourse against the employees and all of their assets for repayment of the principal of or interest on the loans. The loans are secured by all of an employee's shares of our common stock, including any shares of our common stock obtained upon exercise of any stock options held by the employee. As of March 31, 2005, we had approximately \$0.7 million in outstanding loans made to employees.

The shares of our common stock purchased by the employees, the options granted to the employees and the shares of our common stock an employee may receive upon exercise of an option under both the 2001 management equity program and 2004 management equity program, are subject to transfer restrictions until the fifth anniversary of the date the employees originally purchased their shares of our common stock, and are also subject to our right, prior to such fifth anniversary, to repurchase the shares of our common stock and vested options upon termination of an employee's employment. See "Related Party Transactions Agreements with KKR, DLJMB and/or Management 2001 Management Stockholder's Agreements," and "Related Party Transactions Agreements with KKR, DLJMB and/or Management 2004 Management Stockholder's Agreements."

**Limitations on Liability and Indemnification of Directors and Officers**

The Delaware General Corporation Law authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties. Our amended and restated certificate of incorporation provides that no director shall be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director.

Our amended and restated certificate of incorporation and our amended and restated bylaws provide that we must indemnify our directors and officers to the fullest extent authorized by the Delaware General Corporation Law. We are also expressly authorized to advance certain expenses (including attorneys' fees and disbursements and court costs) and carry directors' and officers' insurance providing indemnification for our directors, officers and employees for some liabilities. We believe that these indemnification provisions and insurance are useful to attract and retain qualified directors and officers. There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

In addition, we provide indemnification to certain of our directors who are affiliated with KKR and DLJMB under the management services agreement. See "Related Party Transactions Agreements with KKR, DLJMB and/or Management Management Services Agreement with KKR and DLJMB III."

**PRINCIPAL STOCKHOLDERS**

The following table sets forth information with respect to the beneficial ownership of our common stock before and after the offering by:

each person who is known by us to beneficially own more than 5% of our common stock;

each of our directors and named executive officers; and

all of our directors and executive officers as a group.

Unless otherwise indicated, the address of each person named in the table below is c/o Rockwood Holdings, Inc., 100 Overlook Center, Princeton, NJ 08540.

**Beneficial Ownership of Common Stock**

Name of Beneficial Owner	Number(1)	Percentage Prior to the Offering	Percentage After the Offering	
			Without Over-allotment	With Over-allotment
KKR(2)	38,443,825	75.0%	53.6%	51.4%
DLJMB(3)	10,909,384	21.7%	15.4%	14.8%
Seifi Ghasemi(4)	383,325	*	*	*
Robert J. Zatta(5)	95,488	*	*	*
Thomas J. Riordan(6)	126,634	*	*	*
Brian F. Carroll(2)	38,443,825	75.0%	53.6%	51.4%
Todd A. Fisher(2)	38,443,825	75.0%	53.6%	51.4%
Edward A. Gilhuly(2)	38,443,825	75.0%	53.6%	51.4%
Perry Golkin(2)	38,443,825	75.0%	53.6%	51.4%
Douglas L. Maine				
Alex Morey(3)				
Susan Schnabel(3)				
Fredrik Sjödin(2)	38,443,825	75.0%	53.6%	51.4%
All directors and executive officers as a group (11 persons)	39,049,272	75.6%	54.2%	52.0%

\*  
Less than 1%.

(1) The amounts and percentages of our common stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed to be a beneficial owner of such securities as to which such person has an economic interest.

(2) KKR affiliates currently beneficially own 38,443,825 shares of our common stock as follows:

5,404,211 shares are beneficially owned by KKR Millennium Fund L.P., for which KKR Associates Millennium L.P. is the general partner, and for which KKR Millennium GP LLC is the general partner of that limited partnership and exercises sole voting and investment power with respect to such shares; 958,315 of the 5,404,211 shares of our common stock shown as

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beneficially owned by KKR Millennium Fund L.P. reflect shares of common stock

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issuable upon exercise of warrants issued in connection with the July 2003 debt refinancing;

19,138,916 shares are beneficially owned by KKR 1996 Fund L.P., for which KKR Associates 1996 L.P. is the general partner, and for which KKR 1996 GP LLC is the general partner of that limited partnership and exercises sole voting and investment power with respect to such shares;

164,282 shares are beneficially owned by KKR Partners II, L.P., for which KKR Associates (Strata) L.P. is the general partner, and for which Strata L.L.C. is the general partner of that limited partnership and exercises sole voting and investment power with respect to such shares;

398,727 shares are beneficially owned by KKR Partners III, L.P. (Series F), for which KKR GP III LLC is the general partner and exercises sole voting and investment power with respect to such shares; and

13,337,689 shares are beneficially owned by KKR European Fund, Limited Partnership, for which KKR Associates Europe, Limited Partnership is the general partner, and for which KKR Europe Limited is the general partner of that limited partnership and exercises sole voting and investment power with respect to such shares.

In addition, KKR affiliates may be deemed by virtue of their rights under the stockholders' agreement entered into with us and DLJMB, to share investment power with respect to the shares held by DLJMB but disclaim beneficial ownership of such shares.

Messrs. Henry R. Kravis, George R. Roberts, Paul E. Raether, Michael W. Michelson, James H. Greene, Jr., Perry Golkin, Scott M. Stuart, Edward A. Gilhuly, Johannes P. Huth, Todd A. Fisher and Alexander Navab, as members of KKR Millennium GP LLC, KKR 1996 GP LLC and KKR Europe Limited, and Marc S. Lipschultz and Jacques Garaialde, as members of KKR Millennium GP LLC and KKR Europe Limited, may be deemed to share beneficial ownership of the shares controlled by these entities, but disclaim such beneficial ownership. Messrs. Brian F. Carroll and Fredrik Sjödin are our directors and executives of KKR, and as such may be deemed to share beneficial ownership of any shares beneficially owned by KKR, but disclaim such beneficial ownership. The address of KKR Millennium GP LLC, KKR 1996 GP LLC, KKR GP III LLC, KKR Europe Limited and each individual listed above is c/o Kohlberg Kravis Roberts & Co. L.P., 9 West 57th Street, New York, New York 10019.

(3)

DLJMB currently beneficially own 10,909,384 shares of our common stock as follows: (a) 8,642,630 shares are beneficially owned by DLJ Merchant Banking Partners III, L.P.; (b) 152,680 shares are beneficially owned by DLJ Offshore Partners III-1, C.V.; (c) 108,768 shares are beneficially owned by DLJ Offshore Partners III-2, C.V.; (d) 594,942 shares are beneficially owned by DLJ Offshore Partners III, C.V.; (e) 72,147 shares are beneficially owned by DLJ MB PartnersIII GmbH & Co. KG; (f) 49,079 shares are beneficially owned by Millennium Partners II, L.P.; and (g) 1,289,138 shares are beneficially owned by MBP III Plan Investors, L.P., all of which form a part of Credit Suisse First Boston's Alternative Capital Division. The address for each of the foregoing is 11 Madison Avenue, New York, New York, 10010, except that the address of DLJ Offshore Partners III-1, DLJ Offshore Partners III-2 and DLJ Offshore Partners III, C.V. is John B. Gosiraweg 14, Willemstad, Curacao, Netherlands Antilles. Alex Morey and Susan Schnabel are our directors and are employees of Credit Suisse First Boston's Alternative Capital Division, of which DLJMB is a part. Alex Morey and Susan Schnabel do not have sole or shared voting or dispositive power over shares held by DLJMB and therefore do not have beneficial ownership of such shares.

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- (4) Shares of our common stock shown as beneficially owned by Mr. Ghasemi include 246,423 shares underlying exercisable stock options held by him and 136,902 shares purchased by Mr. Ghasemi pursuant to the management equity programs. Excludes 68,452 vested restricted stock units held by Mr. Ghasemi. See "Management Employment and Other Agreements Agreements with Seifi Ghasemi."
- (5) Shares of our common stock shown as beneficially owned by Mr. Zatta include 52,022 shares underlying exercisable stock options held by him and 43,466 shares purchased by Mr. Zatta pursuant to the management equity programs.
- (6) Shares of our common stock shown as beneficially owned by Mr. Riordan include 75,296 shares underlying exercisable stock options held by him and 51,338 shares purchased by Mr. Riordan pursuant to the management equity programs.

In addition, our directors Brian F. Carroll, Todd A. Fisher, Edward A. Gilhuly and Fredrik Sjödin may be deemed to share beneficial ownership of 100% of our redeemable convertible preferred stock, which is beneficially owned by KKR Millennium Fund, L.P., but disclaim such beneficial ownership.



## RELATED PARTY TRANSACTIONS

### Agreements with KKR, DLJMB and/or Management

#### 2001 Management Stockholder's Agreements

We entered into management stockholder's agreements, generally dated as of February 2, 2001, with certain members of our management that purchased shares of our common stock under the 2001 management equity program. The following summary of the terms of those agreements should be read together with the information described under the caption "Management Stock Purchase and Option Plan Management Equity Programs."

*Restrictions on Transfers.* The management stockholder's agreements impose significant restrictions on transfers of shares of common stock. Pursuant to the management stockholder's agreements, except for certain permitted non-public transfers, sales of shares of common stock pursuant to an effective registration statement under the Securities Act (not including registration statements on Form S-8) and transfers made pursuant to the sale participation agreement (described below), the shares of common stock generally will be non-transferable by any means at any time prior to the fifth anniversary of the investment date.

*Our Obligation to Repurchase Stock and Options of the Stockholder.* If, prior to the fifth anniversary of the management stockholder's agreement, the stockholder's employment is terminated as a result of the death or permanent disability of the stockholder, then the stockholder will have the right, for a period of 60 days following 181 days after the date of death or permanent disability, to require us to purchase all of the shares of common stock then held by such stockholder at a per share price equal to the fair market value per share. In the event the stockholder exercises this right, we will also be required to purchase all of the outstanding exercisable options held by the stockholder for an amount equal to the product of (x) the excess, if any, of the fair market value per share over the exercise price of the option and (y) the number of exercisable options.

*Our Right to Repurchase Stock and Options of the Stockholder.* If, prior to the fifth anniversary of the management stockholder's agreement, the stockholder's employment is terminated by us for "cause" (as such term is defined in the agreement) or the management stockholder effects an impermissible transfer of the shares of common stock, then we will have the right to repurchase shares of common stock held by the stockholder at a per share price equal to the lesser of the purchase price the stockholder paid for the share and the fair market value per share, and all options (whether then exercisable or not) held by the stockholder will terminate without any payment. If, prior to the fifth anniversary of the management stockholder's agreement, the stockholder's employment is terminated with or without "good reason" (as such term is defined in the agreement) by the management stockholder or by his death or permanent disability or without "cause" by us, then we will have the right to repurchase shares of common stock held by the stockholder at a per share purchase price equal to the fair market value per share. In the event we exercise this right, we will also purchase all of the outstanding exercisable options held by the stockholder for an amount equal to the product of the excess, if any, of the fair market value per share over the option exercise price and the number of exercisable options. In the event such amount is zero or a negative number, all such outstanding exercisable options will be automatically terminated without any payment.

*"Piggyback" Registration Rights.* Until the later of (i) one year after the occurrence of a (a) registered public offering relating to sales of our common stock by affiliates of KKR or (b) a "qualified public offering," and (ii) the sixth anniversary of the date the management stockholder entered into the management stockholder's agreement, the management stockholder agrees to be bound by the registration rights agreement (described below), and in the event of a proposed

registered sale of our common stock by affiliates of KKR, the management stockholder is entitled to register in the proposed sale the maximum number of shares of common stock held by him or acquired under exercisable options, which number is proportional to the number of shares being sold by affiliates of KKR in relation to the number of shares then owned by affiliates of KKR.

#### **2004 Management Stockholder's Agreements**

We entered into management stockholder's agreements with members of our management and certain other employees that purchased shares of our common stock under the 2004 management equity program. The terms of the 2004 management stockholder's agreements are substantially the same as those of the 2001 management stockholder's agreements described above.

#### **2001 Sale Participation Agreements**

Affiliates of KKR entered into a sale participation agreement, dated February 2, 2001, with each member of our management who purchased shares of our common stock under the 2001 management stockholder's agreement.

*Tag-Along Rights.* The sale participation agreement grants to the stockholders the right to participate in any sale for cash or other consideration (other than a registered public offering or a sale to another affiliate of KKR) of shares of our common stock by affiliates of KKR occurring prior to the fifth anniversary of the first registered public offering of our common stock. The stockholder will be able to sell the maximum number of shares of our common stock then held by such stockholder or acquired under exercisable options, which is proportional to the number of shares being sold by affiliates of KKR in relation to the number of shares then owned by affiliates of KKR.

*Drag-Along Rights.* If affiliates of KKR receive an offer from a third party to purchase at least a majority of the shares of common stock then owned by affiliates of KKR prior to the fifth anniversary of the first registered public offering of our common stock, the stockholder may be required, if so requested by affiliates of KKR, to sell in such transaction on the same terms and conditions as to be paid and given to affiliates of KKR, up to the same number of shares of common stock that the stockholder would be able to sell pursuant to the preceding paragraph.

#### **2004 Sale Participation Agreements**

Affiliates of KKR entered into sale participation agreements with other members of our management who purchased shares of our common stock under the 2004 management equity program. The terms of the 2004 sale participation agreements are substantially the same as those of the 2001 sale participation agreements described above.

#### **Restricted Stock Units**

We entered into a restricted stock unit award agreement with our chairman and chief executive officer, effective November 2001, pursuant to which he received a grant of 68,452 restricted stock units which vested in equal quarterly installments over a three-year-period. The restricted stock units are payable in shares of our common stock issuable upon the later to occur of (i) the date the shares of common stock underlying the restricted stock units can be sold in the public market without restriction on transfer, which, given this offering, is expected to be November 1, 2006 and (ii) the termination of his employment. Pursuant to the agreement, if a cash dividend is paid on the outstanding shares of our common stock, he will receive, at the time he becomes entitled to receive the shares of our common stock underlying the restricted stock units, an additional number of shares of our common stock equal to the quotient of (a) the product of the amount of the dividend paid with respect to one share of our common stock multiplied by the number of vested restricted stock units then held by him (plus any number of shares of our common stock previously

calculated in respect of any other cash dividend) divided by (b) the fair value per share of our common stock at the time the dividend is paid. The number of shares of our common stock issuable is subject to adjustment in the event of a stock dividend, split, combination, recapitalization, change of control or other similar event.

### **Registration Rights Agreement**

We are a party to a registration rights agreement, dated November 20, 2000, as amended as of July 23, 2003, with certain of our stockholders, including affiliates of KKR, DLJMB, stockholders party to the investors' rights agreement described below and members of our management and certain other employees who are parties to the management stockholder's agreements described above. Pursuant to the registration rights agreement, if we propose to register shares of our common stock for sale under the Securities Act, the other parties to the registration rights agreement are entitled to request that we include their shares in such sale. In addition, following this offering, affiliates of KKR and DLJMB (that own a specified number of shares of our common stock) are entitled to make requests that we effect the registration under the Securities Act of all or a portion of their shares of common stock.

### **Pledge Agreements**

In connection with our 2001 management equity program, our subsidiary, Rockwood Specialties Inc. made loans to certain members of our management, including two of our executive officers, in order to assist them in purchasing, in whole or in part, their shares of our common stock, and in connection with the making of such loans, each such member of our management entered into a pledge agreement. Pursuant to the pledge agreement, each such member of our management pledged all of his shares of our common stock, including shares received upon exercise of any stock options that may be issued to him by us, as collateral security for the loan.

These loans accrue interest at the applicable federal rate at the time of investment, and are repayable upon the earliest to occur of (1) the fifth anniversary of the date the shares of our common stock was purchased, (2) certain terminations of employment and (3) the receipt by the borrower of any proceeds from the sale or other disposition of his shares of our common stock. As of March 31, 2005, the outstanding principal balance of the loans to our two executive officers amounted to \$0.2 million. Rockwood Specialties has full recourse against these two executive officers and all of their assets for repayment of the principal of or interest on these loans. Through March 31, 2005, both executive officers were current in their payments of principal and interest. These loans have not been materially modified since July 30, 2002. See "Management Stock Purchase and Option Plan Management Equity Programs."

### **Investors' Rights Agreement**

In connection with the KKR acquisition, we entered into an investors' rights agreement, dated November 20, 2000, with Merrill Lynch Capital Corporation and affiliates of KKR. Pursuant to this agreement, we issued 30,273 shares of our common stock to Merrill Lynch Capital Corporation for a purchase price of \$1.00 per share (as adjusted to reflect the 100-for-1 reverse stock split effective January 30, 2001; 1,036,114 to reflect the stock split that will be effected prior to this offering), in consideration for making the pay-in-kind loans to our subsidiary, Rockwood Specialties Consolidated, Inc. In connection with the assignment of \$70.0 million of the pay-in-kind loans to Allianz Lebensversicherungs AG, Stuttgart and the replacement of such loans for pay-in-kind notes, the agreement was amended as of February 7, 2001 to provide for the transfer of certain shares of our common stock by Merrill Lynch to Allianz. In addition, in connection with the assignment of the remaining \$30.0 million of the pay-in-kind loans to SPCP Group, L.L.C., an affiliate of Silver Point Capital LP, the agreement was further amended as of January 14, 2005 to

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provide for the transfer of remaining shares of our common stock held by Merrill Lynch to SPCP Group, L.L.C.

*Tag-Along and Drag-Along Rights.* If affiliates of KKR sell shares of our common stock representing more than 40% of the number of shares originally purchased by them to any third party, then the investors have customary rights to participate in the sale on a pro rata basis with affiliates of KKR. In addition, if affiliates of KKR propose to transfer more than 50% of the number of shares originally purchased by them to any third party, affiliates of KKR may require that such investors transfer their shares on the same terms.

*Registration Rights.* Each investor agrees to be bound by the registration rights agreement dated November 20, 2000, as amended, and is entitled to all of the rights and privileges of the registration rights agreement as if such investor were an original holder of shares of common stock under the registration rights agreement.

### **Stockholders' Agreement with Affiliates of KKR and DLJMB**

In connection with the Dynamit Nobel acquisition, we entered into a stockholders' agreement, dated as of July 29, 2004, with affiliates of KKR and DLJMB.

*Board Representation.* The stockholders' agreement provides that our board of directors will initially consist of eight directors, five of whom will be designated by affiliates of KKR, two of whom will be designated by DLJMB and one of whom will be our chief executive officer. At such time that DLJMB ceases to own at least 10% of our outstanding common stock, DLJMB will cease to have the right to designate directors to our board of directors. In connection with this offering, our board of directors may be reconstituted, subject to compliance with applicable law and the listing rules of the applicable securities exchange; provided that, DLJMB will be entitled to designate one director to our board of directors for so long as they continue to own at least 10% of our outstanding common stock after giving effect to this offering.

*Restrictions on Transfers.* Prior to the fifth anniversary of the Dynamit Nobel acquisition, DLJMB may not generally transfer shares of our common stock, other than to certain permitted transferees (including distributions to their limited partners), pursuant to a registered sale or pursuant to drag-along rights described below. Following the fifth anniversary of the Dynamit Nobel acquisition, DLJMB may transfer their shares subject to drag-along rights described below and certain other restrictions. Subject to compliance with certain restrictions, affiliates of KKR may transfer their shares by any means at any time.

*Drag-Along Rights.* If at any time affiliates of KKR and any other holder of shares of our common stock receive a bona fide offer from any third party to purchase at least a majority of our outstanding common stock, and such offer is accepted, then DLJMB will, if required by affiliates of KKR, transfer to such third-party on the terms of the accepted offer such number of shares of common stock held by them as is proportional to the number of shares being sold by affiliates of KKR and other holders in relation to the number of shares then owned by them.

*Registration Rights.* Each stockholder party to the agreement agrees to be bound by the registration rights agreement dated November 20, 2000, as amended. DLJMB is entitled to make up to three separate written requests that we effect the registration under the Securities Act of all or some of their shares of common stock pursuant to the terms of the registration rights agreement; provided, however, DLJMB may not make any such request until the earlier of (i) the termination of any applicable "lock-up" period and the end of any period during which dealers must deliver a prospectus in connection with the sale of any shares of our common stock by any affiliates of KKR pursuant to the exercise of its second demand registration right and (ii) the sixth anniversary of the

closing of the Dynamit Nobel acquisition if no affiliate of KKR has exercised its demand registration right to date. Affiliates of KKR are entitled to make an unlimited number of requests that we effect the registration under the Securities Act of their shares of common stock.

#### **Stock Subscription Agreement**

In connection with the Dynamit Nobel acquisition, we, affiliates of KKR and DLJMB entered into a stock subscription agreement, dated as of July 29, 2004, pursuant to which we issued 18,182,312 shares of our common stock to affiliates of KKR and 10,909,384 shares of our common stock to DLJMB, for a purchase price of \$14.61 per share. This agreement terminated upon the closing of the Dynamit Nobel acquisition.

#### **Management Services Agreement with KKR and DLJMB III**

In connection with the Dynamit Nobel acquisition, we have entered into a management services agreement, dated as of July 29, 2004, with KKR and DLJMB III. Under the agreement, KKR and DLJMB III have agreed to provide certain management, business strategy, consulting and financial services to us and our subsidiaries. These services include (i) advice regarding the structure, distribution, and timing of debt and equity offerings, (ii) advice regarding our business strategy, (iii) advice regarding dispositions and/or acquisitions and (iv) other services of the type customarily performed by KKR and DLJMB III.

The aggregate annual fee under the management services agreement is \$2.0 million, which amount will be increased by 5% each year and is payable quarterly to KKR and DLJMB III on a pro rata basis based on their respective percentage equity interest in us. This annual fee is paid by our U.S. subsidiaries. Under the agreement, we paid a transaction fee of \$21.0 million to KKR and \$9.0 million to DLJMB III (or an aggregate fee of \$30.0 million) in connection with the closing of the Dynamit Nobel acquisition. We also agree to indemnify and hold each of KKR and DLJMB III and their respective partners, executives, officers, directors, employees, agents, controlling persons and affiliates harmless from and against any losses and/or liabilities relating to or arising out of the services contemplated by the agreement or the retention of KKR and DLJMB III pursuant to, and such entities' or their affiliates' performance of the services contemplated by, the agreement. In connection with this offering, the affiliates of KKR and DLJMB III have agreed to terminate the management services agreement for an aggregate consideration of \$10.0 million. Certain provisions in the management services agreement, including indemnification, will survive such termination.

#### **Senior Discount Notes**

For a description of the senior discount notes issued by Rockwood Specialties International, Inc. and held by an affiliate of KKR, see "Description of Indebtedness Senior Discount Notes." We intend to redeem the senior discount notes with a portion of the net proceeds from the offering.

#### **Redeemable Convertible Preferred Stock and Warrants**

For a description of the redeemable convertible preferred stock and warrants issued to an affiliate of KKR in connection with the July 2003 debt refinancing, see "Description of Capital Stock Preferred Stock Redeemable Convertible Preferred Stock." We intend to redeem the outstanding shares of redeemable convertible preferred stock with a portion of the net proceeds from the offering.

### **Indemnification and Insurance**

For a description of our limitation on liability and indemnification of, and provision of insurance covering, our directors and executive officers, see "Management Limitations on Liability and Indemnification of Officers and Directors."

### **Stockholders' Agreement with Management of Groupe Novasep SAS**

In connection with the combination of the three business lines of our Custom Synthesis segment with Groupe Novasep SAS, we, our subsidiary Knight Specialite Synthese SAS (which is now renamed Groupe Novasep, but which we refer to below as Knight), and certain members of management of Groupe Novasep SAS entered into a stockholders' agreement, dated as of December 31, 2004.

*Exchange Rights; Call Rights.* The Groupe Novasep SAS management stockholders have the right to convert their shares of common stock of Knight into shares of our common stock in the event of a "change of control" (as defined in the agreement) of Knight pursuant to a formula specified in the agreement which is based on the respective values of Knight's common stock and our common stock. In the event a Groupe Novasep SAS management stockholder does not exchange his or her shares upon a change of control, Knight has a right to buy such management stockholder's shares. In addition, following the occurrence of certain events such as death, disability or termination of the Groupe Novasep SAS manager's employment, subject to the call right described below, each manager has a right to convert his shares of common stock of Knight into shares of our common stock pursuant to a formula specified in the agreement.

*Company Call Right.* We have the right to purchase Groupe Novasep SAS management stockholders' shares of common stock of Knight prior to December 31, 2008 in certain circumstances such as death, permanent disability or termination of managers' employment at purchase prices specified in the agreement.

*Registration Rights.* Following December 31, 2007 and prior to either (1) an initial public offering by Knight or (2) the date on which we cease to hold a majority of shares of common stock of Knight, Roger-Marc Nicoud has the right to cause Knight to effect an initial public offering of shares of common stock of Knight if the intended listing price for shares of common stock of Knight would imply a value of Knight that is 2.75 times the "value per share" (as defined in this agreement) of Knight common stock. Each Groupe Novasep SAS manager also has piggyback registration rights under the terms and conditions of the registration rights agreement with respect to any of our shares he acquires pursuant to the agreement.

### **Relationship with DLJMB and Credit Suisse First Boston LLC**

For more information regarding our relationship with DLJMB and Credit Suisse First Boston LLC in their capacity as initial purchasers of Group's 2014 notes and lenders, arrangers and agents under Group's senior secured credit facilities, see "Underwriting."

## DESCRIPTION OF CAPITAL STOCK

The following is a description of the material terms of our amended and restated certificate of incorporation and bylaws as each is anticipated to be in effect upon the closing of this offering. We also refer you to our amended and restated certificate of incorporation and bylaws, copies of which will be filed as exhibits to the registration statement of which this prospectus forms a part.

### Authorization Capitalization

Our authorized capital stock consists of (i) 400,000,000 shares of common stock, par value \$.01 per share, of which 50,309,539 shares are issued and outstanding, and (ii) 50,000,000 shares of preferred stock, par value \$.01 per share, of which 25,000 shares of redeemable convertible preferred stock issued to an affiliate of KKR in connection with the July 2003 debt refinancing are issued and outstanding. Immediately following the closing of this offering, there are expected to be 70,717,702 shares of common stock issued and outstanding (or 73,778,926 shares of common stock if the underwriters exercise their over-allotment option in full), and no shares of preferred stock outstanding.

### Common Stock

*Voting Rights.* Holders of common stock are entitled to one vote per share on all matters submitted for action by the stockholders. The holders of common stock do not have cumulative voting rights in the election of directors. Accordingly, the holders of more than 50% of the shares of common stock can, if they choose to do so, elect all the directors. In such event, the holders of the remaining shares of common stock will not be able to elect any directors.

*Dividend Rights.* Holders of common stock are entitled to receive ratably dividends if, as and when dividends are declared from time to time by our board of directors out of funds legally available for that purpose, after payment of dividends required to be paid on outstanding preferred stock, if any. Our senior secured credit facilities and indentures impose restrictions on our ability to declare dividends on our common stock.

*Liquidation Rights.* Upon our liquidation, dissolution or winding up, any business combination or a sale or disposition of all or substantially all of our assets, the holders of common stock are entitled to receive ratably the assets available for distribution to the stockholders after payment of liabilities and accumulated and unpaid dividends and liquidation preferences on outstanding preferred stock, if any.

*Other Matters.* Holders of common stock have no preemptive or conversion rights and are not subject to further calls or assessment by us. There are no redemption or sinking fund provisions applicable to our common stock. All outstanding shares of our common stock, including the shares of common stock offered in this offering, are fully paid and non-assessable.

### Preferred Stock

Our amended and restated certificate of incorporation authorizes our board of directors to establish one or more series of preferred stock. Unless required by law or by any stock exchange on which our common stock is listed, the authorized shares of preferred stock will be available for issuance without further action by you. Our board of directors is able to determine, with respect to any series of preferred stock, the terms and rights of that series including:

the designation of the series;

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the number of shares of the series, which our board may, except where otherwise provided in the preferred stock designation, increase or decrease, but not below the number of shares then outstanding;

whether dividends, if any, will be cumulative or non-cumulative and the dividend rate of the series;

the dates at which dividends, if any, will be payable;

the redemption rights and price or prices, if any, for shares of the series;

the terms and amounts of any sinking fund provided for the purchase or redemption of shares of the series;

the amounts payable on shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of our company;

whether the shares of the series will be convertible into shares of any other class or series, or any other security, of our company or any other corporation, and, if so, the specification of the other class or series or other security, the conversion price or prices or rate or rates, any rate adjustments, the date or dates as of which the shares will be convertible and all other terms and conditions upon which the conversion may be made;

restrictions on the issuance of shares of the same series or of any other class or series; and

the voting rights, if any, of the holders of the series.

### ***Redeemable Convertible Preferred Stock***

In connection with the July 2003 debt refinancing, we issued 25,000 shares of redeemable convertible preferred stock to an affiliate of KKR. The redeemable convertible preferred stock accumulates dividends at 15% per year of the sum of (i) \$1,000 original issue price per share and (ii) accumulated and unpaid dividends on such share from the original issue date. Holders of the redeemable convertible preferred stock also participate in any dividends paid on the common stock (other than excluded shares, as defined below). The redeemable convertible preferred stock is redeemable by us at our option at any time. The redeemable convertible preferred stock is also convertible into our common stock, at the option of the holder, on or after this offering at a conversion price equal to the then current market price, subject to adjustment. When the redeemable convertible preferred stock is redeemed or converted into common stock, the holder will also receive 1% of the aggregate value of our common stock (other than excluded shares) in cash or, in the case of conversion, additional shares of our common stock, subject to adjustment. In addition, upon a change of control of us, the holder will be able to require us to repurchase the redeemable convertible preferred stock at 101% of the aggregate liquidation preference and accumulated and unpaid dividends plus 1% of the aggregate consideration paid to holders of common stock (other than excluded shares) in the change of control transaction, subject to adjustment. "Excluded shares" mean the shares of common stock issued to affiliates of KKR and DLJMB in connection with the Dynamit Nobel acquisition, the shares of common stock issued pursuant to the 2004 management equity program and pursuant to employee stock options granted after July 29, 2004 prior to December 31, 2004 and any other shares of common stock issued to DLJMB. We intend to redeem the outstanding shares of redeemable convertible preferred stock with a portion of the net proceeds from this offering.

**Warrants.** In connection with the issuance of redeemable convertible preferred stock, we issued to an affiliate of KKR warrants, exercisable at any time at a specified exercise price, to purchase 958,315 additional shares of our common stock. The warrants expire July 23, 2013.



### **Anti-Takeover Effects of our Amended and Restated Certificate of Incorporation and Bylaws and Certain Provisions of Delaware Law**

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may have an anti-takeover effect. Provisions of Delaware law may have similar effects.

#### **Classified Board of Directors**

Our amended and restated certificate of incorporation provides that our board of directors is divided into three classes of directors, with the classes to be as nearly equal in number as possible. The members of each class serve for a three-year term. As a result, approximately one-third of our board of directors will be elected each year.

#### **Removal of Directors, Vacancies**

Our amended and restated certificate of incorporation and our amended and restated bylaws provide that directors may be removed only for cause and only upon the affirmative vote of holders of at least a majority in voting power of all of our shares that are entitled to vote generally in the election of directors, voting as a single class; provided, however, if at any time KKR and DLJMB no longer beneficially own at least a majority in voting power of all shares entitled to vote in the election of directors, then, any director may be removed only for cause by the affirmative vote of at least 80% of the voting power of all the then outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class. In addition, our amended and restated certificate of incorporation and our amended and restated bylaws provide that any vacancies on our board of directors will be filled only by the affirmative vote of a majority of the remaining directors, although less than a quorum.

#### **No Stockholder Action by Written Consent**

Delaware law permits stockholder action by written consent unless otherwise provided by the amended and restated certificate of incorporation. Our amended and restated certificate of incorporation precludes stockholder action by written consent after the date on which KKR and DLJMB cease to beneficially own, in the aggregate, a majority of the voting power of all outstanding shares of our stock entitled to vote generally in the election of directors.

#### **Calling of Special Meetings of Stockholders**

Our amended and restated bylaws provide that special meetings of our stockholders may be called only by our board of directors, our chief executive officer or the chairman of our board of directors.

#### **Advance Notice Requirements for Stockholder Proposals and Director Nominations**

Our amended and restated bylaws provide that stockholders seeking to bring business before an annual meeting of stockholders or nominate candidates for election as directors must provide timely notice of their proposal in writing to the corporate secretary. Generally, to be timely, a stockholder's notice must be received at our principal executive offices not less than 90 nor more than 120 days prior to the first anniversary of the previous year's annual meeting. Our amended and restated bylaws also specify requirements as to the form and content of a stockholder's notice.

**No Cumulative Voting**

Delaware law provides that stockholders are not entitled to the right to cumulative votes in the election of directors unless our amended and restated certificate of incorporation provides otherwise. Our amended and restated certificate of incorporation does not expressly provide for cumulative voting.

**Supermajority Provisions**

Delaware law provides generally that the affirmative vote of a majority of the outstanding shares entitled to vote is required to amend a corporation's certificate of incorporation or bylaws, unless the certificate of incorporation requires a greater percentage. Our amended and restated certificate of incorporation provides that the amended and restated bylaws may be amended only by a vote of at least 80% of the voting power of all of the outstanding shares of our stock entitled to vote in the election of directors, voting together as a single class. In addition, a vote of at least 80% of the voting power of all of the outstanding shares of our stock entitled to vote in the election of directors, voting as a single class, is required to amend certain provisions of our certificate of incorporation relating to actions by stockholders by written consent, board membership, limited liability of directors and indemnification of directors, officers, employees and agents, and amendment of our certificate of incorporation.

**Authorized but Unissued Capital Stock**

The Delaware General Corporation Law does not require stockholder approval for any issuance of authorized shares. However, the listing requirements of the New York Stock Exchange, which would apply so long as our common stock were listed on the New York Stock Exchange, require stockholder approval of certain issuances equal to or exceeding 20% of the then outstanding voting power or then outstanding number of shares of common stock. These additional shares may be used for a variety of corporate purposes, including future public offerings, to raise additional capital or to facilitate acquisitions.

One of the effects of the existence of unissued and unreserved common stock or preferred stock may be to enable our board of directors to issue shares to persons friendly to current management, which issuance could render more difficult or discourage an attempt to obtain control of our company by means of a merger, tender offer, proxy contest or otherwise, and consequently protect the continuity of our management and possibly deprive the stockholders of opportunities to sell their shares of common stock at prices higher than prevailing market prices.

**Delaware Anti-Takeover Statute**

We are subject to Section 203 of the Delaware General Corporation Law. Subject to specific exceptions, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless:

the "business combination," or the transaction in which the stockholder became an "interested stockholder" is approved by the board of directors prior to the date the "interested stockholder" attained that status;

upon consummation of the transaction that resulted in the stockholder becoming an "interested stockholder," the "interested stockholder" owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding for purposes of determining the voting stock outstanding and not outstanding, voting stock owned by the interested stockholder, those shares owned by persons who are directors and

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also officers, and employee stock plans in which employee participants do not have the right to determine confidentiality whether shares held subject to the plan will be tendered in a tender or exchange offer); or

on or subsequent to the date a person became an "interested stockholder," the "business combination" is approved by the board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the "interested stockholder."

"Business combinations" include mergers, asset sales and other transactions resulting in a financial benefit to the "interested stockholder." Subject to various exceptions, an "interested stockholder" is a person who, together with his or her affiliates and associates, owns, or within three years did own, 15% or more of the corporation's outstanding voting stock. These restrictions could prohibit or delay the accomplishment of mergers or other takeover or change in control attempts with respect to us and, therefore, may discourage attempts to acquire us.

### **Transfer Agent and Registrar**

American Stock Transfer & Trust Company is the transfer agent and registrar for our common stock.

### **Listing**

Our common stock has been approved for listing on the New York Stock Exchange under the symbol "ROC."

## DESCRIPTION OF INDEBTEDNESS

### Senior Secured Credit Facilities

In connection with the Dynamit Nobel acquisition, Group, Rockwood Specialties Limited and Rockwood Specialties International, Inc. entered into a senior secured credit agreement, which was amended as of October 8, 2004 and as of December 10, 2004, with Credit Suisse First Boston, acting through its Cayman Islands Branch, as Administrative Agent and as Collateral Agent, UBS Securities LLC and Goldman Sachs Credit Partners L.P. as Co-Syndication Agents and certain other lenders. The senior secured credit facilities were arranged by Credit Suisse First Boston, acting through its Cayman Islands Branch, UBS Securities LLC and Goldman Sachs Credit Partners L.P. The following summary of the material terms of the senior secured credit facilities, as amended, is generalized and not complete.

#### Structure

The senior secured credit facilities consist of:

senior secured tranche A-1 term loans in an aggregate principal amount of €39.1 million (or \$50.8 million) borrowed by Group in euros;

senior secured tranche A-2 term loans in an aggregate principal amount of €170.4 million (\$221.5 million) borrowed by Rockwood Specialties Limited in euros;

senior secured tranche C term loans in an aggregate principal amount of €274.8 million (\$357.1 million) borrowed by Group in euros;

senior secured tranche D term loans in an aggregate principal amount of \$1,145.0 million borrowed by Group in U.S. dollars; and

a senior secured revolving credit facility in an aggregate principal amount of \$250.0 million made available to Group and Rockwood Specialties Limited in U.S. dollars, euros and/or pounds sterling. A portion of the revolving credit facility is available in the form of letters of credit and swingline loans.

The dollar equivalents of the borrowings denominated in euros are based on the exchange rate on March 31, 2005 of €1.00=\$1.2996. Group may, under certain circumstances and subject to receipt of additional commitments from existing lenders or other eligible institutions, request that the tranche D term loans and/or the revolving credit commitments be increased by an aggregate amount of up to \$250.0 million.

#### Availability

The full amount of the tranche A-1 term loans, €128.5 million of the tranche A-2 term loans and €222.1 million of the tranche C term loans were drawn in a single drawing on the closing of the Dynamit Nobel acquisition. The remaining €41.9 million of the tranche A-2 term loans were drawn in a single drawing on September 27, 2004 in connection with the acquisition of the pigments and dispersions business of Johnson Matthey Plc. and the remaining €52.7 million of the tranche C term loans were drawn pursuant to the first amendment to the senior secured credit facilities on October 8, 2004. The aggregate principal amount of the tranche D term loans were drawn on December 10, 2004 pursuant to the second amendment to the senior secured credit facilities. Amounts borrowed under the term loan facilities that are repaid or prepaid may not be reborrowed. Loans and letters of credit under the revolving credit facility have been available from the consummation of the Dynamit Nobel acquisition and will be available at any time prior to the maturity of the revolving credit facility. Amounts repaid under the revolving credit facility may be reborrowed.

## Interest and Fees

The interest rates per year under the revolving credit facility and the tranche A-1 and A-2 term loan facilities are, at Group's option, Adjusted LIBOR plus 2.50% or ABR plus 1.25%. The interest rate per year under the tranche C term loan facility is Adjusted LIBOR plus 3.00%. The interest rate under the tranche D term loan facility is, at Group's option, Adjusted LIBOR plus 2.25% or ABR plus 1.00%. In each case, the interest rates per year (other than under the tranche C term loan facility) are subject to step-downs determined by reference to a performance test. Adjusted LIBOR is the London inter-bank offered rate, adjusted for statutory reserves. ABR is the alternate base rate, which is the higher of Credit Suisse First Boston's prime rate and the federal funds effective rate plus 1/2 of 1%.

Group may elect interest periods of one, two, three or six months (or in the case of revolving credit loans, nine or twelve months, to the extent available from all lenders under the revolving credit facility) for Adjusted LIBOR borrowings. The calculation of interest will be on the basis of actual days elapsed in a year of 360 days (or 365 or 366 days, as the case may be, in the case of ABR loans based on the prime rate) and interest will be payable quarterly in the case of ABR loans and at the end of each interest period and, in any event, at least every three months, in the case of Adjusted LIBOR borrowings.

The senior secured credit facilities require payment of customary commitment, letter of credit and other fees.

## Guarantees; Security

*Guarantees.* The obligations of Group and Rockwood Specialties Limited under the senior secured credit facilities and any interest rate, foreign exchange or other hedging agreements entered into with any lender under the senior secured credit facilities (or any affiliate thereof) will be guaranteed by Rockwood Specialties International and each of Group's existing and subsequently acquired or organized direct or indirect domestic subsidiaries, subject to certain exceptions. In addition, the obligations of Rockwood Specialties Limited under the senior secured credit facilities and any interest rate, foreign exchange or other hedging agreements entered into with any lender under the senior secured credit facilities (or any affiliate thereof) will be guaranteed by Group and each existing and subsequently acquired or organized direct or indirect foreign subsidiary of Group other than subsidiaries which became subsidiaries on the consummation of the Dynamit Nobel acquisition, subject to certain exceptions.

*Security.* The obligations of Group and Rockwood Specialties Limited under the new senior secured credit facilities, any interest rate, foreign exchange or other hedging agreements entered into with any lender under the senior secured credit facilities (or any affiliate thereof) and the guarantees of the borrowings under the senior secured credit facilities are secured by, subject to certain exceptions, first-priority security interests in the following:

substantially all the tangible and intangible assets (including, but not limited to, accounts receivable, inventory, contract rights, trademarks, trade names, patents, equipment, real property and proceeds of the foregoing) of Group and its existing or subsequently acquired or organized direct or indirect domestic subsidiaries, subject to exceptions; and

(i) all the capital stock of or other equity interests in Group and each existing or subsequently acquired or organized direct or indirect domestic subsidiary of Group and (ii) 65% of the capital stock of or other equity interests in each existing or subsequently acquired or organized direct foreign subsidiary of either Group or any domestic subsidiary of Group or, in any case in which Group or any such domestic subsidiary directly holds less

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than 65% of such stock or equity interests, all such stock or equity interests (in each case, subject to certain exceptions) held by Group or such domestic subsidiary.

In addition, the obligations of Rockwood Specialties Limited under the senior secured credit facilities, any interest rate, foreign exchange or other hedging agreements entered into with any lender under the senior secured credit facilities (or any affiliate thereof) and the guarantees of the borrowings under the senior secured credit facilities will be secured by, subject to certain exceptions, first-priority security interests in the following:

substantially all the tangible and intangible assets (including, but not limited to, accounts receivable, inventory, contract rights, trademarks, trade names, patents, equipment, real property and proceeds of the foregoing) of the existing or subsequently acquired or organized foreign subsidiaries of Group in the U.K., Singapore, Germany, Italy and Canada other than subsidiaries which became subsidiaries on the consummation of the Dynamit Nobel acquisition, subject to certain exceptions; and

the remaining 35% of the capital stock of, or other equity interests in, each existing or subsequently acquired or organized direct or indirect foreign subsidiary of Group (other than subsidiaries which became subsidiaries on the consummation of the Dynamit Nobel acquisition), including Rockwood Specialties Limited.

### **Maturity, Amortization and Prepayments**

The tranche A-1 and A-2 term loans will mature on July 30, 2011 and will amortize at escalating percentages on a semi-annual basis commencing on January 31, 2006. The tranche C term loans and tranche D term loans will mature on July 30, 2012 and will amortize on a semi-annual basis commencing on July 30, 2005, with each repayment amount prior to maturity to be equal to 0.5% of the principal amount of tranche C term loans and tranche D term loans, respectively. The revolving credit facility will mature on July 30, 2010.

In addition, Group is required to make the following mandatory prepayments of the term loans under our senior secured credit facilities, in each case, subject to certain exceptions, with:

100% of the net cash proceeds of all sales or other dispositions by Group or any of its restricted subsidiaries under the senior secured credit facilities of assets (including capital stock of subsidiaries of Group or any restricted subsidiary) other than net cash proceeds (a) from the sale or other disposition of assets in the ordinary course of business, (b) of certain disposals permitted under the senior secured credit agreement (including the proceeds of sales or transfers of accounts receivable (including pursuant to a securitization) in the amount of up to \$200 million at any time) or (c) that are reinvested in the business of Group and its restricted subsidiaries within twelve months of the sale or other disposition (which twelve-month period may be extended by up to twelve months in certain circumstances).

100% of the net cash proceeds of issuances of debt obligations (including the net cash proceeds of issuances of certain permitted subordinated notes, but otherwise excluding certain debt obligations permitted by the senior secured credit facilities).

50% of excess cash flow in respect of any fiscal year at the end of which our leverage ratio is equal to or greater than 3.50 to 1.0.

The above-described mandatory prepayments shall be allocated between the term loan facilities pro rata, subject to certain special application provisions.

### **Affirmative Covenants**

Pursuant to the senior secured credit facilities, Group, Rockwood Specialties Limited and with respect to certain covenants only, Rockwood Specialties International Inc., have agreed to various affirmative covenants, including, but not limited to, covenants with respect to:

delivery of annual audited financial statements, other financial information and notices of defaults or events of default under the senior secured credit agreement and information regarding material litigation, certain environmental matters and collection of certain accounts receivable;

inspection of books and records;

maintenance of insurance;

payment of taxes;

maintenance of corporate franchises;

compliance with laws;

delivery of ERISA related notices;

maintenance of properties;

transactions with affiliates;

maintenance of fiscal year and fiscal quarters;

additional guarantors and grantors of collateral;

pledges of additional stock and indebtedness;

use of proceeds;

changes in business;

further assurances; and

maintenance of Rockwood Specialties Limited as a wholly-owned subsidiary of Group.

### **Negative Covenants**

The senior secured credit facilities contain various restrictive covenants which limit the ability of Group and its subsidiaries, including Rockwood Specialties Limited, and in certain cases, Rockwood Specialties International, among other things, to:

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incur indebtedness and other liabilities;

create liens;

merge or consolidate;

dispose of assets;

make investments;

pay dividends and make payments to shareholders; and

make payments on certain indebtedness or to amend documents related to certain indebtedness; and enter into sale leaseback transactions.

In addition, the senior secured credit facilities impose limitations on business and activities of Rockwood Specialties International.



For purposes of calculating compliance with these negative covenants as of any date, indebtedness will be converted to U.S. dollars based on agreed exchange rate provisions.

### **Financial Covenants**

The senior secured credit facilities contain the following financial covenants:

a consolidated total debt to consolidated Adjusted EBITDA test;

an Adjusted EBITDA to consolidated interest expense test; and

limitations on capital expenditures.

For purposes of calculating compliance with the financial covenants as of any date, indebtedness will be converted to U.S. dollars based on average daily exchange rates for the twelve-month period ending on such date.

### **Events of Default**

The senior secured credit facilities contain customary events of default, in each case with customary and appropriate grace periods and thresholds, including, but not limited to:

nonpayment of principal or interest;

breaches of representations and warranties in any material respect;

violation of covenants;

cross default and cross acceleration;

certain liquidation, insolvency and bankruptcy events;

certain ERISA matters;

actual or asserted invalidity of guarantees of the senior secured credit facilities or material impairment of security interests granted to secure the senior secured credit facilities;

failure of the obligations under the senior secured credit facilities to constitute senior indebtedness under the documents governing the 2011 notes, the 2014 notes or certain other permitted subordinated indebtedness;

material unsatisfied judgments; and

change of control events.

Upon the occurrence of an event of default under the senior secured credit facilities, the lenders will be able to terminate the commitments under the senior secured credit facilities, and declare all amounts, including accrued interest, under the senior secured credit facilities to be due

and payable and take certain other actions, including enforcement of rights in respect of the collateral securing the senior secured credit facilities.

**Loan Reallocation Mechanism**

The documentation for the senior secured credit facilities will provide that, upon an event that results in the acceleration of loans outstanding under the senior secured credit facilities, (a) the commitments under the revolving credit facility will be automatically terminated and (b) the lenders under the senior secured credit facilities will automatically and without further act be deemed to have exchanged interests in the senior secured credit facilities such that, as a result, each such lender's outstanding credit exposures to Group and Rockwood Specialties Limited will be allocated pro rata between the revolving credit facility and each term loan facility based on the percentage of

the total credit exposures outstanding under all senior secured credit facilities represented by the total credit exposures outstanding under each such individual credit facility.

## 2011 Notes

In connection with the July 2003 debt refinancing, Group issued \$375.0 million aggregate principal amount of 10<sup>5</sup>/<sub>8</sub>% senior subordinated notes due 2011. Certain of Group's domestic subsidiaries guarantee the 2011 notes on a senior subordinated basis. The 2011 notes mature on May 15, 2011 with interest payable semi-annually on May 15 and November 15. Interest accrues at the rate of 10<sup>5</sup>/<sub>8</sub>% per year.

### Optional Redemption

Group may redeem the 2011 notes at any time, in whole or in part, on or after May 15, 2007 at a redemption price equal to 105.313% of the principal amount of the 2011 notes in the first year, declining yearly to par at May 15, 2010, plus accrued and unpaid interest, if any, to the applicable redemption date. In addition, prior to May 15, 2006, Group may redeem up to 35% of the initial aggregate principal amount of the 2011 notes with the net proceeds from one or more equity offerings at 110.625% of the principal amount thereof, plus accrued and unpaid interest, if at least 65% of the aggregate principal amount of the 2011 notes originally issued remains outstanding after the redemption. We intend to redeem up to approximately \$52.5 million, or up to 14%, of the 2011 notes and pay a redemption premium of \$5.6 million and accrued and unpaid interest on these notes with a portion of the net proceeds from this offering.

### Change of Control

Upon certain change of control events, each holder of the 2011 notes may require Group to repurchase all or a portion of the notes at a purchase price equal to 101% of the principal amount of the notes plus accrued and unpaid interest.

### Negative Covenants

The indenture governing the 2011 notes contains covenants that, among other things, limit Group's ability and the ability of its restricted subsidiaries to:

- incur additional indebtedness;
- pay dividends on, redeem or repurchase our capital stock;
- make investments;
- create certain liens;
- sell assets;
- restrict dividends or other payments to us;
- guarantee indebtedness;
- engage in transactions with affiliates; and
- consolidate, merge or transfer all or substantially all our assets.

### Events of Default

The indenture governing the 2011 notes contains customary events of default, in each case, with customary and appropriate grace periods and thresholds, including, but not limited to:

nonpayment of principal or interest;

violation of covenants;

cross default or cross acceleration;

certain liquidation, insolvency and bankruptcy events;

failure to pay final judgments;

actual or asserted invalidity of guarantee agreement of any significant subsidiary; and

breaches or representations and warranties in any material respect.

Upon the occurrence of an event of default under the indenture, the trustee or the holders holding at least 30% in aggregate principal amount of the then outstanding 2011 notes will be able to declare the principal, premium, if any, interest and any other obligations on the then outstanding 2011 notes to be due and payable immediately.

### 2014 Notes

In connection with the Fall 2004 debt refinancings, Group issued €375.0 million aggregate principal amount of 7.625% senior subordinated notes due 2014 and \$200.0 million principal amount of 7.500% senior subordinated notes due 2014. Certain of Group's domestic subsidiaries guarantee the 2014 notes on a senior subordinated unsecured basis. The 2014 notes mature on November 15, 2014 with interest payable semi-annually on May 15 and November 15. Interest accrues at the rate of 7.625% per year on the 2014 euro notes and 7.500% per year on the 2014 dollar notes.

### Optional Redemption

Group may redeem the 2014 notes at any time, in whole or in part, on or after November 15, 2009 at a redemption price equal to 103.813% of the principal amount of the 2014 euro notes and 103.750% of the principal amount of the 2014 dollar notes in the first year, declining yearly to par at November 15, 2012, plus accrued and unpaid interest, if any, to the applicable redemption date. In addition, prior to November 15, 2009, Group may redeem up to 40% of the initial aggregate principal amount of the 2014 euro notes with the net proceeds from one or more equity offerings at 107.625% of the principal amount thereof, plus accrued and unpaid interest on such notes and additional interest, if any, to the redemption date; provided that at least 60% of the aggregate principal amount of the 2014 euro notes and additional euro notes issued under the indenture remains outstanding after each such redemption, and Group may redeem up to 40% of the initial aggregate principal amount of the 2014 dollar notes with the net proceeds from one or more equity offerings at 107.500% of the principal amount thereof, plus accrued and unpaid interest on such notes and additional interest, if any, to the redemption date; provided that at least 60% of the aggregate principal amount of the 2014 dollar notes and additional dollar notes issued under the indenture remains outstanding after each such redemption.

### Change of Control

Upon certain change of control events, each holder of the 2014 notes may require us to repurchase all or a portion of the notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest.

**Negative Covenants**

The indenture governing the 2014 notes contains covenants that, among other things, limit Group's ability and the ability of its restricted subsidiaries to:

- incur additional indebtedness;
- pay dividends on, redeem or repurchase our capital stock;
- make investments;
- create certain liens;
- sell assets;
- restrict dividends or other payments to us;
- guarantee indebtedness;
- engage in transactions with affiliates; and
- consolidate, merge or transfer all or substantially all our assets.

**Events of Default**

The indenture governing the 2014 notes contains customary events of default, in each case, with customary and appropriate grace periods and thresholds, including, but not limited to:

- nonpayment of principal or interest;
- violation of covenants;
- cross default or cross acceleration;
- certain liquidation, insolvency and bankruptcy events;
- failure to pay final judgments;
- actual or asserted invalidity of guarantee agreement of any significant subsidiary; and
- breaches or representations and warranties in any material respect.

Upon the occurrence of an event of default under the indenture, the trustee or the holders holding at least 30% in aggregate principal amount of the then outstanding 2014 notes will be able to declare the principal, premium, if any, interest and any other obligations on the then outstanding 2014 notes to be due and payable immediately.

**Other Long-Term Debt**

Certain of our subsidiaries acquired in the Dynamit Nobel acquisition are borrowers under eight euro-denominated term loan facilities that provide aggregate outstanding borrowings of approximately €15.6 million as of March 31, 2005. These term loans mature between 2006 and 2009 and bear annual interest rates ranging between 2.50% and 4.25% or EURIBOR plus 1.45% or LIBOR plus 0.39%. On November 30, 2004, we repaid a portion (€12.8 million, or \$15.9 million) of the assumed debt. In addition, certain of our subsidiaries acquired in the Dynamit Nobel Acquisition are borrowers under eight term loan facilities denominated in other foreign currencies, including Swiss Francs, Taiwanese Dollars and Japanese Yen, providing for borrowings of an aggregate U.S. dollar equivalent amount of approximately \$47.4 million as of March 31, 2005. These term loans mature between 2005 and 2011 and bear annual interest rates ranging between 1.38% and 4.02%. The term loan facilities described above contain customary events of default and some of them are secured by mortgages or accounts receivables.

As part of the Groupe Novasep combination on December 31, 2004, we assumed additional debt of €27.8 million (\$37.8 million based on the December 31, 2004 exchange rate of €1.00=\$1.3593) plus \$10.8 million for an aggregate of \$48.6 million. The assumed debt includes three tranches of bank debt at the Novasep parent level totaling €13.0 million (\$17.7 million) plus \$10.8 million for an aggregate of \$28.5 million each with a maturity date of 2010 and interest rates of EURIBOR plus 1.75% in the case of two of the tranches, and LIBOR plus 1.75% for the remaining tranche. In addition, there is bank debt at the Novasep subsidiary level totaling €6.3 million (\$8.6 million) with maturity dates ranging from 2006 to 2010 and interest rates ranging from EURIBOR plus 0.7% to EURIBOR plus 1.25%. The remaining amount of assumed debt of €8.5 million (\$11.5 million) consists primarily of capital leases with maturity dates ranging from 2006 to 2013.

Assumed long-term debt shown in our capitalization table under the section "Capitalization" includes certain capital leases, receivables recourse factoring arrangement and preferred stock in addition to the long-term debt described in the preceding two paragraphs.

#### **Pay-in-kind Notes and Loans**

In connection with the KKR acquisition, Rockwood Specialties Consolidated, Inc. borrowed \$100.0 million under a pay-in-kind unsecured subordinated loan facility made by Merrill Lynch Capital Corporation. In February 2001, \$70.0 million of the pay-in-kind loans were assigned to Allianz Lebensversicherungs AG, Stuttgart and replaced through an exchange with Rockwood Specialties Consolidated for pay-in-kind notes. In November 2003, the remaining \$30.0 million of the pay-in-kind loans were assigned to SPCP Group, L.L.C., an affiliate of Silver Point Capital LP. At the consummation of the Dynamit Nobel acquisition, \$20.0 million of the pay-in-kind notes issued as interest payments on the initial \$70.0 million of the pay-in-kind notes were repaid in cash, and the remaining pay-in-kind notes were exchanged for new €82.6 million aggregate principal amount of pay-in-kind notes. We intend to repay the pay-in-kind loans and redeem the pay-in-kind notes with a portion of the net proceeds from the offering.

#### **Senior Discount Notes**

Concurrently with the private offering of the 2011 notes in July 2003, our indirect wholly-owned subsidiary, Rockwood Specialties International, Inc., issued senior discount notes resulting in gross proceeds of \$70.0 million (\$112.3 million aggregate principal amount at maturity). The initial purchasers of the 2011 notes and/or their affiliates purchased the senior discount notes and immediately following such purchase, sold the senior discount notes to an affiliate of KKR. We intend to redeem the outstanding principal amount of the senior discount notes with a portion of the net proceeds from the offering.

### SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has not been any public trading market for our common stock, and we cannot predict what effect, if any, market sales of shares of our common stock or the availability of shares of our common stock for sale will have on the market price of our common stock prevailing from time to time. Nevertheless, sales of substantial amounts of our common stock in the public market, or the perception that such sales could occur, could adversely affect the market price of our common stock and could impair our future ability to raise capital through the sale of our equity or equity-related securities at a time and price that we deem appropriate.

Upon the closing of the offering, we will have a total of 70,717,702 shares of common stock outstanding. All of the shares sold in the offering will be freely tradable without restriction or further registration under the Securities Act, except that any shares held by our "affiliates," as that term is defined under Rule 144 of the Securities Act, may be sold in compliance with the limitations of Rule 144 described below. The remaining 50,309,539 shares of our common stock outstanding will be "restricted securities," as that term is defined under Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144 or 144(k) under the Securities Act, which are summarized below.

Subject to the provisions of Rules 144 and 144(k), additional shares of our common stock will be available for sale in the public market under exemptions from the registration requirements as follows:

#### Rule 144

In general, under Rule 144, a person (or persons whose shares are aggregated), including an affiliate, who has beneficially owned shares of our common stock for at least one year, is entitled to sell within any three-month period, a number of restricted securities that does not exceed the greater of:

1% of the then outstanding shares of common stock, which is approximately 707,177 shares as of the date of this prospectus;  
and

the average weekly trading volume on the New York Stock Exchange during the four calendar weeks preceding each such sale, subject to restrictions.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

#### Rule 144(k)

In addition, under Rule 144(k), a person who is not and has not been our affiliate at any time during the 90 days preceding a sale and at least two years have elapsed since the shares were acquired from us or any affiliate of ours, is entitled to sell those shares without regard to the manner of sale, public information, volume limitation or notice requirements of Rule 144.

#### Lock-Up Agreements

Our directors and executive officers and affiliates of KKR and DLJMB have agreed that they will not sell, directly or indirectly, subject to certain exceptions, any shares of our common stock for a period of 180 days from the date of this prospectus without the written consent of Goldman, Sachs & Co. and Credit Suisse First Boston LLC. Goldman, Sachs & Co. and Credit Suisse First Boston LLC, in their sole discretion, may release the shares subject to these lock-up agreements in whole or in part at any time with or without notice. When determining whether to release shares



from these lock-up agreements, Goldman, Sachs & Co. and Credit Suisse First Boston LLC will consider, among other factors, the stockholder's reason for requesting the release, the number of shares for which the release is being requested and market conditions at the time. Goldman, Sachs & Co. and Credit Suisse First Boston LLC do not at this time have any intention of releasing any of the shares subject to these lock-up agreements prior to the expiration of the lock-up period.

In addition, pursuant to the management stockholder's agreements, subject to certain exceptions, each of the management stockholders cannot transfer his shares of common stock at any time prior to the fifth anniversary of the investment date, which date in all cases falls after 180 days from the date of this prospectus.

We have agreed, subject to certain exceptions, not to sell or otherwise dispose of any shares of our common stock during the 180-day period following the date of this prospectus.

### **Stock Options and Warrants**

Options to purchase up to an aggregate of approximately 3,892,285 shares of our common stock and warrants to purchase 958,315 shares of our common stock will be outstanding as of the closing of this offering. Of these options, approximately 931,077 will have vested at or prior to the closing of this offering and approximately 1,586,418 may vest on or prior to December 31, 2006. For a discussion of the timing of the vesting of the options, see "Management Stock Purchase and Option Plan." Warrants are exercisable at any time. In addition, restricted stock units relating to 68,452 shares of our common stock are currently vested and will be outstanding as of the closing of this offering. For a discussion of the timing of the issuability of the shares of our common stock underlying the restricted stock units, see "Management Employment and Other Agreements Agreements with Seifi Ghasemi."

Following the closing of this offering, we intend to file one or more registration statements on Form S-8 under the Securities Act to register all shares of common stock subject to outstanding stock options and options issuable under our stock plan. After expiration of the applicable contractual resale restrictions, shares covered by these registration statements will be eligible for sale in the public markets, other than shares owned by our affiliates, which may be sold in the public market if they are registered or qualify for an exemption from registration under Rule 144.

### **Registration Rights**

Under the registration rights agreement, affiliates of KKR, which will beneficially own 37,485,510 shares after this offering, and DLJMB, which will beneficially own 10,909,384 shares after this offering, will have the right to request us to register the resale of their respective shares. In addition, KKR, DLJMB, management stockholders and other stockholders will have the right to exercise certain piggyback registration rights in connection with other registered offerings. See "Related Party Transactions Agreements with KKR, DLJMB and/or Management Registration Rights Agreement."

**CERTAIN UNITED STATES FEDERAL INCOME AND ESTATE  
TAX CONSEQUENCES TO NON-U.S. HOLDERS**

The following is a summary of certain United States federal income and estate tax consequences of the purchase, ownership and disposition of our common stock as of the date hereof. Except where noted, this summary deals only with common stock that is held as a capital asset by a non-U.S. holder.

A "non-U.S. holder" means a person (other than a partnership) that is not for United States federal income tax purposes any of the following:

an individual citizen or resident of the United States;

a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate the income of which is subject to United States federal income taxation regardless of its source; or

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income and estate tax consequences different from those summarized below. This summary does not address all aspects of United States federal income and estate taxes and does not deal with foreign, state, local or other tax considerations that may be relevant to non-U.S. holders in light of their personal circumstances. In addition, it does not represent a detailed description of the United States federal income and estate tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws (including if you are a United States expatriate, "controlled foreign corporation," "passive foreign investment company," corporation that accumulates earnings to avoid United States federal income tax or an investor in a pass-through entity). We cannot assure you that a change in law will not alter significantly the tax considerations that we describe in this summary.

If a partnership holds our common stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our common stock, you should consult your tax advisors.

**If you are considering the purchase of our common stock, you should consult your own tax advisors concerning the particular United States federal income and estate tax consequences to you of the ownership of the common stock, as well as the consequences to you arising under the laws of any other taxing jurisdiction.**

**Dividends**

Dividends paid to a non-U.S. holder of our common stock generally will be subject to withholding of United States federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct of a trade or business by the non-U.S. holder within the United States (and, where a tax treaty applies, are attributable to a United States permanent establishment of the non-U.S. holder) are not subject to the withholding tax, provided certain certification and disclosure

requirements are satisfied. Instead, such dividends are subject to United States federal income tax on a net income basis in the same manner as if the non-U.S. holder were a United States person as defined under the Code. Any such effectively connected dividends received by a foreign corporation may be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

A non-U.S. holder of our common stock who wishes to claim the benefit of an applicable treaty rate and avoid backup withholding, as discussed below, for dividends will be required to (a) complete Internal Revenue Service Form W-8BEN (or other applicable form) and certify under penalty of perjury that such holder is not a United States person as defined under the Code or (b) if our common stock is held through certain foreign intermediaries, satisfy the relevant certification requirements of applicable United States Treasury regulations. Special certification and other requirements apply to certain non-U.S. holders that are pass-through entities rather than corporations or individuals.

A non-U.S. holder of our common stock eligible for a reduced rate of United States withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service.

### **Gain on Disposition of Common Stock**

Any gain realized on the disposition of our common stock generally will not be subject to United States federal income tax unless:

the gain is effectively connected with a trade or business of the non-U.S. holder in the United States (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment of the non-U.S. holder);

the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or

we are or have been a "United States real property holding corporation" for United States federal income tax purposes.

An individual non-U.S. holder described in the first bullet point immediately above will be subject to tax on the net gain derived from the sale under regular graduated United States federal income tax rates. An individual non-U.S. holder described in the second bullet point immediately above will be subject to a flat 30% tax on the gain derived from the sale, which may be offset by United States source capital losses, even though the individual is not considered a resident of the United States. If a non-U.S. holder that is a foreign corporation falls under the first bullet point immediately above, it will be subject to tax on its net gain in the same manner as if it were a United States person as defined under the Code and, in addition, may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty.

We believe we are not and do not anticipate becoming a "United States real property holding corporation" for United States federal income tax purposes.

### **Federal Estate Tax**

Common stock held by an individual non-U.S. holder at the time of death will be included in such holder's gross estate for United States federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

**Information Reporting and Backup Withholding**

We must report annually to the Internal Revenue Service and to each non-U.S. holder the amount of dividends paid to such holder and the tax withheld with respect to such dividends, regardless of whether withholding was required. Copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which the non-U.S. holder resides under the provisions of an applicable income tax treaty.

A non-U.S. holder will be subject to backup withholding for dividends paid to such holder unless such holder certifies under penalty of perjury that it is a non-U.S. holder (and the payor does not have actual knowledge or reason to know that such holder is a United States person as defined under the Code), or such holder otherwise establishes an exemption.

Information reporting and, depending on the circumstances, backup withholding will apply to the proceeds of a sale of our common stock within the United States or conducted through certain United States-related financial intermediaries, unless the beneficial owner certifies under penalty of perjury that it is a non-U.S. holder (and the payor does not have actual knowledge or reason to know that the beneficial owner is a United States person as defined under the Code) or such owner otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a non-U.S. holder's United States federal income tax liability provided the required information is furnished to the Internal Revenue Service.

### UNDERWRITING

Rockwood Holdings, Inc. and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co., Credit Suisse First Boston LLC, Lehman Brothers Inc. and UBS Securities LLC are acting as representatives of the underwriters.

Underwriters	Number of Shares
Goldman, Sachs & Co.	6,122,449
Credit Suisse First Boston LLC	6,122,449
Lehman Brothers Inc.	2,806,122
UBS Securities LLC	2,806,122
Deutsche Bank Securities Inc.	918,367
J.P. Morgan Securities Inc.	918,367
First Analysis Securities Corporation	714,287
Total	20,408,163

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 3,061,224 shares from Rockwood Holdings to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by Rockwood Holdings. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 3,061,224 additional shares.

Paid by Rockwood Holdings, Inc.

	No Exercise	Full Exercise
Per share	\$ 1.05	\$ 1.05
Total	\$ 21,428,571.15	\$ 24,642,856.35

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to \$0.63 per share from the initial public offering price. Any such securities dealers may resell any shares purchased from the underwriters to certain other brokers or dealers at a discount of up to \$0.10 per share from the initial public offering price. If all the shares are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms.

Rockwood Holdings and its directors and executive officers and affiliates of KKR and DLJMB, which together hold substantially all of the common stock of Rockwood Holdings, have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with

the prior written consent of Goldman, Sachs & Co. and Credit Suisse First Boston LLC. When determining whether to release the shares from these lock-up agreements, Goldman, Sachs & Co. and Credit Suisse First Boston LLC will consider, among other factors, the stockholder's reason for requesting the release, the number of shares for which the release is being requested and market conditions at the time. Goldman, Sachs & Co. and Credit Suisse First Boston LLC have advised Rockwood Holdings that they have no current intent or arrangement to release any of the shares subject to the lock-up agreements prior to the expiration of the lock-up period.

The 180-day restricted period described above will be automatically extended if:

during the last 17 days of the 180-day restricted period, Rockwood Holdings issues an earnings release or announces material news or a material event; or

prior to the expiration of the 180-day restricted period, Rockwood Holdings announces that it will release earnings results during the 15-day period following the last day of the 180-day period,

in which case the restrictions described above will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or material event.

Rockwood Holdings currently anticipates that it will undertake a directed share program pursuant to which it will direct the underwriters to reserve up to 5% of the shares of common stock for sale at the initial public offering price for our directors, executive officers, employees and certain other persons associated with Rockwood Holdings who have expressed an interest in purchasing common stock in the offering. Credit Suisse First Boston LLC has agreed to run the directed share program. The number of shares available for sale to the general public in the offering will be reduced to the extent these persons purchase the directed shares. Any directed shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares. Each participant in the directed share program will be subject to a lock-up which restricts their ability to dispose of or hedge any of their common stock or securities convertible into or exchangeable for common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of Credit Suisse First Boston LLC.

Prior to the offering, there has been no public market for the shares. The initial public offering price has been negotiated among Rockwood Holdings and the representatives. In determining the initial public offering price of the shares, we considered prevailing market conditions, Rockwood Holdings' historical performance, estimates of Rockwood Holdings' business potential and earnings prospects, and an assessment of Rockwood Holdings' management and the consideration of the above factors in relation to market valuation of companies in related business.

Rockwood Holdings' common stock has been approved for listing on the New York Stock Exchange under the symbol "ROC." In order to meet one of the requirements for listing the common stock on the New York Stock Exchange, the underwriters have undertaken to sell lots of 100 or more shares to a minimum of 2,000 beneficial holders.

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from Rockwood Holdings in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered

short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option granted to them. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of Rockwood Holdings' stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise.

Each of the underwriters has represented and agreed that: (a) it has not made or will not make an offer of shares to the public in the United Kingdom within the meaning of section 102B of the Financial Services and Markets Act 2000 (as amended) (FSMA) except to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities or otherwise in circumstances which do not require the publication by the company of a prospectus pursuant to the Prospectus Rules of the Financial Services Authority (FSA); (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA does not apply to Rockwood Holdings, Inc.; and (c) it has complied with, and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each Underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of Shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Shares to the public in that Relevant Member State at any time: (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or (c)

in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Shares to the public" in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares to be offered so as to enable an investor to decide to purchase or subscribe the Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The shares may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the shares may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the securities may not be circulated or distributed, nor may the securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the securities to the public in Singapore.

The securities have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

DLJMB, which is comprised of funds that are affiliates of Credit Suisse First Boston LLC, beneficially owns more than 10% of the outstanding shares of common stock of Rockwood Holdings. Because Credit Suisse First Boston LLC is an underwriter and its affiliates beneficially own more than 10% of the outstanding shares of common stock of Rockwood Holdings, the underwriters are deemed to have a "conflict of interest" under Rule 2720 of the Conduct Rules of the National Association of Securities Dealers, Inc. (NASD). Accordingly, this offering will be made in compliance with the applicable provisions of Rule 2720 of the conduct rules. Rule 2720 requires that the initial public offering price can be no higher than that recommended by a "qualified independent underwriter", as defined by the NASD. Goldman, Sachs & Co. will serve in that capacity and perform due diligence investigations and review and participate in the preparation of the registration statement of which this prospectus forms a part. Goldman, Sachs & Co. will receive \$1,000 for such role, which has been deemed to be an item of compensation in connection with this offering under the rules of the NASD.

A prospectus in electronic format will be made available on the websites maintained by one or more of the representatives and may also be made available on websites maintained by other



underwriters. The underwriters may agree to allocate a number of shares of common stock to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters that may make internet distributions on the same basis as other allocations.

The underwriters will not execute sales into discretionary accounts without the prior, specific written approval of the customer.

Rockwood Holdings, Inc. estimates that the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately \$10.0 million. In addition, the underwriters have agreed to reimburse Rockwood Holdings, Inc. for certain expenses incurred in connection with this offering.

Rockwood Holdings, Inc. has agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for Rockwood Holdings, Inc. or its subsidiaries, for which they received or will receive customary fees and expenses.

Goldman, Sachs & Co., Credit Suisse First Boston LLC and UBS Securities LLC were initial purchasers of Group's 2014 notes and received customary commissions in connection therewith. Affiliates of Goldman, Sachs & Co., Credit Suisse First Boston LLC and UBS Securities LLC also are lenders, arrangers and agents under Group's senior secured credit facilities and receive fees customary for performing these services and interest on the loans.

DLJMB, which is comprised of funds that are affiliates of Credit Suisse First Boston LLC, currently owns approximately 10,909,384 shares of common stock (approximately 14.4% of the common stock on a fully diluted basis after giving effect to this offering). Currently, two members of the board of directors, namely Susan Schnabel and Alex Morey, are affiliated with, or work for, affiliates of Credit Suisse First Boston LLC. Susan Schnabel is Managing Director, Co-Head of European Leveraged Private Equity, and Alex Morey is responsible for CSFB's European private equity fund investment activities. Upon the closing of this offering, DLJMB will have the right to designate one member of Rockwood Holdings' board of directors so long as it owns at least 10% of the outstanding common stock.

DLJMB III, an affiliate of Credit Suisse First Boston LLC, is also party to the management services agreement pursuant to which it provides certain management, business strategy, consulting and financial services to Rockwood Holdings and its subsidiaries. In connection with this offering, DLJMB III and KKR have agreed to terminate the management services agreement for aggregate consideration of \$10.0 million, of which DLJMB III will receive net proceeds of \$2.24 million. Such net proceeds have been deemed to be underwriting compensation in connection with the offering under the rules of the NASD.

The decision of Credit Suisse First Boston LLC to distribute the common stock offered in this offering was made independently of its affiliates who are security holders of Rockwood Holdings.

## LEGAL MATTERS

The validity of the issuance of the shares of common stock offered in this offering will be passed upon for us by Simpson Thacher & Bartlett LLP, New York, New York, and for the underwriters by Latham & Watkins LLP, New York, New York. Certain partners of Simpson Thacher & Bartlett LLP, members of their families, related persons and others have an indirect interest in our common stock through limited partnerships that are investors in certain affiliates of KKR that hold shares of our common stock. Certain partners of Latham & Watkins LLP, members of their families, related persons and others have an indirect interest in our common stock through limited partnerships that are investors in certain affiliates of KKR that hold shares of our common stock.

## EXPERTS

The consolidated financial statements of Rockwood Holdings, Inc. and subsidiaries as of December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004, included in this prospectus and the related financial statement schedule included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports appearing herein and elsewhere in the registration statement (which reports express an unqualified opinion on the financial statements and financial statement schedule and include an explanatory paragraph relating to the restatement discussed in Note 20), and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The combined financial statements of Dynamit Nobel as of December 31, 2003 and 2002, and September 30, 2002 and 2001, and for the year ended December 31, 2003, the three months ended December 31, 2002 and each of the twelve month periods ended September 30, 2002 and 2001, have been included herein in reliance upon the report of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt, Germany, independent auditors, appearing elsewhere herein, and upon their authority as experts in accounting and auditing. The auditors' report refers to the adoption of new accounting standards.

## MARKET SHARE AND INDUSTRY DATA

Unless otherwise indicated, all information contained in this prospectus concerning the specialty chemicals industry in general, including information regarding (1) our market position and market share within our industry and our end-use markets, (2) historical data concerning pricing, sales, volume and capacity and growth of sales, volume and capacity in our industry and our end-use markets and (3) expectations regarding future growth of sales, volume or capacity in our industry and our end-use markets, is based on management's estimates using internal data, data from certain chemical consulting firms and other externally obtained data. Unless otherwise noted, all of our market share and market position information presented in this prospectus is based on our pro forma net sales in our end-use markets in 2004 relative to the total net sales in those markets in 2004.

Although data regarding the specialty chemicals industry, our end-use markets, our market position and market share within our industry and our end-use markets are inherently imprecise, we believe such data are generally reliable. Industry surveys and publications generally state that the information contained therein has been obtained from sources believed to be reliable. We have not independently verified any of the data from third party sources. Similarly, while we believe internal company surveys and management estimates to be reliable, we have not verified them, nor have they been verified by any independent source. While we are not aware of any misstatements regarding any industry data presented herein, estimates, in particular as they relate to general

expectations concerning the specialty chemicals industry, involve risks and uncertainties and are subject to change based on various factors, including those discussed under the captions "Risk Factors" and "Forward-Looking Statements" in this prospectus.

#### **WHERE YOU CAN FIND ADDITIONAL INFORMATION**

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the issuance of shares of our common stock being offered in this offering. This prospectus, which forms a part of the registration statement, does not contain all of the information set forth in the registration statement. For further information with respect to us and the shares of our common stock, reference is made to the registration statement. Statements contained in this prospectus as to the contents of any contract or other document are not necessarily complete. We are not currently subject to the informational requirements of the Exchange Act. As a result of this offering, we will become subject to the informational requirements of the Exchange Act, and, in accordance therewith, will file reports and other information with the SEC. The registration statement, such reports and other information can be inspected and copied at the Public Reference Room of the SEC located at Room 1580, 100 F Street, N.E., Washington D.C. 20549. Copies of such materials, including copies of all or any portion of the registration statement, can be obtained from the Public Reference Room of the SEC at prescribed rates. You can call the SEC at 1-800-SEC-0330 to obtain information on the operation of the Public Reference Room. Such materials may also be accessed electronically by means of the SEC's home page on the Internet (<http://www.sec.gov>).

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Rockwood Holdings, Inc. and Subsidiaries:

We have audited the consolidated balance sheets of Rockwood Holdings, Inc. and Subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Rockwood Holdings, Inc. and Subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 20 to the consolidated financial statements, the accompanying 2004 consolidated balance sheet, 2003 consolidated statement of operations and the related consolidated statements of changes in stockholders' equity have been restated.

/S/ DELOITTE & TOUCHE LLP Parsippany, New Jersey  
May 13, 2005  
(June 28, 2005 as to the effects of the  
restatement discussed in Note 20 and  
July 18, 2005 as to the effects of  
last paragraph of Note 12)

**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Dollars in millions except per share amounts; shares in thousands)

	Year Ended December 31,		
	2004	2003	2002
		(As restated see Note 20)	
NET SALES	\$ 1,743.5	\$ 797.3	\$ 759.9
COST OF PRODUCTS SOLD	1,267.6	581.4	542.5
<b>GROSS PROFIT</b>	<b>475.9</b>	<b>215.9</b>	<b>217.4</b>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	327.7	118.0	112.9
IMPAIRMENT CHARGES	11.0	35.0	50.0
RESTRUCTURING CHARGE, net	1.1	1.8	1.2
<b>OPERATING INCOME</b>	<b>136.1</b>	<b>61.1</b>	<b>53.3</b>
OTHER INCOME (EXPENSES):			
Interest, net	(162.1)	(112.3)	(108.2)
Foreign exchange loss, net	(126.4)	(18.5)	(24.6)
Refinancing expenses	(27.1)	(38.3)	
Other, net	(4.3)		(1.2)
<b>Net</b>	<b>(319.9)</b>	<b>(169.1)</b>	<b>(134.0)</b>
LOSS BEFORE TAXES	(183.8)	(108.0)	(80.7)
INCOME TAX EXPENSE (BENEFIT)	32.3	(16.3)	(12.5)
<b>NET LOSS</b>	<b>(216.1)</b>	<b>(91.7)</b>	<b>(68.2)</b>
Redeemable convertible preferred stock dividends	(4.2)	(1.7)	
Accretion of redeemable convertible preferred stock to redemption value		(9.5)	
<b>NET LOSS APPLICABLE TO COMMON SHAREHOLDERS</b>	<b>\$ (220.3)</b>	<b>\$ (102.9)</b>	<b>\$ (68.2)</b>
Per share data:			
<b>WEIGHTED AVERAGE NUMBER OF BASIC AND DILUTED SHARES OUTSTANDING</b>	<b>33,054</b>	<b>20,739</b>	<b>20,746</b>
<b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	<b>\$ (6.66)</b>	<b>\$ (4.96)</b>	<b>\$ (3.29)</b>

See accompanying notes to consolidated financial statements.

**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in millions, except per share amounts; shares in thousands)

	December 31,	
	2004	2003
	(As restated see Note 20)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 111.3	\$ 41.9
Accounts receivable, net	500.9	138.3
Inventories	476.9	87.8
Deferred income taxes	32.5	2.8
Prepaid expenses and other current assets	112.0	12.5
	1,233.6	283.3
Total current assets	1,233.6	283.3
PROPERTY, PLANT AND EQUIPMENT, net	1,566.8	418.6
GOODWILL	1,805.9	683.9
OTHER INTANGIBLE ASSETS, net	660.1	25.7
DEFERRED DEBT ISSUANCE COSTS, net of accumulated amortization of \$13.4 and \$6.2, respectively	86.0	28.0
DEFERRED INCOME TAXES		13.8
OTHER ASSETS	47.1	7.4
	5,399.5	1,460.7
<b>TOTAL ASSETS</b>	<b>\$ 5,399.5</b>	<b>\$ 1,460.7</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 326.1	\$ 98.6
Income taxes payable	19.4	13.8
Accrued compensation	84.5	10.6
Restructuring liability	35.1	1.2
Accrued expenses and other current liabilities	228.3	39.4
Long-term debt, current portion	47.2	9.1
	740.6	172.7
Total current liabilities	740.6	172.7
LONG-TERM DEBT	3,333.4	1,054.4
PENSION AND RELATED LIABILITIES	375.0	26.1
DEFERRED INCOME TAXES	41.8	
OTHER LIABILITIES	219.2	51.3
	4,710.0	1,304.5
Total liabilities	4,710.0	1,304.5
MINORITY INTEREST		31.2
REDEEMABLE CONVERTIBLE PREFERRED STOCK (\$.01 par value, \$30.8 and \$26.7 aggregate liquidation preference, respectively; 50 shares authorized; 25 shares issued and outstanding)	34.3	30.1
STOCKHOLDERS' EQUITY:		
Common stock (\$.01 par value, 75,296 shares authorized, 50,404 shares issued and 50,310 shares outstanding at December 31, 2004; 34,226 shares authorized, 20,834 shares	0.5	0.2

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	<u>December 31,</u>	
issued and 20,740 shares outstanding at December 31, 2003)		
Paid-in capital	718.6	291.2
Accumulated other comprehensive income	370.4	84.4
Accumulated deficit	(463.4)	(247.3)
Treasury stock, at cost	(1.4)	(1.4)
Other	(0.7)	(1.0)
	<u>624.0</u>	<u>126.1</u>
Total stockholders' equity	624.0	126.1
	<u>5,399.5</u>	<u>1,460.7</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 5,399.5	\$ 1,460.7

See accompanying notes to consolidated financial statements.

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**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in millions)

	Year Ended December 31,		
	2004	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (216.1)	\$ (91.7)	\$ (68.2)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	115.2	52.4	46.3
Deferred financing costs amortization	7.4	6.1	8.0
Write-off of deferred debt issuance costs	25.1	36.9	
Foreign exchange loss	126.4	18.5	24.6
Non-cash interest expense on pay-in-kind loans	32.6	24.7	18.3
Deferred income taxes	10.7	(25.8)	(20.3)
Impairment charges	11.0	35.0	50.0
Fair value adjustments of derivatives	(6.0)	6.0	11.6
Bad debt provision	2.8	1.7	0.9
Net receivables sale activity			(50.0)
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:			
Accounts receivable	3.4	(9.1)	4.0
Inventories	22.6	0.8	(1.9)
Prepaid expenses and other assets	2.2	(4.6)	(4.6)
Accounts payable	10.1	(2.0)	11.2
Income taxes payable	1.4	(2.8)	(1.1)
Accrued expenses and other liabilities	30.5	(3.5)	(32.9)
Net cash provided by (used in) operating activities	179.3	42.6	(4.1)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisitions, net of cash acquired	(2,137.9)	(17.7)	(7.3)
Capital expenditures	(112.8)	(34.3)	(36.0)
Proceeds on sale of property, plant and equipment	0.8	0.3	12.4
Net insurance proceeds from fire damage		3.2	0.5
Net cash used in investing activities	(2,249.9)	(48.5)	(30.4)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Issuance of common stock	432.0		0.2
Repurchase of common stock			(0.9)
Issuance of redeemable convertible preferred stock		25.0	
Stock issuance costs	(0.1)	(0.5)	
Other changes to stockholders' equity	(0.3)		1.3
Proceeds from long-term debt, net of issuance costs	3,194.8	871.4	
Payments on long-term debt	(1,492.0)	(897.6)	(19.5)
Net cash provided by (used in) financing activities	2,134.4	(1.7)	(18.9)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	5.6	3.8	2.6
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	69.4	(3.8)	(50.8)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	41.9	45.7	96.5

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	<b>Year Ended December 31,</b>			
CASH AND CASH EQUIVALENTS, END OF YEAR	\$	111.3	\$	41.9
	\$	45.7	\$	45.7
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>				
Interest paid, net	\$	125.7	\$	79.2
	\$	61.5	\$	61.5
Income taxes paid, net of refunds	\$	22.8	\$	12.3
	\$	6.9	\$	6.9

See accompanying notes to consolidated financial statements.

**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002**  
(Dollars in millions; shares in thousands)

	Common Stock		Paid-In Capital	Accumulated Other Comprehensive Income (Loss)		Accumulated Deficit	Comprehensive Loss		Treasury Stock		Stockholders' Equity
	Shares	Amount		Shares	Amount		Shares	Amount	Other		
BALANCE, JANUARY 1, 2002	20,787	\$ 0.2	\$ 296.6	\$ (1.4)	\$ (87.4)			34	\$ (0.5)	(2.3)	\$ 205.2
Issuance of common stock	10		0.2							0.2	0.4
Treasury share purchase	(60)							60	(0.9)	0.2	(0.7)
Deferred compensation										0.4	0.4
Minimum pension liability, net of tax				(1.8)	\$ (1.8)						(1.8)
Foreign currency translation				25.6			25.6				25.6
Intracompany foreign currency transactions				12.1			12.1				12.1
Net loss					(68.2)		(68.2)				(68.2)
Comprehensive loss							\$ (32.3)				
BALANCE, DECEMBER 31, 2002	20,737	0.2	296.8	34.5	(155.6)			94	(1.4)	(1.5)	173.0
Issuance of common stock	3									0.2	0.2
Stock issuance costs			(0.5)								(0.5)
Deferred compensation										0.3	0.3
Redeemable convertible preferred redemption accretion (As restated see Note 20)			(11.2)								(11.2)
Fair value of warrants (As restated see Note 20)			6.1								6.1
Minimum pension liability, net of tax				(1.3)	\$ (1.3)						(1.3)
Foreign currency translation				40.8			40.8				40.8
Intracompany foreign currency transactions				10.4			10.4				10.4
Net loss					(91.7)		(91.7)				(91.7)
Comprehensive loss							\$ (41.8)				
BALANCE, DECEMBER 31, 2003	20,740	0.2	291.2	84.4	(247.3)			94	(1.4)	(1.0)	126.1
Issuance of common stock	29,570	0.3	431.7								432.0
Stock issuance costs			(0.1)								(0.1)
Deferred compensation										0.3	0.3
Redeemable convertible preferred redemption accretion			(4.2)								(4.2)
Minimum pension liability, net of tax				(14.3)	\$ (14.3)						(14.3)
Foreign currency translation (As restated see Note 20)				150.0			150.0				150.0
				163.4			163.4				163.4

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	<u>Common Stock</u>		<u>Accumulated Other Comprehensive Income (Loss)</u>		<u>Treasury Stock</u>				
Intracompany foreign currency transactions									
Net investment hedge, net of tax			(13.1)		(13.1)			(13.1)	
Net loss				(216.1)	(216.1)			(216.1)	
Comprehensive income					69.9				
BALANCE, DECEMBER 31, 2004 (As restated see Note 20)	50,310 \$	0.5 \$	718.6 \$	370.4 \$	(463.4)	94 \$	(1.4) \$	(0.7) \$	624.0

See accompanying notes to consolidated financial statements.

**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Business Description, Background** Rockwood Holdings, Inc. and Subsidiaries ("Rockwood" or the "Company") is a global developer, manufacturer and marketer of high value-added specialty chemicals and advanced materials used for industrial and commercial purposes.

The Company is controlled by affiliates of Kohlberg Kravis Roberts & Co. L.P. ("KKR") and DLJ Merchant Banking Partners III, L.P. ("DLJMB"), and was formed in connection with an acquisition of certain assets, stock and businesses from Laporte plc ("Laporte") on November 20, 2000. The cost of the acquisition (the "KKR Acquisition"), along with related fees and expenses, was financed using aggregate proceeds of \$1,227.0 million, consisting of a \$282.0 million equity contribution made to the Company by its parent companies, with \$100.0 million in borrowings under a payment-in-kind ("pay-in-kind") subordinated loan facility ("pay-in-kind Notes") and \$845.0 million of borrowings under senior secured credit facilities and a senior subordinated loan facility. These borrowings were refinanced in July 2003 (the "July 2003 Refinancing").

On July 31, 2004, the Company completed the acquisition of four businesses of Dynamit Nobel from mg technologies ag. The businesses acquired are focused on highly specialized markets and consist of: white pigments; surface treatment and lithium chemicals; ceramics; and pharmaceutical intermediates. The cost of the acquisition (the "Dynamit Nobel Acquisition"), along with related fees and expenses, as well as the repayment of the borrowings under the Company's then existing senior secured facilities (the "2003 Senior Secured Credit Facilities") and \$20.0 million of the pay-in-kind notes was financed using new equity contributions from affiliates of KKR and DLJMB, and borrowings under the new senior secured credit facilities (the "Senior Secured Credit Facilities") and the new senior subordinated loan facility (the "Senior Subordinated Loan Facility") (collectively, the "Acquisition Financing") from certain lending institutions including Credit Suisse First Boston, an affiliate of DLJMB. Certain components of these borrowings were refinanced subsequently (the "Refinancing"). See Note 2 -Acquisitions and Note 8 Long Term Debt for a more complete description of the Dynamit Nobel Acquisition, the Acquisition Financing and the Refinancing.

**Basis of Presentation** The accompanying financial statements of Rockwood are presented on a consolidated basis. All significant intercompany accounts and transactions have been eliminated.

The results of operations and cash flows since July 31, 2004 of the businesses acquired in the Dynamit Nobel Acquisition are included in the consolidated statements of operations and consolidated statements of cash flows for the year ended December 31, 2004 along with the financial position of such operations as of December 31, 2004. The results of operations for 2004 are not necessarily indicative of the results of operations had the businesses acquired in the Dynamit Nobel Acquisition been included for the full year. The financial position of Groupe Novasep as of December 31, 2004 is included in the consolidated balance sheet as of that date. See Note 2 Acquisitions.

The Company's minority interest represents the total of the minority party's equity interest in certain joint ventures (principally the Groupe Novasep segment) that are consolidated but less than 100% owned.

**Nature of Operations/Segment Reporting** The Company is a global developer, manufacturer and marketer of high value-added specialty chemicals and advanced materials. The Company operates in various business lines within its seven reportable segments consisting of: (1) Performance Additives, which includes color pigments and services, timber treatment chemicals,

clay-based additives, and water treatment chemicals, (2) Specialty Compounds, which consists of plastic compounds, (3) Electronics, which consists of electronic chemicals, wafer reclaim and photomasks, (4) Specialty Chemicals, which includes lithium compounds and chemicals, metal surface treatment chemicals, and synthetic metal sulfides, (5) Titanium Dioxide Pigments, which consists of titanium dioxide pigments, and zinc- and barium-based compounds, (6) Advanced Ceramics, which includes ceramic-on-ceramic ball head and linear components used in hip-joint prostheses systems, ceramics cutting tools and a range of other ceramic components, and (7) Groupe Novasep (formerly known as Custom Synthesis), which includes hazardous chemistry and chiral technologies for the synthesis of pharmaceutical compounds.

The basis for determining an enterprise's operating segments is the manner in which financial information is used internally by the enterprise's chief operating decision maker. See Note 3 Segment Information for further segment reporting information.

**Common Stock Reverse Split** Effective January 30, 2001, the Company's Board of Directors authorized a 100-for-1 reverse stock split. As a result of the reverse stock split, the accompanying consolidated financial statements reflect a decrease in the number of outstanding shares of common stock and the transfer of the additional paid-in-capital from par value. All share amounts have been restated to reflect the retroactive effect of the reverse stock split for all periods presented.

**Use of Estimates** The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the periods reported.

These estimates include assessing the collectibility of accounts receivable, the use and recoverability of inventory, the valuation of deferred tax assets, impairment of goodwill as well as property, plant and equipment and other intangible assets, and the useful lives of tangible and intangible assets, among others. Actual results could differ from those estimates.

Such estimates also include the fair value of assets acquired and liabilities assumed allocated to the purchase price of business combinations consummated. See Note 2 Acquisitions.

**Major Customers and Concentration of Credit** The Company has a number of major end-user, retail and original equipment manufacture customers with the largest concentration in Europe, and the United States. No single customer accounted for more than 10% of net sales during any of the periods presented. The Company does not believe a material part of its business is dependent upon any single customer, the loss of which would have a material long-term impact on the business of the Company. However, the loss of one or more of the Company's largest customers would most likely have a negative short-term impact on the Company's results of operations. Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable and derivative contracts. See Note 8 Long-Term Debt.

**Accounts Receivable** The allowance for doubtful accounts is estimated at each reporting date based on factors such as receivable age, customer liquidity status and previous write-off history. The Company performs ongoing credit evaluations of customers and generally does not require collateral. Credit insurance is maintained by certain of the Company's businesses.

Allowance is maintained for aggregate expected credit losses. Write-offs are charged to the allowance when taken, net of recoveries. Allowance for doubtful account activity is as follows:

	Year Ended December 31,		
	2004	2003	2002
	(millions)		
Balance, January 1	\$ 5.2	\$ 4.5	\$ 3.4
Additions charged to expense	2.8	1.7	0.9
Acquisitions	4.4		
Write-offs, net of recoveries	(2.4)	(1.7)	(0.8)
Other (a)	0.2	0.7	1.0
	<u>\$ 10.2</u>	<u>\$ 5.2</u>	<u>\$ 4.5</u>

(a)

Primarily the impact of currency changes as well as divestitures of certain businesses.

**Risks Associated with International Operations and Currency Risk** The Company's international operations are subject to risks normally associated with foreign operations, including, but not limited to, the disruption of markets, changes in export or import laws, restrictions on currency exchanges and the modification or introduction of other governmental policies with potentially adverse effects. A majority of the Company's sales and expenses are denominated in currencies other than U.S. dollars. Changes in exchange rates may have a material effect on the Company's reported results of operations and financial position. In addition, a significant portion of the Company's indebtedness is denominated in Euros.

**Revenue Recognition** The Company recognizes revenue when the earnings process is complete. Product sales are recognized when products are shipped to the customer in accordance with the terms of the contract of sale, title and risk of loss have been transferred, collectibility is reasonably assured, and pricing is fixed or determinable. Accruals are made for sales returns and other allowances based on the Company's experience. Revenue under service agreements is realized when the service is performed.

**Foreign Currency Translation** The functional currency of each of the Company's foreign subsidiaries is primarily the respective local currency. Balance sheet accounts of the foreign operations are translated into U.S. dollars at period-end exchange rates and income and expense accounts are translated at average exchange rates during the period. Translation gains and losses related to net assets located outside the U.S. are shown as a component of accumulated other comprehensive income. Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's functional currency), should be included in determining net income for the period in which exchange rates change. However, the related gains or losses on certain intercompany transactions that are of a long-term investment nature for which settlement is not planned or anticipated in the foreseeable future should be reported and accumulated in the same manner as translation adjustments.

**Advertising** The Company expenses advertising costs as incurred.

**Research and Development** Research and development costs are charged to expense, as incurred. Such costs were \$23.7 million in 2004, \$8.7 million in 2003 and \$8.1 million in 2002.

**Accounting for Shipping and Handling Costs** The Company records shipping and handling costs in cost of sales and records shipping and handling costs billed to customers in net sales in accordance with the Emerging Issues Task Force's ("EITF") guidance (EITF 00-10: *Classification of Shipping and Handling Costs*).

**Cash and Cash Equivalents** All highly liquid instruments and money market funds with an original maturity of three months or less are considered to be cash equivalents. The carrying amount approximates fair value because of the short maturities of these instruments.

**Inventories** Inventories are stated at the lower of cost or market. Cost is determined primarily on average cost or the first-in, first-out method. Inventory quantities on hand are regularly reviewed, and where necessary, provisions for excess and obsolete inventory are recorded based primarily on either the Company's estimated forecast of product demand and production requirements or historical usage. See Note 4- Inventories.

**Property, Plant and Equipment** Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the various asset classes. Estimated lives range from 20-30 years for buildings and improvements (including land improvements), 7-12 years for machinery and equipment, 3-5 years for furniture and fixtures and 14-50 years for mining rights. See Note 5- Property, Plant and Equipment.

The estimated useful lives of leasehold improvements are the lesser of the estimated life of the improvement or the term of the lease.

Major renewals and improvements are capitalized and minor replacements, maintenance and repairs are charged to current operations as incurred. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the balance sheet and any gain or loss is reflected in the statement of operations.

**Deferred Debt Issuance Costs** Costs related to the July 2003 Refinancing, the Acquisition Financing and two additional refinancings completed during the fourth quarter of 2004 have been capitalized and are being amortized using the effective interest rate method over the term of the debt outstanding. This amortization is reflected in interest expense. See Note 8 Long-Term Debt.

**Goodwill** Goodwill represents the cost in excess of fair value of net assets acquired for transactions accounted for using the purchase method of accounting. See Note 6 Goodwill for detail of goodwill activity by segment.

**Other Intangible Assets** Other intangible assets primarily consists of patents and other intellectual property, trade names and trademarks, and customer relationships. Patents and other intellectual property are recorded at their estimated fair values at the time of acquisition and are being amortized over their estimated remaining useful lives, ranging from 4 to 20 years. Trade names and trademarks are being amortized over 25 years, and customer relationships are amortized from 7 to 15 years. See Note 7 Other Intangible Assets.

**Impairment Accounting** The recoverability of goodwill is reviewed on an annual basis during the fourth quarter. Additionally, the recoverability of goodwill, long-lived tangible, and certain intangible assets is reviewed when events or changes in circumstances occur indicating that the carrying value of the assets may not be recoverable. See Note 15 Impairment Charges.

The Company's initial goodwill impairment review begins with the estimate of fair value of each reporting unit generally based on an industry metric such as the ratio of enterprise value (commonly defined as market capitalization plus long-term debt less cash) to Adjusted EBITDA as defined in the senior secured credit facilities. This calculation is performed on both the current year actual results and on the budgeted amounts for the following year. Similarly, when testing for impairment of long-lived assets other than goodwill, the Company initially reviews the estimated future undiscounted cash flows to be derived from the asset or asset group (collectively "asset"). If it appears that the asset is impaired based on undiscounted cash flows, the estimated fair value of the asset is calculated on a present value basis by multiplying the estimated future annual cash flows of the asset by the then current enterprise value ratio (a discounted measure) or by a discount factor appropriate to the related reporting unit, in accordance with paragraph 23 of



Statement of Financial Accounting Standards ("SFAS") No. 144. An impairment loss is recognized when the carrying value of the asset or goodwill exceeds the discounted cash flow (or other measure of) fair value.

These calculations are based on inherent assumptions and estimates about future cash flows and appropriate benchmark peer companies or groups. Subsequent changes in these assumptions could result in future impairment. Although we consistently use the same methods in developing the assumptions and estimates underlying the fair value calculations, such estimates are uncertain by nature and can vary from actual results.

**Financial Instruments** Management believes the carrying amount of financial instruments, including accounts receivable, accounts payable and debt, approximates fair value, except as described in Note 8- Long-Term Debt.

**Accretion on Senior Discount Notes** The Company's senior discount notes (see Note 8 Long-Term Debt) accrete principal value for a portion of their term. The Company records such accretion as interest expense for financial reporting purposes.

**Derivatives** The Company accounts for derivatives based on Statement of Financial Accounting Standard ("SFAS") 133 *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted. SFAS 133 requires that all derivatives be recognized as either assets or liabilities at fair value. Changes in the fair value of derivatives not designated as hedging instruments are recognized currently in earnings. The Company uses derivative instruments to manage its exposure to market risks associated with fluctuations in interest rates and foreign currency exchange rates. The Company does not enter into derivative contracts for trading purposes nor does it use leveraged or complex instruments.

**Pension, Postemployment and Postretirement Costs** Defined benefit costs and liabilities have been determined in accordance with SFAS 87, *Employers' Accounting for Pensions*. Other postretirement benefit costs and liabilities have been determined in accordance with SFAS 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. Postemployment benefit costs and liabilities have been determined in accordance with SFAS 112, *Employers' Accounting for Postemployment Benefits*.

**Related party transactions** Rockwood has engaged in transactions with certain related parties including KKR, DLJMB and affiliates of each. See Note 2 Acquisitions and Note 8 Long-Term Debt for additional information concerning certain of these transactions.

Through the date of the Dynamit Nobel Acquisition, KKR provided consulting and management advisory services to Rockwood for an annual fee of \$0.6 million. Since the date of the Dynamit Nobel Acquisition, KKR and DLJMB have provided the Company with consulting and management advisory services for an annual fee of \$2.0 million, which amount will be increased by 5% each year.

In connection with the expected initial public offering of the Company's common stock, the affiliates of KKR and DLJMB have agreed to terminate the management services agreement effective upon the closing of such offering for an aggregate consideration of \$10.0 million.

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The consolidated balance sheets include the following amounts as a result of transactions with KKR, DLJMB and affiliates of each:

	As of December 31	
	2004	2003
	(millions)	
Accrued expenses and other current liabilities	\$ 0.5	\$ 0.2
Long-term debt	82.8	73.6
Redeemable convertible preferred stock	34.3	30.1

The consolidated statements of operations include the following amounts as a result of transactions with KKR, DLJMB and affiliates of each:

	Year Ended December 31,		
	2004	2003	2002
	(millions)		
Selling, general and administrative expenses	\$ 1.2	\$ 0.6	\$ 0.6
Interest expense, net	9.2	3.6	

**Income Taxes** Income taxes are determined in accordance with SFAS 109 *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts and the corresponding tax carrying amounts of assets and liabilities. Deferred tax assets are also recognized for tax loss and tax credit carryforwards. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized based on available evidence weighted toward evidence that is objectively verifiable. Deferred taxes are not provided on the undistributed earnings of subsidiaries as such amounts are considered to be permanently invested or could be distributed to the parent company in a tax free manner.

Future realization of the tax benefit of an existing deductible temporary difference or carryforward ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carry back, carry forward period available under the tax law. The Company's policy is to consider the following sources of taxable income which may be available under the tax law to realize a tax benefit for deductible temporary differences and carry forwards:

Future reversals of existing taxable temporary differences

Future taxable income exclusive of reversing temporary differences and carry forwards

Taxable income in prior carry back year(s) if carry back is permitted under the tax law

Tax planning strategies that would, if necessary, be implemented to:

- (1) Accelerate taxable amounts to utilize expiring carryforwards
- (2) Change the character of taxable or deductible amounts from ordinary income or loss to capital gain or loss
- (3) Switch from tax-exempt to taxable investments.

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Evidence available about each of those possible sources of taxable income will vary between tax jurisdictions and, possibly, from year to year. To the extent evidence about one or more sources of taxable income is sufficient to support a conclusion that a valuation allowance is not necessary, the Company's policy is that other sources need not be considered. Consideration of each source is required, however, to determine the amount of the valuation allowance that may be required to be recognized for deferred tax assets.

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For any specific jurisdiction where a history of three years of cumulative losses has occurred or where there has been a substantial change in the business (e.g. a major acquisition or divestiture), the Company does not rely on projections of future taxable income as described above. Instead, the Company determines its need for a valuation allowance on deferred tax assets, if any, by determining an average normalized taxable income amount over the last three years, adjusted for acquisitions or divestitures if necessary.

The Company will also consider the following positive evidence in the above scenarios, if present:

Existing contracts or firm sales backlog that will produce more than enough taxable income to realize the deferred tax asset based on existing sales prices and cost structures.

An excess of appreciated asset value over the tax basis of the entity's net assets in an amount sufficient to realize the deferred tax asset.

**Comprehensive Income** Comprehensive income includes net income and the other comprehensive income components which include unrealized gains and losses from foreign currency translation and from certain intercompany transactions that are of a long-term investment nature as well as minimum pension liability adjustments that are recorded directly into a separate section of stockholders' equity in the balance sheets. Foreign currency translation amounts are not adjusted for income taxes since they relate to indefinite length investments in non-U.S. subsidiaries.

**Accounting for Environmental Liabilities** In the ordinary course of business, Rockwood is subject to extensive and changing federal, state, local and foreign environmental laws and regulations, and has made provisions for the estimated financial impact of environmental cleanup related costs. Rockwood's policy has been to accrue costs of a non-capital nature related to environmental clean-up when those costs are believed to be probable and can be reasonably estimated. If the aggregate amount of the obligation and the amount and timing of the cash payments for a site are fixed or reliably determinable, the liability is discounted. Expenditures that extend the life of the related property or mitigate or prevent future environmental contamination are capitalized and expenditures related to existing conditions resulting from past or present operations and from which no current or future benefit is discernible are immediately expensed. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, advancements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation and the length of time involved in remediation or settlement. In some matters, Rockwood could share costs with other parties. Rockwood does not include anticipated recoveries from insurance carriers or other third parties in its accruals for environmental liabilities.

**Reclassifications** Certain prior year amounts have been reclassified to conform to current year classification.

**Recent Accounting Pronouncements** On July 31, 2004 the Company implemented SFAS 150 and Financial Accounting Standards Board ("FASB") interpretation ("FIN") 46R. The Company implemented these as a result of the completion of the Dynamit Nobel Acquisition on that same date; the Company did not previously implement these because they were not relevant prior to the Dynamit Nobel Acquisition. Implementation of these accounting standards has had no significant impact on the Company's financial position, results of operations, or cash flows. SFAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. These instruments are reported as a liability and accounted for at their fair value. Stock options and convertible bonds issued as remuneration are exempted from this standard. SFAS 150 is applicable to financial instruments issued or modified

after May 31, 2003. The valuation rules pertaining to certain financial instruments are not applicable until further notice owing to FASB Staff Position No. 150-3 *Effective Date Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interest under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. FIN 46R, *Consolidation of Variable Interest Entities -an Interpretation of ARB No. 51 (revised)* provides guidance on the identification of entities for which control is achieved though means other than through voting rights ("variable-interest entity") and how to determine when an entity is the primary beneficiary and required to consolidate a variable-interest entity.

The Company plans to implement the financial accounting standards listed below on January 1, 2006. We do not expect any significant impact on the Company's financial position, results of operation, or cash flows from the implementation of SFAS 151 and SFAS 153, although we are still in the process of evaluating SFAS 123R as to its potential impact, if any.

SFAS 151    Inventory Costs  
SFAS 153    Exchanges of Nonmonetary Assets  
SFAS        Share Based Payment  
123R

SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This standard requires such items be recognized as current-period charges and is effective for inventory costs incurred during fiscal years beginning after June 15, 2005.

SFAS 153 eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. This standard is effective for nonmonetary asset exchanges occurring in fiscal years beginning after June 15, 2005.

SFAS 123R revises SFAS 123 *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS 123R requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which the employee is required to provide services in exchange for the award. This standard eliminates the alternative to use the intrinsic value method of accounting for share based payments as previously provided in APB 25. This standard is effective for the Company beginning in the first quarter of 2006. As we are not a publicly traded equity company, we will apply SFAS 123R on a prospective basis. As such, new awards, modifications to existing awards, repurchases or cancellations subsequent to February 11, 2005 (the date on which the Company filed its Form S-1) will be accounted for in accordance with SFAS 123R on the modified prospective basis.

In May 2004, the FASB issued FASB Staff Position ("FSP") 106-2 *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. This guidance supersedes FSP 106-1 issued in January 2004 and clarifies the accounting and disclosure requirements for employers with postretirement benefit plans that have been or will be affected by the passage of the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act"). The Act introduces two new features to Medicare that an employer needs to consider in measuring its obligation and net periodic postretirement benefit costs. The effective date for the new requirements was the first interim or annual period beginning after June 15, 2004. The adoption of FSP 106-2 did not have a material impact on the Company.

**Redeemable convertible preferred stock** During 2003 the Company issued redeemable convertible preferred stock to an affiliate of KKR who controls a majority of directors of the

Company. As the redemption of the redeemable convertible preferred stock is not mandatory and is not solely in the control of the Company, the redeemable convertible preferred stock is classified outside equity. See Note 13 Redeemable Convertible Preferred Stock.

**Stock-Based Compensation** At December 31, 2004, the Company had in place the Amended and Restated 2003 Stock Purchase and Option Plan, as amended, (formerly the 2000 Stock Purchase and Option Plan) (the "Plan"). The Company accounts for the Plan under the recognition and measurement principles of APB Opinion 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based employee compensation is reflected in net loss related to this Plan, as all options granted had an exercise price at least equal to the market value of the underlying common stock on the date of the grant. The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of SFAS 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. Volatility is assumed to be zero as there is no public market for the underlying stock. Dividend yield is also assumed to be zero.

	Year Ended December 31,		
	2004	2003	2002
	(millions)		
	(As restated see Note 20)		
Net loss, as reported	\$ (216.1)	\$ (91.7)	\$ (68.2)
Add: Stock-based compensation expense included in reported net loss, net of tax	0.2	0.2	0.2
Less: Stock-based employee compensation expense determined under fair value based method, net of tax	(0.8)	(0.7)	(0.4)
Pro forma net loss	(216.7)	(92.2)	(68.4)
Redeemable convertible preferred stock dividends	(4.2)	(1.7)	
Accretion of redeemable convertible preferred stock to redemption value		(9.5)	
Pro forma net loss applicable to common shareholders.	\$ (220.9)	\$ (103.4)	\$ (68.4)
Basic and diluted loss per common share, as reported	\$ (6.66)	\$ (4.96)	\$ (3.29)
Pro forma basic and diluted loss per common share	\$ (6.68)	\$ (4.99)	\$ (3.30)
<i>Other assumptions used in fair-value pricing model:</i>			
Risk-free interest rate	3.51%	3.32%	4.38%
Expected lives of option grants (years)	5.0	6.5	6.5

The Company accounts for earnings (loss) per share under the provision of SFAS No. 128 *Earnings per Share* and Emerging Issues Task Force ("EITF") 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128*. Basic earnings (loss) per common share was calculated by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if Rockwood's securities or other contracts to issue common stock were exercised, converted into or resulted in the issuance of common stock. The effect of common stock issuable under the assumed exercise of stock options and warrants, computed on the treasury stock method, and the assumed conversion of the Company's issued and outstanding redeemable convertible preferred stock have been excluded from the diluted earnings per share calculation for all periods presented since the effect of such securities is anti-dilutive. The valuation method that the Company will utilize under SFAS 123R may not be the same as the method utilized historically.

**2. ACQUISITIONS:****Dynamit Nobel**

On July 31, 2004, the Company consummated the Dynamit Nobel Acquisition. The Company paid approximately €1,635.0 million (or \$1,968.5 million) (excluding repayment of certain assumed debt) in cash to mg technologies ag for the businesses acquired, subject to possible post-closing adjustments. The four divisions of Dynamit Nobel acquired by Rockwood were (i) Chemetall, or Specialty Chemicals; (ii) Sachtleben Chemie, or Titanium Dioxide Pigments; (iii) CeramTec, or Advanced Ceramics and (iv) DNES Custom Synthesis (consisting of Dynamit Nobel Special Chemistry, Finorga, S.A. and Rohner A.G.), or Custom Synthesis, which is now known as Groupe Novasep. Through this acquisition, the Company believes it has created a portfolio of distinct specialty chemicals and advanced performance materials businesses, with diversified geographic and end-use markets, strong market positions and margins, and limited exposure to individual raw material fluctuations.

Approximate sources and uses of the funds relating to the Dynamit Nobel Acquisition and the related Acquisition Financing are shown on the table below. Information presented in the following table has been calculated using the U.S. dollars per euro exchange rate at July 31, 2004.

	(millions)
<b>Sources</b>	
New senior secured credit facilities(a) (€389.7 and \$985.0)	\$ 1,454.2
New senior subordinated loan facility(a) (€419.1 and \$350.0)	854.5
Equity contribution(b)	425.0
	<hr/>
<b>Total sources</b>	<b>\$ 2,733.7</b>
	<hr/>
<b>Uses</b>	
Cash purchase price (c)	\$ 1,968.5
Repayment of old senior credit facilities	442.2
Repayment of portion of pay-in-kind loans	20.0
Repayment of assumed debt (d)	129.0
Cash settlement of derivative transactions	20.0
Fees and expenses	138.0
Cash on hand	16.0
	<hr/>
<b>Total uses</b>	<b>\$ 2,733.7</b>
	<hr/>

(a) See Note 8 Long-Term Debt for more detailed information concerning the Company's debt facilities.

(b) Represents an equity contribution to the Company from the proceeds of equity contributions of \$425.0 million to Holdings from affiliates of KKR and DLJMB.

(c) The cash purchase price (which does not include the assumed debt described in note (d) below) is subject to possible post-closing adjustments, including adjustments related to Closing Net Financial Debt and Closing Working Capital (as each term is defined in the Sale and Purchase Agreement dated April 19, 2004).

(d) Represents assumed debt which the Company repaid at or shortly after the closing of the Dynamit Nobel Acquisition, in addition to €154.6 million (or \$186.1 million) that the Company assumed as of the acquisition date. See Note 8 Long-Term Debt.

The Company accounted for the Dynamit Nobel Acquisition using the purchase method of accounting. The Company has allocated the estimated total purchase price to the assets acquired





and liabilities assumed of Dynamit Nobel based on management's estimates of their fair values. The Company retained independent valuation specialists to assist in the determination of fair value of a significant portion of these assets, including property, plant and equipment and identified intangible assets. The consolidated statements of operations for the year ended December 31, 2004 reflect the results of Dynamit Nobel since July 31, 2004. See Note 6 Goodwill and Note 7 Other Intangible Assets.

The allocation of the purchase price to the identifiable assets acquired is complete, except that the purchase price is subject to possible post-closing adjustments, including adjustments related to Closing Net Financial Debt and Closing Working Capital (as each term is defined in the Sale and Purchase Agreement dated April 19, 2004). mg technologies ag has notified the Company of several adjustments which would result in the Company paying an additional €31.5 million; however, the Company has notified mg technologies ag of counterclaims in the aggregate of €34.7 million. Management believes the potential future consideration due to mg technologies ag ranges from \$0 to approximately \$30.0 million. Given the complexities of the underlying claims, the Company's inability to predict the success of negotiating a resolution and the possibility of eventual arbitration of some or all of the claims, management believes that no estimate within this range is better than another. The Company expects to finalize the post-closing adjustments within the next twelve months. The recorded amount of goodwill, net of tax, as applicable may change when the post-closing adjustments are finalized.

The excess of the total purchase price over the estimated fair value of the net assets acquired at closing has been allocated to goodwill. Goodwill in the transaction totaled \$936.4 million at December 31, 2004. This represents a \$23.9 million increase to goodwill from the initial allocation of the purchase price contained in the Company's September 30, 2004 balance sheet and was primarily due to refinement and reallocation of identifiable asset valuation estimates by the independent appraiser and the recognition of additional liabilities for which management was seeking additional information and did not have sufficient information to record as of September 30, 2004.

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Estimated fair value of assets acquired and liabilities assumed has been allocated to the estimated purchase price as of July 31, 2004 as follows:

	(millions)
Estimated cash purchase price (\$1,968.5 million and fees and expenses of \$65.9 million)	\$ 2,034.4
Net assets acquired	\$ 1,041.9
<i>Adjustments to net assets acquired:</i>	
Existing goodwill	(399.0)
Existing intangibles	(19.4)
Deferred tax asset	(396.6)
Deferred tax liability current	5.4
Deferred tax liability non-current	51.6
Liabilities to related parties	345.5
	<hr/>
Adjusted net assets acquired	629.4
	<hr/>
Estimated purchase price in excess of book value of assets acquired and liabilities assumed	1,405.0
<i>Fair value in excess of book value of assets acquired and liabilities assumed:</i>	
Inventory	\$ 55.4
Property, plant and equipment	18.1
Intangible assets identified:	
Patents and other intellectual property	273.5
Customer relationships	160.2
Trade names and trademarks	98.4
Pension liabilities	(46.4)
Deferred tax liability, net	(8.1)
Restructuring program liabilities	(30.5)
Other liabilities	(52.0)
	<hr/>
Total fair value in excess of book value of identifiable net assets acquired	468.6
	<hr/>
Estimated goodwill	\$ 936.4
	<hr/>

The fair value of finished goods and work in process inventories, which were stepped up to selling price less direct selling cost, was recognized in cost of goods sold during 2004 as the acquired inventory was sold.

The fair value of property, plant and equipment and identified intangibles other than goodwill are being amortized over their estimated useful lives. Estimated lives for property, plant and equipment range from 20-30 years for buildings and improvements (including land improvements), 7-12 years for machinery and equipment, 3-5 years for furniture and fixtures and 14-50 years for mining rights. Estimated weighted average useful lives for identified intangible assets are: 12.6 years for patents and other intellectual property, 25.2 years for trademarks and trade names and 11.9 years for customer relationships for a total estimated weighted average useful life of 13.6 years.

Pension liabilities represent the estimated unrecognized pension obligation in accordance with SFAS No. 141.

Restructuring programs and other liabilities includes the estimated costs of restructuring programs for which a plan has been formulated relating to certain Dynamit Nobel operations.



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Management believes that most of the estimated goodwill above is deductible for German tax purposes over a period of 15 years.

Liabilities assumed were as follows:

	<b>(millions)</b>
Fair value of assets acquired	\$ 2,965.1
Cash purchase price (including fees and expenses)	2,034.4
	\$ 930.7

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	<b>At July 31, 2004</b>
	<b>(millions)</b>
Inventory	\$ 331.0
Property, plant and equipment	915.3
Intangible assets	532.1
Goodwill	936.4
Other assets	250.3
	2,965.1
Other liabilities	(744.6)
Long-term debt	(186.1)
	(930.7)
Net assets acquired	\$ 2,034.4

The following unaudited pro forma financial information has been prepared as if the Dynamit Nobel Acquisition had occurred at the beginning of each period presented. The pro forma amounts include certain adjustments to historical results of operations including depreciation and amortization expense (based upon the estimated fair values and useful lives of property, plant and equipment and intangible assets other than goodwill, as determined by appraisal), an increase in interest expense resulting from the Acquisition Financing, plus the amortization of new deferred financing costs and reduction of amortization of deferred financing costs for long-term debt subsequently repaid.

Such unaudited pro forma information does not purport to be indicative of the results of operations that would have been achieved had the transactions for which we are giving pro forma effect actually occurred on the date referred to above or the results of operations that may be expected in the future.

	<b>Year Ended December 31,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(millions)</b>	
Net sales	\$ 2,773.8	\$ 2,393.2
Net loss	\$ (198.2)	\$ (60.2)

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We revised the determination of unaudited pro forma net loss in the table above as a result of a revised pro forma calculation of interest expense to take into account the average debt balances outstanding during the year at the applicable average currency exchange rates on a pro forma

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basis. This correction has decreased the pro forma net loss previously reported for the year ended December 31, 2004 by \$7.8 million.

#### **Johnson Matthey Pigments and Dispersions Business**

On September 2, 2004 the Company completed the acquisition of the Pigments and Dispersions business of Johnson Matthey Plc for approximately \$50.0 million (including fees and expenses), subject to post-closing adjustments. The acquisition expands the Company's global color pigments and services' business specifically within transparent iron oxide pigments and dispersions, color concentrates and complex inorganic color pigments for the surface and wood coatings, plastics, building materials and printing inks markets. The Company utilized the remaining undrawn funds from the term loan portion of its senior credit facilities to finance this transaction (see Note 8-Long-Term Debt).

This acquisition is accounted for using the purchase method of accounting. Except for the possible effect of the post-closing adjustments described above, the Company has finalized the estimated fair value of the assets acquired and liabilities assumed. Goodwill of less than \$1.0 million has been recorded. This acquisition is not significant on a pro forma basis and therefore, pro forma information is not provided.

#### **Groupe Novasep Combination**

On December 31, 2004, the Company completed the combination of the three business lines of its Custom Synthesis segment (Dynamit Nobel Special Chemistry, Finorga S.A. and Rohner AG) with Groupe Novasep SAS, or Groupe Novasep, to form a new standalone company within Rockwood. Groupe Novasep specializes in innovative production of active pharmaceutical ingredients, or API, from biotechnological or chemical processes and focuses on finding purification solutions by the research and development of new purification processes. As a result of the combination (total purchase price of approximately \$139.7 million including assumed debt of \$48.6 million; cash purchase price including fees and acquisition costs of \$74.5 million (€54.9 million) and the shares contributed to the management of the new combined company valued at \$31.2 million less cash acquired of \$14.6 million), the Company acquired 69.4% of the stock of Groupe Novasep SAS and the Groupe Novasep management contributed its remaining stock of 30.6% of Groupe Novasep to the new standalone company in exchange for shares in the new company. As a result of the transaction, the Company owns approximately 79% of Knight Specialte Synthese SAS, which has now been renamed Groupe Novasep. Management of Groupe Novasep owns the remaining approximately 21%. This ownership is reflected in minority interest in the accompanying consolidated balance sheet. The Company used cash on hand to finance this transaction.

This acquisition is accounted for using the purchase method of accounting. The Company has not finalized the estimated fair value of the assets acquired and liabilities assumed. The Company expects to finalize this by the third quarter of 2005. However, significant changes to the preliminary purchase accounting are not expected. Based on the preliminary fair value allocation, goodwill of \$33.8 million is included in the accompanying balance sheet. This acquisition is not significant on a pro forma basis and therefore, pro forma information is not provided.

The assets acquired included \$63.6 million of intangible assets, other than goodwill. Of the \$63.6 million (11.4 year weighted average useful life), \$24.5 million was assigned to patents and other intellectual property (10 year weighted average useful life), \$36.4 million was assigned to customer relationships (12.1 year weighted average useful life) and \$2.7 million was assigned to trademarks and trade names (25 year weighted average useful life).

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	At December 31, 2004
	(millions)
Inventory	\$ 23.0
Property, plant and equipment	49.2
Intangible assets	63.6
Goodwill	33.8
Other assets	82.7
	252.3
Total assets acquired	252.3
Other liabilities	(97.9)
Long-term debt	(48.6)
	(146.5)
Total liabilities assumed	(146.5)
Net assets acquired	\$ 105.8

### 3. SEGMENT INFORMATION:

Rockwood operates in seven reportable segments according to the nature and economic characteristics of its products and services as well as the manner in which the information is used internally by the Company's key operating decision maker, who is the Company's Chief Executive Officer ("CEO"). The seven segments are: (1) Performance Additives, which consists of color pigments and services, timber treatment chemicals, clay-based additives and water treatment chemicals business lines; (2) Specialty Compounds; (3) Electronics, which consists of electronic chemicals, wafer reclaim and photomasks business lines; (4) Specialty Chemicals; (5) Titanium Dioxide Pigments; (6) Advanced Ceramics; and (7) Groupe Novasep.

Items that cannot be readily attributed to individual segments have been classified as "corporate". Corporate operating loss primarily represents payroll, professional fees and other operating expenses of centralized functions such as treasury, legal, internal auditing and consolidation accounting as well as the cost of operating the Company's central offices (including some maintained based on legal or tax considerations). The primary components of corporate loss, in addition to operating loss, are interest expense on external debt (including the amortization of deferred financing costs), foreign exchange losses or gains, and mark-to-market gains or losses on derivatives. The foreign exchange losses or gains primarily represent the effect of the re-measurement of the Company's euro denominated external debt into the Company's reporting currency, the US dollar. Major Corporate components within the reconciliation of net income (loss) to Adjusted EBITDA (described more fully below) include systems/ organization establishment expenses such as outside consulting costs for Sarbanes-Oxley initial documentation, tax benefit resulting from corporate losses, interest expense on external debt, foreign exchange losses or gains, and refinancing expenses related to external debt. Corporate identifiable assets primarily represent deferred financing costs that have been capitalized in connection with corporate external debt financing and deferred income tax assets and cash balances maintained in accordance with centralized cash management techniques. The corporate classification also includes the results of operations, assets (primarily real estate) and liabilities (including pension and environmental) of legacy businesses formerly belonging to Dynamit Nobel. These operations are substantially unrelated by nature to businesses currently within the Company's operating segments.

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Summarized financial information for each of the reportable segments is provided in the following table.

	<b>Performance Additives</b>	<b>Specialty Compounds</b>	<b>Electronics</b>	<b>Specialty Chemicals</b>	<b>Titanium Dioxide Pigments</b>	<b>Advanced Ceramics</b>	<b>Groupe Novasep</b>	<b>Corporate</b>	<b>Eliminations(2)</b>	<b>Consolidated</b>
(millions)										
<b>Year Ended December 31, 2004</b>										
Net sales	\$ 630.9	\$ 200.4	\$ 168.1	\$ 321.1	\$ 175.7	\$ 146.3	\$ 101.0	\$	\$	\$ 1,743.5
Impairment charges			11.0							11.0
Adjusted EBITDA	149.2	28.8	28.9	60.0	37.8	35.8	23.0	(31.1)		332.4
Depreciation and amortization	32.0	7.7	20.8	17.4	15.0	11.5	9.8	1.0		115.2
Identifiable assets	1,014.1	228.6	332.7	1,632.6	707.4	750.6	656.8	166.6(1)	(89.9)	5,399.5
Capital expenditures	19.0	2.2	6.3	15.5	19.6	30.8	19.4			112.8
<b>Year Ended December 31, 2003</b>										
Net sales	\$ 477.3	\$ 176.4	\$ 143.6	\$	\$	\$	\$	\$	\$	\$ 797.3
Impairment charges			35.0							35.0
Adjusted EBITDA	112.5	23.9	24.8					(11.7)		149.5
Depreciation and amortization	27.4	7.2	17.1					0.7		52.4
Identifiable assets	891.9	210.8	333.5					84.3	(59.8)	1,460.7
Capital expenditures	16.3	3.6	14.4							34.3
<b>Year Ended December 31, 2002</b>										
Net sales	\$ 443.8	\$ 168.8	\$ 147.3	\$	\$	\$	\$	\$	\$	\$ 759.9
Impairment charges			50.0							50.0
Adjusted EBITDA	106.4	26.0	33.4					(15.4)		150.4
Depreciation and amortization	23.4	6.7	15.4					0.8		46.3
Identifiable assets	786.6	209.9	337.7					127.2	(36.1)	1,425.3
Capital expenditures	19.0	3.4	12.4					1.2		36.0

(1) This balance includes \$65.2 million of assets from the legacy businesses formerly belonging to Dynamit Nobel.

(2) Amounts contained in the "Eliminations" column represent the individual subsidiaries' retained interest in their cumulative net cash balance (deposits less withdrawals) included in the corporate centralized cash system and within the identifiable assets of the respective segment. These amounts are eliminated as the corporate centralized cash system balance is included in the Corporate segment's identifiable assets.





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The following table represents summarized geographic information with net sales based on seller's location:

	Year Ended December 31,		
	2004	2003	2002
	(millions)		
<b>Net sales:</b>			
United States	\$ 741.0	\$ 523.0	\$ 505.4
Germany	483.7	34.3	30.8
Rest of Europe	391.7	183.0	171.0
Rest of world	127.1	57.0	52.7
	\$ 1,743.5	\$ 797.3	\$ 759.9
	December 31,		
	2004	2003	
	(millions)		
<b>Long-lived assets:</b>			
United States	\$ 198.7	\$ 190.1	
Germany	703.0	27.0	
Rest of Europe	470.6	190.7	
Rest of world	194.5	10.8	
	\$ 1,566.8	\$ 418.6	

The Company has not finalized the allocation of purchase price related to the Novasep combination as discussed in Note 2 Acquisitions. As such, the long-lived asset amounts may change upon finalization of the Novasep combination purchase price allocation.

The summary of segment information above includes "Adjusted EBITDA", a financial measure used by the Company's chief decision maker and senior management to evaluate the operating performance of each segment.

### *Components of Adjusted EBITDA*

The process of refocusing and restructuring the businesses acquired in the KKR Acquisition and establishing the post-acquisition corporate entity, along with the impact of the Dynamit Nobel Acquisition, resulted in a number of charges that have affected Rockwood's historical results. These charges, along with certain other items, are added to or subtracted from net loss to derive Adjusted EBITDA, as defined below. The more significant of these items include the following:

*Restructuring and Related Charges.* Restructuring charges were recorded during the years ended December 31, 2004, 2003 and 2002 for miscellaneous restructuring activities.

*Impairment charges:* As part of annual impairment testing, the Company determined that there were asset impairments in certain businesses within the Electronics segment. These impairments resulted from a significant decline in earnings and operating cash flows, both historical and prospective, based on global economic conditions common to significant competitors, including overcapacity, as well as the erosion of the Electronics segment's business lines' relative competitive position due to continued industry concentration and resulting pricing pressure. Accordingly, the Company recorded non-cash asset impairment charges to goodwill of \$4.0 million, \$19.3 million, and \$50.0 million, respectively, for the years 2004, 2003 and 2002. Also, the Company recorded a non-cash impairment charge to



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property, plant and equipment of \$7.0 million and \$15.7 million in 2004 and 2003, respectively.

*Systems/Organization Establishment Expenses.* These expenses include costs that arose in connection with the KKR Acquisition and the resulting organization as a stand-alone company, primarily relating to the amortization of sign-on compensation arrangements for key executives previously hired. For 2004, these expenses primarily represent costs related to the integration of the business acquired in the Dynamit Nobel Acquisition, as well as professional fees incurred regarding systems and internal control documentation in connection with the Sarbanes-Oxley Act of 2002. These expenses are reflected in the "corporate" column when Rockwood's results are presented on a segment basis.

*Acquisition and Disposal Costs.* Such costs have been incurred in connection with non-consummated acquisitions and dispositions.

*Stamp duty tax.* During the year ended December 31, 2004, the Company paid a stamp duty tax on certain assets transferred in the United Kingdom in connection with the KKR Acquisition.

*Business Interruption and Insurance Recovery.* Rockwood recorded gains in 2003 and 2002 for fire insurance settlements.

*Inventory Write-Up Reversal.* Under SFAS 141, all inventories acquired in an acquisition must be revalued to "fair value." In connection with the Dynamit Nobel Acquisition, the Company allocated approximately \$55.4 million of the total purchase price to inventory to reflect manufacturing profit in inventory at the date of the acquisition. This resulted in a consequential reduction in gross profit, including currency effects, of \$60.1 million for the year ended December 31, 2004, as the inventory was sold in the normal course of business. Also included for the periods presented herein is the impact of inventory step-ups from certain acquisitions in the Performance Additives segment.

*Refinancing costs.* In July 2003, the Company wrote off \$36.9 million of deferred debt issuance costs related to previous long-term debt that was repaid as part of the July 2003 Refinancing. In December 2003, the Company incurred \$1.4 million of expenses in connection with a further modification of the then senior credit agreement resulting in a 75 basis point interest rate reduction on \$290.0 million of senior debt. In July 2004 the Company wrote off \$2.8 million of deferred debt issuance costs related to previous long-term debt that was repaid as part of the Dynamit Nobel Acquisition. In October 2004, the Company wrote off \$6.1 million of deferred financing costs in connection with the October 8, 2004 amendment of the secured credit facilities. Also, in November 2004 a write-off of \$17.2 million of deferred financing costs was recorded related to the bridge loan repayments in connection with the issuance of the 2014 Notes. Finally, in December 2004 the Company incurred \$1.0 million of expenses related to the December 10, 2004 amendment of the secured credit facilities that resulted in a 25 basis point interest rate reduction on \$1,145.0 million of tranche D term loans.

*Foreign exchange (loss)/gain.* The Company recorded foreign exchange (losses) and gains related to its long-term debt. These amounts reflect the non-cash translation impact on euro-denominated debt resulting from the strengthening or weakening of the euro against the U.S. dollar during the applicable periods. Foreign exchange (loss) gain in 2004 also includes losses on foreign currency derivative agreements into which the Company entered in connection with the Dynamit Nobel Acquisition.

On a segment basis, the Company defines Adjusted EBITDA as operating income excluding depreciation and amortization, certain non-cash gains and charges, certain non-recurring

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gains and charges and certain items deemed by senior management to have little or no bearing on the day-to-day operating performance of its business segments and reporting units. The adjustments made to operating income directly correlate with the adjustments to net income in calculating Adjusted EBITDA on a consolidated basis pursuant to the senior secured credit agreement. The indentures governing the 2011 Notes and the 2014 Notes exclude certain adjustments permitted under the senior secured credit agreement. Senior management uses Adjusted EBITDA on a segment basis as the primary measure to evaluate the ongoing performance of the Company's business segments and reporting units.

The Company uses Adjusted EBITDA on a segment and consolidated basis to assess its operating performance. In addition, management uses Adjusted EBITDA on a consolidated basis as the most significant criterion in the calculation of performance-based cash bonuses and the determination of whether certain performance-based stock options vest.

Rockwood believes this financial measure on a consolidated basis is helpful in highlighting trends in its overall business because Adjusted EBITDA excludes those items that have little or no bearing on day-to-day operating performance.

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Because the Company views Adjusted EBITDA on both a segment basis and consolidated basis as an operating performance measure, the Company uses net income (loss) as the most comparable GAAP measure. The following table, which sets forth the applicable components of Adjusted EBITDA, presents a reconciliation of net income (loss) to Adjusted EBITDA on a GAAP basis:

	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Gruppe Novasep	Corporate	Consolidated
(millions)									
<b>Year Ended December 31, 2004</b>									
Net income (loss)	\$ 84.1	\$ 12.4	\$ (5.5)	\$ (24.5)	\$ (4.2)	\$ (22.0)	\$ (18.6)	\$ (237.8)	\$ (216.1)
Income tax (benefit) provision	4.2	8.6	(4.6)	17.4	4.5	8.2	17.6	(23.6)	32.3
Interest expense, net	26.8	(0.7)	5.4	24.3	15.7	16.6	5.5	68.5	162.1
Depreciation and amortization	32.0	7.7	20.8	17.4	15.0	11.5	9.8	1.0	115.2
Impairment charges			11.0						11.0
Restructuring and related charges	0.5	0.3		0.3					1.1
Systems/organization establishment expenses	0.2		0.2	0.1				4.3	4.8
Acquisition and disposal costs			0.2					0.3	0.5
Stamp duty tax								4.0	4.0
Loss from disposed businesses							0.8		0.8
Inventory write-up reversal	1.0			25.4	6.6	20.8	7.3		61.1
Refinancing expenses	0.4	0.2	0.1					26.4	27.1
Foreign exchange loss (gain)	0.3		1.4	(0.9)			0.2	114.5	115.5
Foreign exchange loss on foreign currency derivatives								10.9	10.9
Other	(0.3)	0.3	(0.1)	0.5	0.2	0.7	0.4	0.4	2.1
<b>Total Adjusted EBITDA</b>	<b>\$ 149.2</b>	<b>\$ 28.8</b>	<b>\$ 28.9</b>	<b>\$ 60.0</b>	<b>\$ 37.8</b>	<b>\$ 35.8</b>	<b>\$ 23.0</b>	<b>\$ (31.1)</b>	<b>\$ 332.4</b>
<b>Year Ended December 31, 2003</b>									
Net income (loss)	\$ 44.0	\$ 17.0	\$ (26.2)	\$	\$	\$	\$	\$ (126.5)	\$ (91.7)
Income tax (benefit) provision	10.1	(0.3)	(5.3)					(20.8)	(16.3)
Interest expense, net	30.0	(0.5)	6.6					76.2	112.3
Depreciation and amortization	27.4	7.2	17.1					0.7	52.4
Impairment charges			35.0						35.0
Restructuring and related charges	0.8	0.6	0.4						1.8
Systems/organization establishment expenses								1.6	1.6
Acquisition and disposal costs			1.6					0.3	1.9
Costs incurred related to debt modification								1.4	1.4
Business interruption costs and insurance recovery			(4.5)						(4.5)
Inventory write-up reversal	0.2								0.2
Refinancing expenses								36.9	36.9
Foreign exchange loss (gain)		(0.1)	0.1					18.5	18.5

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	<b>Performance Additives</b>	<b>Specialty Compounds</b>	<b>Electronics</b>	<b>Specialty Chemicals</b>	<b>Titanium Dioxide Pigments</b>	<b>Advanced Ceramics</b>	<b>Groupe Novasep</b>	<b>Corporate</b>	<b>Consolidated</b>
Total Adjusted EBITDA	\$ 112.5	\$ 23.9	\$ 24.8	\$	\$	\$	\$ (11.7)	\$	149.5
<b>Year Ended December 31, 2002</b>									
Net income (loss)	\$ 41.2	\$ 22.3	\$ (36.3)	\$	\$	\$	\$ (95.4)	\$	(68.2)
Income tax (benefit) provision	14.1	(2.5)	(0.5)				(23.6)		(12.5)
Interest expense, net	26.0	(0.8)	7.0				76.0		108.2
Depreciation and amortization	23.4	6.7	15.4				0.8		46.3
Impairment charges			50.0						50.0
Restructuring and related charges	1.2								1.2
Systems/organization establishment expenses							1.6		1.6
Acquisition and disposal costs							0.2		0.2
Business interruption costs and insurance recovery		0.1	(2.3)						(2.2)
Foreign exchange loss (gain)			0.1				24.5		24.6
Loss on receivables sold	0.5	0.2					0.5		1.2
Total Adjusted EBITDA	\$ 106.4	\$ 26.0	\$ 33.4	\$	\$	\$	\$ (15.4)	\$	150.4

**4. INVENTORIES:**

Inventories are comprised of the following:

	<b>December 31,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(millions)</b>	
Raw materials	\$ 140.4	\$ 26.8
Work-in-process	81.6	3.2
Finished goods	240.3	50.0
Packaging materials	14.6	7.8
	<b>\$ 476.9</b>	<b>\$ 87.8</b>

The portion of this balance represented by assets of the Novasep combination discussed in Note 2 Acquisitions is subject to change upon the finalization of purchase accounting.

**5. PROPERTY, PLANT AND EQUIPMENT:**

Property, plant and equipment, net is comprised of the following:

	<b>December 31,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(millions)</b>	
Land	\$ 190.0	\$ 20.6
Buildings and improvements, including land improvements	558.1	108.9
Machinery and equipment	1,077.2	374.4
Furniture and fixtures	140.6	21.1
Mining rights	86.2	
Construction-in-progress	137.7	11.2
Property, plant and equipment, at cost	2,189.8	536.2
Less accumulated depreciation and amortization	(623.0)	(117.6)
Property, plant and equipment, net	<b>\$ 1,566.8</b>	<b>\$ 418.6</b>

Depreciation expense was \$88.6 million, \$46.3 million and \$41.3 million for the years ended December 31, 2004, 2003 and 2002 respectively.

The Company recorded an impairment charge of \$7.0 million and \$15.7 million in 2004 and 2003, respectively related to property, plant and equipment in its Electronics segment. See Note 15 Impairment Charges.

The portion of this balance represented by assets from the Novasep combination discussed in Note 2 Acquisitions is subject to change upon the finalization of purchase accounting.

In addition, property, plant and equipment at December 31, 2004 includes items recorded under capital leases by businesses included in the Dynamit Nobel Acquisition as follows:

(millions)



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(millions)

Land	\$	0.2
Buildings and improvements, including land improvements		58.0
Machinery and equipment		11.4
Furniture and fixtures		4.6
		<u>74.2</u>
Accumulated depreciation		(1.9)
		<u>72.3</u>
Total	\$	<u>72.3</u>

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**6. GOODWILL:**

Below are goodwill balances and activity by segment:

	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Groupe Novasep	Total
(millions)								
Balance, January 1, 2003	\$ 424.6	\$ 101.3	\$ 133.5	\$	\$	\$	\$	\$ 659.4
Impairment charges			(19.3)					(19.3)
Acquisitions	6.7		3.7					10.4
Adjustment to restructuring liability	(2.1)							(2.1)
Foreign exchange	21.7	9.0	4.8					35.5
Balance, December 31, 2003	450.9	110.3	122.7					683.9
Impairment charges			(4.0)					(4.0)
Acquisitions	3.3		0.1	580.1	152.4	203.9	33.8	973.6
Foreign exchange	9.6	5.2	5.4	85.4	20.0	26.8		152.4
Balance, December 31, 2004	\$ 463.8	\$ 115.5	\$ 124.2	\$ 665.5	\$ 172.4	\$ 230.7	\$ 33.8	\$ 1,805.9

The portion of this balance represented by assets of the acquisitions and combination discussed in Note 2 Acquisitions is subject to change upon the finalization of purchase accounting.

SFAS 142 also requires impairment testing at least annually. The goodwill test for impairment begins with an estimation of the fair value of each reporting unit. The Company has determined reporting units to be each of its divisions, one level below the reportable segment level. The impairment charges above were recognized as a result of this testing. See Note 15 Impairment Charges.

**7. OTHER INTANGIBLE ASSETS:**

Other intangible assets, net consist of:

	As of December 31, 2004			As of December 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
(millions)						
Patents and other intellectual property	\$ 377.3	\$ (39.4)	\$ 337.9	\$ 41.4	\$ (17.6)	\$ 23.8
Trade names and trademarks	115.0	(1.5)	113.5			
Customer relationships	210.5	(6.5)	204.0			
Other	7.8	(3.1)	4.7	3.0	(1.1)	1.9
Total	\$ 710.6	\$ (50.5)	\$ 660.1	\$ 44.4	\$ (18.7)	\$ 25.7

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Amortization of other intangible assets was \$26.6 million, \$6.1 million and \$5.0 million for the years ended December 31, 2004, 2003 and 2002, respectively. Estimated amortization expense for each of the five succeeding fiscal years is as follows:

Year ended	Amortization Expense
	(millions)
2005	\$ 51.0
2006	51.0
2007	51.0
2008	49.5
2009	46.2

The portion of this balance represented by assets of the Novasep Combination discussed in Note 2-Acquisitions is subject to change upon the finalization of purchase accounting.

### 8. LONG-TERM DEBT:

Long-term debt and loans payable are summarized as follows:

	December 31,	
	2004	2003
	(millions)	
Senior secured credit facilities:		
Tranche A-1 term loans (€39.1 as of December 31, 2004)	\$ 53.2	\$
Tranche A-2 term loans (€170.4 as of December 31, 2004)	231.6	
Tranche C term loans (€274.8 as of December 31, 2004)	373.5	
Tranche D term loans	1,145.0	
2003 Senior secured credit facilities (€133.2 and \$290.2 as of December 31, 2003) (repaid July 31, 2004):		458.0
2011 Notes	375.0	375.0
2014 Notes (€375.0 and \$200.0 as of December 31, 2004)	709.7	
Pay-in-kind loans and notes (€87.8 and \$54.4 as of December 31, 2004)	173.7	156.9
Senior discount notes	82.8	73.6
Other term loan facilities	127.5	
Capitalized lease obligations (€48.8 as of December 31, 2004)	66.3	
Preferred stock of subsidiary (€12.0 as of December 31, 2004)	23.0	
Other (€14.1 as of December 31, 2004)	19.3	
	<u>3,380.6</u>	<u>1,063.5</u>
Less current maturities	(47.2)	(9.1)
	<u>\$ 3,333.4</u>	<u>\$ 1,054.4</u>
Maturities of long-term debt are as follows:		
2005	\$ 47.2	
2006	70.9	
2007	83.6	
2008	108.8	
2009	80.0	
Thereafter	2,990.1	
	<u>\$ 3,380.6</u>	

*Senior Secured Credit Facilities*

*a) Structure*

In connection with the Acquisition Financing, the Company entered into a new senior secured credit agreement on July 30, 2004. The full amount of the tranche A-1 term loans, €128.5 million of the tranche A-2 term loans, \$985.0 million of the tranche B term loans and €222.1 million of the

tranche C term loans were drawn in a single drawing on the closing of the Dynamit Nobel Acquisition. The remaining €41.9 million of the tranche A-2 term loans were drawn in a single drawing on September 30, 2004 in connection with the acquisition of the Pigments and Dispersions business of Johnson Matthey Plc.

On October 8, 2004, the Company amended its new senior secured credit facilities to borrow an additional \$160.0 million of tranche B term loans and, €52.7 million (or \$65.5 million) of tranche C term loans (or \$225.5 million in the aggregate) and used the proceeds to repay a portion (€105.9 million and \$89.9 million or \$221.4 million in the aggregate) of the higher interest rate bearing borrowings under the senior subordinated loan facility (subsequently repaid in full through the issuance of the 2014 Notes described herein) and to pay related fees of \$2.3 million. The Company wrote off \$6.1 million of deferred financing costs in connection with the repayment under this amendment. On December 10, 2004, the Company entered into the second amendment to the senior secured credit agreement to borrow \$1,145.0 million of tranche D term loans and used the proceeds to repay in full the tranche B term loans, reducing the interest rate on this debt by 25 basis points as a result. Related fees of \$1.0 million were expensed.

*b) Availability*

The senior secured credit facilities consist of the term loan tranches listed above as well as a senior secured revolving credit facility in an aggregate principal amount of \$250.0 million made available in U.S. dollars, euros and/or pounds sterling. A portion of the revolving credit facility is available in the form of letters of credit and swingline loans. Under the terms of the amendments, the Company may, under certain circumstances and subject to receipt of additional commitments from existing lenders or other eligible institutions, request that the tranche D term loans and/or the revolving credit commitments be increased by an aggregate amount of up to \$250.0 million. At December 31, 2004 the Company had no borrowings and \$15.8 million of standby letters of credit outstanding under the revolving credit facility. As of March 31, 2005 the Company had outstanding borrowings of \$175.0 million under the revolving credit facility, and \$19.0 million of letters of credit issued on its behalf. As of April 27, 2005 the Company had outstanding borrowings of \$50.0 million under the revolving credit facility, and \$18.9 million of letters of credit issued on its behalf.

Amounts borrowed under the term loan facilities other than the revolving facility that are repaid or prepaid may not be reborrowed.

*c) Interest and Fees*

The interest rates per year under the revolving credit facility and the tranche A-1, A-2 and B term loan facilities are, at the Company's option, Adjusted LIBOR plus 2.50% or, in the case of loans denominated in U.S. dollars, ABR plus 1.25%. ABR is the alternate base rate, which is the higher of Credit Suisse First Boston's prime rate and the federal funds effective rate plus 0.5%. The interest rate per year under the tranche C term loan facility is Adjusted LIBOR plus 3.00%. Adjusted LIBOR is the London inter-bank offered rate, adjusted for statutory reserves. In each case, the interest rates per year (other than under the tranche C term loan facility) are subject to step-downs determined by reference to a performance test. The interest rate per year under the tranche D term loan facilities is, at the Company's option, Adjusted LIBOR plus 2.25% or ABR plus 1.00%.

The Company may elect interest periods of one, two, three or six months (or in the case of revolving credit loans, nine or twelve months, to the extent available from all lenders under the revolving credit facility) for Adjusted LIBOR borrowings. Interest is payable quarterly in the case of ABR loans and at the end of each interest period and, in any event, at least every three months, in the case of Adjusted LIBOR borrowings.

The senior secured credit facilities require payment of customary commitment, letter of credit and other fees.

*d) Guarantees; Security*

Obligations under the senior secured credit facilities are guaranteed by Rockwood Specialties International, Inc., Rockwood Specialties Group, Inc. and each of its existing and subsequently acquired or organized direct or indirect domestic subsidiaries, subject to certain exceptions, and are secured by first-priority security interest in: substantially all the tangible and intangible assets of the Company and its direct or indirect domestic subsidiaries, subject to exceptions; all the capital stock of or other equity interest in the Company and each of its direct or indirect domestic subsidiaries; a maximum of 65% of the capital stock of or other equity interests in each direct foreign subsidiary of either Rockwood Specialties Group, Inc. or of any domestic subsidiary of the Company.

*e) Maturity, Amortization and Prepayments*

The tranche A-1 and A-2 term loans will mature on July 30, 2011 and will amortize at escalating percentages on a semi-annual basis commencing on January 31, 2006. The tranche C term loans and tranche D term loans will mature on July 30, 2012 and will amortize on a semi-annual basis commencing on July 31, 2005, with each repayment amount prior to maturity to be equal to 0.5% of the principal amount of tranche C term loans and tranche D term loans, respectively. The revolving credit facility will mature on July 23, 2010. The tranche D term loans have a one-year prepayment fee equal to 1.0% of the aggregate principal amount of such prepayment.

In addition, the Company is required to make the following mandatory prepayments of the term loans under the senior secured credit facilities, in each case subject to certain exceptions, with:

100% of the net cash proceeds of all sales or other dispositions by the Company or any of its restricted subsidiaries under the senior secured credit facilities of assets other than net cash proceeds (a) from the sale or other disposition of assets in the ordinary course of business, (b) of certain disposals permitted under the senior secured credit agreement (including the proceeds of sales or transfers of accounts receivable (including pursuant to a securitization) in the amount of up to \$200.0 million at any time) or (c) that are reinvested in the Company and its restricted subsidiaries within twelve months of the sale or other disposition (subject to extension in certain circumstances).

100% of the net cash proceeds of issuances of certain debt obligations.

50% of excess cash flows, as defined, in respect of any fiscal year at the end of which the consolidated total debt to consolidated EBITDA ratio is equal to or greater than 3.50 to 1.0, reduced by any amounts reinvested during the first six months of the year and voluntary prepayments.

*f) Financial Covenants*

The new senior secured credit facilities contain the following financial covenants:

a consolidated total net debt to consolidated Adjusted EBITDA test;

a consolidated Adjusted EBITDA to consolidated cash interest expense test; and

limitations on capital expenditures.

For purposes of calculating compliance with the financial covenants as of any date, foreign currency denominated indebtedness is to be converted to U.S. dollars based on average exchange rates for the twelve-month period ending on such date.

**Senior subordinated loan facility** In connection with the Acquisition Financing, the Company entered into a senior subordinated loan facility with an initial interest rate equal to the greater of 9.0% and EURIBOR + 7% (in the case of euro borrowings) or LIBOR + 8% (in the case of dollar



borrowings) annually with a 75 basis point increase every six months for the first 18 months. During the fourth quarter of 2004, the senior subordinated loan facility was fully repaid.

**2011 Notes** In connection with the July 2003 Refinancing, the Company issued \$375.0 million principal amount of 10.625% senior subordinated notes due 2011 ("2011 Notes"). Certain of the Company's domestic subsidiaries guarantee the 2011 Notes on a senior subordinated basis. The 2011 Notes mature on May 15, 2011 with interest payable semi-annually on May 15 and November 15. The Company may redeem up to 35% of the aggregate principal amount of the 2011 Notes at a redemption price equal to 110.625% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date. The 2011 Notes have covenants and other terms and conditions that are comparable or generally less restrictive than the senior secured credit facilities.

**2014 Notes** On November 10, 2004, the Company repaid the senior subordinated loan facility by completing the sale of €375.0 million aggregate principal amount of 7.625% senior subordinated notes and \$200.0 million aggregate principal amount of 7.500% senior subordinated notes, both due in 2014 ("2014 Notes"). The 2014 Notes are *pari passu* to existing and future senior subordinated indebtedness, including the 2011 Notes and junior to all of the Company's existing and future senior indebtedness. The 2014 Notes are guaranteed on a senior subordinated unsecured basis by certain of the Company's domestic subsidiaries. Proceeds aggregating \$684.7 million from the sale of the 2014 Notes were used to repay \$260.1 million and €313.2 million (or \$404.8 million) (an aggregate of \$664.9 million), representing the remaining outstanding borrowings under the Company's senior subordinated loan facility, plus accrued interest of \$2.0 million thereon, pay related fees and expenses of approximately \$9.6 million and for general corporate purposes.

Also, in connection with this transaction, the Company entered into cross currency interest rate swaps with a five year term and a notional amount of €155.6 million that effectively convert the U.S. dollar fixed rate debt in respect of the dollar notes sold into euro fixed rate debt. The Company has designated this contract as a hedge of the foreign currency exposure of its net investment in its euro denominated operations. There was no ineffective portion of the net investment hedge as of December 31, 2004. The Company does not expect any of the loss on the net investment hedge residing in other comprehensive income at December 31, 2004 to be reclassified into earnings in 2005.

**Other term loan facilities** Certain subsidiaries in the Dynamit Nobel Acquisition are borrowers under term loan facilities denominated in various currencies including euro, Swiss Francs, Taiwanese Dollars and Japanese Yen. Interest rates range from 1.38% to 6.05% and mature between 2005 and 2011. Certain of these term loan facilities are collateralized by mortgages on land and buildings and trade receivables. As part of the Novasep combination on December 31, 2004, the Company assumed additional debt of €27.8 million (\$37.8 million) plus \$10.8 million for an aggregate of \$48.6 million. The assumed debt includes three tranches of bank debt at the Novasep parent level totaling €13.0 million (\$17.7 million) plus \$10.8 million for an aggregate of \$28.5 million each with a maturity date of 2010 and interest rates of EURIBOR plus 1.75% in the case of two of the tranches, and LIBOR plus 1.75% for the remaining tranche. In addition, there is bank debt at the Novasep subsidiary level totaling €6.3 million (\$8.6 million) with maturity dates ranging from 2006 to 2010 and interest rates ranging from EURIBOR plus 0.7% to EURIBOR plus 1.25%. The remaining amount of assumed debt of €8.5 million (\$11.5 million) consists primarily of capitalized lease obligations with maturity dates ranging from 2006 to 2013.

**Preferred stock of subsidiary** Chemetall Plc., a Rockwood subsidiary, had previously issued 12.0 million shares of preferred stock which must be redeemed at their par value (£1) on July 3, 2008 and may be called at an earlier date. The shares have a liquidation preference at their par value and pay an annual dividend of 9.0% payable on January 3 and July 3 of each year. If, in the



opinion of management, the level of profit reported does not allow the payment of a dividend, the dividend arrearage must be paid in subsequent years. The preferred stock does not confer any voting rights unless the payment of the dividend or redemption price is more than six months in arrears or a vote is being held on the company's liquidation or a capital reduction. The Company is currently meeting its dividend obligations. The terms and conditions governing the issuance of the preferred stock contain covenants obliging the issuer to maintain a certain debt/equity ratio.

**Senior Discount Notes** The \$70.0 million initial principal balance on the senior discount notes accretes semiannually through August 2007 at an annual rate of 12%; thereafter, the total principal and the accreted value bear interest at an annual rate of 12% through the August 2011 maturity date. The aggregate principal amount at maturity is \$112.3 million. Accrued interest of \$3.4 million and \$3.6 million was included in the senior discount note balance at December 31, 2004 and 2003, respectively. The senior discount note agreement contains restrictions on additional indebtedness, fundamental business changes, the sale of assets and the payment of dividends. In addition, the senior discount notes are subject to mandatory prepayment upon certain conditions as defined in the senior discount note agreement.

**Pay-in-kind Loans and Notes** Interest on the pay-in-kind loans and notes accrues at annual rate of 15% and, to the extent not paid in cash, can be financed, at the option of the borrower, Rockwood Specialties Consolidated, Inc., through increasing the principal amount outstanding (or, in the case of the pay-in-kind notes, at the holder's option, through the issuance of additional pay-in-kind notes) at the end of each six-month period. Accrued interest of \$4.0 million and \$1.9 million at December 31, 2004 and 2003, respectively, was also included in the pay-in-kind Notes balance, as it was Consolidated's intention to finance this interest by increasing the principal amount outstanding. In connection with the Dynamit Nobel Acquisition, \$20.0 million of the pay-in-kind loans issued as interest payment on the initial \$70.0 million of the pay-in-kind loans were repaid in cash, and the remaining pay-in-kind loans were exchanged for new €82.6 million aggregate principal amount of pay-in-kind loans bearing pay-in-kind interest at the same rate as the old pay-in-kind loans, and have a maturity date of January 31, 2015. Also, there is a prepayment penalty equal to 2% of the accreted value of the pay-in-kind Notes being prepaid on or before July 31, 2006. The aggregate principal amount of the remaining \$30.0 million of pay-in-kind loans had accreted to \$54.4 million as of December 31, 2004 and has a maturity date of November 20, 2011. The agreement governing the pay-in-kind loans initially provided that the pay-in-kind loans may not be prepaid before November 20, 2005. In June 2005, the agreement will be amended to require Consolidated to prepay the loans in the event of an equity offering by the Company prior to November 20, 2005 resulting in gross proceeds to the Company in excess of \$400.0 million, at an aggregate principal amount equal to the present value of the accreted value of the prepayment date computed using an annual discount rate equal to 5.0%.

The Company issued a total of 1,036,114 of its common shares, with a fair value of \$14.61 per share, at par value, in connection with the pay-in-kind financing. This amount has been recorded as deferred financing costs. Under certain circumstances the Company could be required to issue additional shares to the lender(s).

The pay-in-kind loan and note Agreement contains restrictions on additional indebtedness, fundamental business changes, the sale of assets and the payment of dividends. In addition, the pay-in-kind Notes are subject to mandatory prepayment and mandatory offers to purchase upon certain conditions as defined in the pay-in-kind loan and note Agreement.

**Fair Value** The Company estimates that debt under the senior secured credit facilities, pay-in-kind loans, and senior discount notes, based on current interest rates and terms, approximates fair value. Based on quoted market values, the Company estimates that the fair value of its 2011 Notes approximated \$431.3 million at December 31, 2004.

**Covenants** The Company was in compliance with its applicable debt covenants at December 31, 2004 and 2003.

**Derivative Contracts** During 2001, the Company entered into interest rate swaps to manage its exposure to changes in interest rates related to euro denominated debt. These contracts were terminated in August 2004 when the Company entered into new interest rate swaps to manage its exposure to changes in interest rates. As of December 31, 2004, these contracts cover notional amounts of \$652.6 million (at a rate of 5.89%) and €486.0 million (at rates ranging from 5.58% to 7.03%). These contracts effectively convert a large portion of the Company's floating rate debt instruments to fixed rate obligations for the contract periods. The US dollar swap matures in July 2007 and the Euro swap in July 2008.

The Company elected not to apply hedge accounting in the historical periods presented and marked these derivative transactions to market; reflected as a component of interest expense. These transactions increased interest expense by \$4.4 million, \$5.2 million and \$18.8 million in the years ended December 31, 2004, 2003 and 2002, respectively, of which \$5.2 million gain, \$4.5 million gain and \$11.6 million gain represents mark-to-market adjustments, respectively. The related liability on the contracts' marked-to-market adjustments is reflected in "Other liabilities" in the balance sheet. The Company believes that the counterparties to these agreements are financially sound institutions and the credit risk for non-performance of these contracts is not significant.

During 2003 the Company entered into cross-currency interest rate swaps with notional amounts aggregating \$78.2 million that effectively converted \$78.2 million US dollar borrowings into Euro based obligations at an effective interest rate of 4% over Euro or LIBOR. In connection with the July 2003 Refinancing, the Company reduced the notional amounts of this cross currency hedge to \$20.1 million and €17.7 million. These contracts have final maturity dates of July 2010.

As of December 31, 2004, \$1,436.3 million of the debt outstanding was denominated in euros.

In order to mitigate the effect of any exchange rate changes which may have taken place prior to the closing of the Dynamit Nobel Acquisition, the Company entered into call options, permitting it to purchase up to €750.0 million at a price of \$1.225 = €1.00. The options expired unexercised and the Company recorded an aggregate loss of \$10.9 million on the call options in 2004. Rockwood also entered into a forward contract in July 2004 to purchase €1,057.0 million of euros at a fixed U.S. dollar rate of \$1.208 = €1.00 which was utilized to pay for a portion of the purchase price at the closing of the Dynamit Nobel Acquisition. The Company recorded a related charge of \$4.2 million in 2004.

**Deferred Debt Issuance Costs** In connection with the Dynamit Nobel Acquisition, the Company wrote-off \$2.8 million of deferred debt issuance costs during 2004. Also, the Company capitalized fees of \$69.7 million during the same period related to the financing of the Dynamit Nobel Acquisition which are being amortized using the effective interest rate method over the term of the debt outstanding. At December 31, 2004, \$10.2 million of these financing fees were unpaid. The Company wrote off \$6.1 million of deferred financing costs in connection with the October 8, 2004 amendment of the secured credit facilities. Also, a write-off of \$17.2 million of deferred financing costs was incurred related to the bridge loan repayments in connection with the issuance of the 2014 Notes.

In July 2003, the Company wrote-off \$36.9 million of deferred debt issuance costs related to the previous long-term debt that was repaid as part of the July 2003 Refinancing.

**9. TAXES ON INCOME:**

Loss before income taxes is as follows:

	Year Ended December 31,		
	2004	2003	2002
	(millions)		
United States	\$ (146.4)	\$ (81.0)	\$ (47.3)
Foreign	(37.4)	(27.0)	(33.5)
	<u>\$ (183.8)</u>	<u>\$ (108.0)</u>	<u>\$ (80.8)</u>

The expense (benefit) for taxes on income consisted of the following:

	Year Ended December 31,		
	2004	2003	2002
	(millions)		
Current expense (benefit):			
U.S. Federal	\$	\$ 0.8	\$ (5.2)
State	5.3	(0.3)	4.3
Foreign	16.2	9.0	8.7
	<u>\$ 21.5</u>	<u>\$ 9.5</u>	<u>\$ 7.8</u>
Deferred income taxes:			
U.S. Federal	\$ 28.9	\$ (20.4)	\$ (10.0)
State	(3.8)	2.7	(5.2)
Foreign	(14.3)	(8.1)	(5.1)
	<u>10.8</u>	<u>(25.8)</u>	<u>(20.3)</u>
Total expense (benefit) for taxes	<u>\$ 32.3</u>	<u>\$ (16.3)</u>	<u>\$ (12.5)</u>

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Amounts are reflected in the preceding table based on the location of the taxing authorities. Changes in enacted rates impact tax expense in the year a rate change is enacted.

The tax effects of the major items recorded as deferred tax assets and liabilities are as follows:

	December 31,	
	2004	2003
	(millions)	
<b>Current deferred tax assets:</b>		
Allowance for doubtful accounts	\$ 4.1	\$ 0.8
Restructuring	1.7	0.6
Other current reserves and accruals	26.7	1.4
	32.5	2.8
<b>Noncurrent deferred tax assets:</b>		
Pension and postretirement benefits	29.3	6.0
Goodwill and other intangibles	(77.3)	9.4
Tax loss carryforwards	136.4	44.5
Pay-in-kind interest	29.3	30.3
Other non-current reserves and accruals	46.4	11.3
	164.1	101.5
<b>Total deferred tax assets</b>	<b>196.6</b>	<b>104.3</b>
Valuation allowance	(120.7)	(16.4)
	75.9	87.9
Deferred tax liabilities - property plant and equipment	85.2	71.3
	\$ (9.3)	\$ 16.6

Deferred tax assets and liabilities are determined by applying the enacted tax rate in the year in which the difference in financial statement and tax carrying values is expected to reverse.

Reconciliations of the U.S. statutory income tax rate to the effective tax rate are as follows:

	Year Ended December 31,		
	2004	2003	2002
Federal statutory rate	(35.0)%	(35.0)%	(35.0)%
State taxes, net of federal effect	0.5	2.2	(2.2)
Derivative expense	2.9		
Foreign/US tax differential	4.4	1.9	(0.3)
Goodwill impairment	0.7	6.4	21.7
Increase in valuation allowance	40.5	5.9	
Other	3.6	3.5	0.3
	17.6%	(15.1)%	(15.5)%

The Company's U.S. operations are included in a consolidated tax return filed by the common parent, Rockwood Holdings, Inc. The consolidated amount of current and deferred tax expense is allocated to members of the group based on applying the principles of SFAS 109 to

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each member as if it were a separate taxpayer.

As of December 31, 2004, the Company has U.S. federal and foreign tax loss carryforwards (excluding state and local amounts) of approximately \$387.3 million of which \$184.9 million expire

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in years 2005 through 2024 and \$202.4 million have no current expiration date. The Company also has state and local tax loss carryforwards of approximately \$101.9 million expiring in years 2007 through 2024.

U.S. Federal tax loss carryforwards of \$137.8 million expire as follows:

Year of Expiration		Dynamit Nobel Acquisition	Total
2005	2009	\$ 12.3	\$ 12.3
2010	2019	8.7	8.7
	2020	7.8	10.9
	2021	0.2	17.7
	2022	0.8	11.6
	2023	3.0	37.2
	2024	1.0	39.4
		<u>\$ 33.8</u>	<u>\$ 137.8</u>

The Company has recorded a valuation allowance during 2004 of \$104.3 million to reduce the deferred tax assets related to certain tax loss carryforwards in the United Kingdom, Italy, Switzerland and U.S. as well as other net deferred tax assets for which it is more likely than not that the related tax benefits will not be realized. \$20.9 million of the valuation allowance related to acquired loss carryforwards. Accordingly, goodwill would be reduced in the event these assets are subsequently recognized. The valuation allowance is decreased or increased in the year management determines that it is more likely than not that the deferred tax assets will be realized or not. For 2004, based on the Company's policy and the steady-state analysis, we determined during the fourth quarter that a full valuation allowance was required on the deferred tax assets related to the U.S. federal net operating loss carry forwards of \$137.8 million and long-term net assets in the U.S. of \$97.1 million as the analysis resulted in a steady-state taxable loss. During the fourth quarter, the further weakening of the U.S. dollar resulted in significant foreign exchange losses on the Company's euro-denominated debt resulting in a three-year steady-state taxable loss.

A table reflecting the activity in the valuation allowance follows:

	Balance at Beginning of Period	Deductions Charged to Expense	Additions Acquired	Additions Other	Balance at End of Period
	(millions)				
Valuation Allowance					
Net Operating Carryforwards					
For the year ended December 31, 2004	\$ 16.4	\$ 81.1	\$ 23.2	\$	\$ 120.7
For the year ended December 31, 2003	\$ 10.1	\$ 6.3	\$	\$	\$ 16.4
For the year ended December 31, 2002	\$ 12.6	\$ (2.5)	\$	\$	\$ 10.1

The American Jobs Creation Act ("AJCA") was enacted on October 22, 2004. The AJCA includes a special one-time deduction of 85% of certain foreign earnings repatriated to the U.S. through 2005. The Company has not yet decided whether, or to what extent, the Company may repatriate foreign earnings under the AJCA. The income tax effect of the repatriation cannot be reasonably estimated at this time.

At December 31, 2004 and 2003 the Company had undistributed foreign earnings of \$71.4 million and \$35.1 million, respectively, which the Company intends to be permanently reinvested. The Company has determined that it is not practicable to compute a deferred tax liability for foreign withholding taxes or U.S. income taxes on these earnings. The foreign currency

gains recorded in other comprehensive income related to intracompany debt have not been tax effected in accordance with the indefinite reversal criteria.

The Company records liabilities for potential assessments in various tax jurisdictions. The liabilities relate to tax return positions, although supportable by the Company that may be challenged by the tax authorities. The Company adjusts these liabilities as a result of changes in tax legislation, interpretations of laws by Courts, rulings by tax authorities, changes in estimates and the closing of the statute of limitations. The Company's effective tax rate in any given year includes the impact of any changes to these liabilities. Settlement of any issue with the tax authorities would require the use of cash. Favorable resolution of an issue would be recognized either as reduction to the Company's annual tax rate or, in the case of acquired liabilities, an adjustment to goodwill.

#### 10. OPERATING LEASE OBLIGATIONS:

The following is a schedule of minimum future rentals under the terms of noncancelable operating leases as of December 31, 2004:

	(millions)
Years ended December 31:	
2005	\$ 22.0
2006	15.1
2007	9.0
2008	6.1
2009	4.7
Thereafter	17.8
	<hr/>
Total	\$ 74.7
	<hr/>

Rent expense under all operating leases was \$21.8 million, \$10.1 million and \$9.7 million for the years ended December 31, 2004, 2003 and 2002, respectively. Rent escalations and other lease concessions are reflected on a straight-line basis over the minimum lease term. Minimum future rentals include the effect of any index or rate that was applicable at lease inception.

#### 11. EMPLOYEE BENEFIT PLANS:

The Company maintains various defined benefit pension plans, which cover certain employees in the US, UK, Germany, and other countries. In addition, the Company provides certain retired employees in Germany with postretirement benefits for private health insurance premiums. Also, two subsidiaries provide various retirees with postretirement benefits, principally health care benefits.

Funding requirements and investment policies for the Company's various defined benefit plans are governed by local statutes and fiduciary standards outlined below.

The following tables provide a reconciliation of the benefit obligations, plan assets and the funded status of the plans, along with the amounts recognized in the consolidated balance sheets

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and the weighted average assumptions used. The measurement date is December 31<sup>st</sup> for all but one plan.

	<b>Pension Benefits</b>			
	<b>U.S. Plans</b>		<b>Non-U.S. Plans</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>(millions)</b>			
<i>Change in benefit obligation:</i>				
Benefit obligation at beginning of year	\$ 5.3	\$ 4.4	\$ 42.0	\$ 32.4
Service cost	1.0	0.2	4.9	1.0
Interest cost	0.8	0.3	12.4	1.7
Plan participants' contributions			0.7	0.1
Plan amendments		0.1		
Acquisition of Dynamit Nobel	21.4		506.9	
Actuarial (gain)/loss	1.8	0.6	21.7	3.7
Foreign exchange			22.2	4.4
Benefits paid	(0.4)	(0.3)	(13.7)	(0.4)
Curtailed/settlement	(4.4)			(0.9)
Benefit obligation at end of year	\$ 25.5	\$ 5.3	\$ 597.1	\$ 42.0
<i>Change in fair value of plan assets:</i>				
Fair value of plan assets at beginning of year	\$ 3.3	\$ 3.0	\$ 22.5	\$ 17.7
Actual return on assets	0.7	0.4	8.1	3.4
Employer contributions	1.3	0.1	10.5	1.2
Plan participants' contributions			0.7	0.1
Acquisition of Dynamit Nobel	14.2		184.2	
Foreign exchange			(2.6)	2.2
Benefits paid	(0.4)	(0.2)	(13.7)	(0.4)
Curtailed/settlement				(1.7)
Fair value of plan assets at end of year	\$ 19.1	\$ 3.3	\$ 209.7	\$ 22.5
<i>The accumulated benefit obligation at December 31 is as follows:</i>				
	\$ 24.6	\$ 5.3	\$ 573.1	\$ 36.8
<i>Reconciliation of funded status at end of year:</i>				
Funded status	\$ (6.4)	\$ (2.0)	\$ (387.4)	\$ (19.5)
Unrecognized prior service cost		0.1		
Unrecognized net loss	2.2	1.3	29.1	7.9
Accrued benefit cost	\$ (4.2)	\$ (0.6)	\$ (358.3)	\$ (11.6)
<i>Amount recognized in the consolidated balance sheets:</i>				
Accrued benefit liability	\$ (6.0)	\$ (2.0)	\$ (379.6)	\$ (15.2)
Intangible asset	0.1	0.1		
Accumulated other comprehensive income	1.7	1.3	21.3	3.6
Net amount recognized	\$ (4.2)	\$ (0.6)	\$ (358.3)	\$ (11.6)



**Pension Benefits**

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*Weighted-average assumptions used to determine benefit obligations  
at December 31:*

Discount rate	5.75%	6.08%	4.83%	5.38%
Rate of compensation increase	4.50%	N/A	2.86%	3.00%

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	U.S. Plans			Non-U.S. Plans		
	2004	2003	2002	2004	2003	2002
<i>Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:</i>						
Discount rate	6.22%	6.63%	7.07%	5.13%	5.75%	5.84%
Expected return on plan assets	8.41%	8.16%	8.17%	5.59%	7.20%	6.90%
Rate of compensation increase	4.50%	N/A	N/A	2.77%	3.25%	3.25%
<i>Components of net pension benefit costs:</i>						
Service cost	\$ 1.0	\$ 0.2	\$ 0.1	\$ 4.9	\$ 1.0	\$ 1.0
Interest cost	0.8	0.3	0.3	12.4	1.7	1.9
Expected return on assets	(0.9)	(0.3)	(0.3)	(5.8)	(1.3)	(1.4)
Net amortization of prior experience losses				0.5	0.2	0.3
Net periodic pension cost	0.9	0.2	0.1	12.0	1.6	1.8
SFAS 88 settlement/curtailment	(3.3)				0.5	2.4
Total pension cost	\$ (2.4)	\$ 0.2	\$ 0.1	\$ 12.0	\$ 2.1	\$ 4.2

Pension plans have the following weighted-average asset allocations at December 31, 2004 and 2003:

	U.S. Plans		Non-U.S. Plans	
	2004	2003	2004	2003
Equity securities	58%	50%	33%	70%
Debt securities	39%	49%	31%	24%
Real estate	0%	0%	13%	0%
Other	3%	1%	23%	3%

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	U.S. Plans	Non-U.S. Plans
2005	\$ 0.5	\$ 24.0
2006	0.5	24.2
2007	0.5	24.9
2008	0.6	25.6
2009	0.8	27.3
Years 2010-2014	5.0	151.3

	Other Post-retirement Benefits			
	U.S. Plans		Non-U.S. Plans	
	2004	2003	2004	2003
	(millions)			
<i>Change in benefit obligation:</i>				
Benefit obligation at beginning of year	\$ 2.1	\$ 1.9	\$	\$
Service cost	0.1	0.1		
Interest cost	0.2	0.1		
Plan participants' contributions				
Plan amendments	(0.2)			
Acquisition of Dynamit Nobel	2.8			
Actuarial (gain)/loss	0.4	0.1		
Foreign exchange				
Benefits paid	(0.2)	(0.1)		
Curtailment/settlement				
Benefit obligation at end of year	\$ 5.2	\$ 2.1	\$	\$
<i>Change in fair value of plan assets:</i>				
Fair value of plan assets at beginning of year	\$	\$	\$	\$
Actual return on assets				
Employer contributions	0.2	0.1		
Plan participants' contributions				
Acquisition of Dynamit Nobel				
Foreign exchange				
Benefits paid	(0.2)	(0.1)		
Curtailment/settlement				
Fair value of plan assets at end of year	\$	\$	\$	\$
<i>Reconciliation of funded status at end of year:</i>				
Funded status	\$ (5.2)	\$ (2.1)	\$	\$
Unrecognized prior service cost	(0.2)			
Unrecognized net loss	1.0	0.6		
Accrued benefit cost	\$ (4.4)	\$ (1.5)	\$	\$
<i>Amount recognized in the consolidated balance sheets:</i>				
Accrued benefit liability	\$ (4.4)	\$ (1.5)	\$	\$
Intangible asset				
Accumulated other comprehensive income				
Net amount recognized	\$ (4.4)	\$ (1.5)	\$	\$
<i>Weighted-average assumptions used to determine benefit obligations at December 31:</i>				
Discount rate	5.32%	5.29%	NA	NA
Rate of compensation increase	0.00%	NA	NA	NA



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	U.S. Plans			Non-U.S. Plans		
	2004	2003	2002	2004	2003	2002
<i>Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:</i>						
Discount rate	5.84%	5.42%	7.00%	NA	NA	NA
Expected return on plan assets	NA	NA	NA	NA	NA	NA
Rate of compensation increase	4.50%	NA	NA	NA	NA	NA
<i>Components of other postretirement benefit costs:</i>						
Service cost	\$ 0.1	\$ 0.1	\$ 0.1	\$	\$	\$
Interest cost	0.2	0.1	0.2			
Expected return on assets						
Net amortization of prior experience losses	0.1					
Net periodic pension cost	0.4	0.2	0.3			
SFAS 88 settlement/curtailment			(1.6)			
Total pension cost	\$ 0.4	\$ 0.2	\$ (1.3)	\$	\$	\$

Below are additional disclosures concerning these plans:

	U.S. Plans		Non-U.S. Plans	
	2004	2003	2004	2003
<b>Other Post-Retirement Benefit Plans</b>				
Assumed health care cost trend rates at December 31 (hourly plan/salaried plan):				
Health care cost trend rate assumed for the following year	8.50%	8.10%	NA	NA
Ultimate trend rate (rate to which the cost trend rate is assumed to decline)	5.00%	5.00%	NA	NA
Year that the rate reaches the ultimate trend rate	2010	2007	NA	NA
			<b>1% Decrease</b>	<b>1% Increase</b>
<i>2004 Healthcare cost trend rate sensitivity analysis:</i>				
Effect on annual total of service cost and interest cost		\$	\$	
Effect on postretirement benefit obligation			(0.4)	0.5

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Other Post-Retirement
2005	\$ 0.2
2006	0.2
2007	0.2
2008	0.2
2009	0.2
Years 2010-2014	0.8

The following benefit payments are expected to be paid:

2005	\$ 0.1
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**Plans with accumulated benefit obligations in excess of plan assets** The Company's defined benefit plans all had accumulated benefit obligations in excess of plan assets.

**Contributions** During the year ended December 31, 2004, the Company made contributions of approximately \$11.8 million to its defined benefit pension plans to cover benefit payments. For



2005, the Company expects to make additional contributions of approximately \$7.2 million to pension trusts and \$16.2 million directly to plan participants as benefit payments.

**Investment policies and strategies** The Company's plans have varying statutory and plan governance requirements. Although the Company has representatives of local management involved in the governance of all plans, some plans or statutes also have representation by workers, employee unions, and/or corporate-level executives. Plans in the UK, Switzerland and the U.S. represent over 90% of total plan assets. In these countries, the general investment objectives are to maximize the expected return on the plans' assets without unduly prejudicing the security of the members' accrued benefits and with sufficient liquidity to meet current plan cash flow requirements. As each plan is locally governed, asset allocations may vary. In 2004, the plans were targeted to investment allocations within certain ranges that approximate the following:

	US	UK	Switzerland
Debt	42%	44%	48%
Equity	57%	51%	20%
Real Estate	0%	5%	28%
Insurance and Cash	1%	0%	4%

Plan trustees regularly consult with professional investment advisors as to whether these allocations remain appropriate in light of relative investment performance and risk and/or actuarial changes related to plan participants. UK plan investments are limited to listed securities not affiliated with Rockwood or the investment adviser and equities are divided between domestic and foreign equity. US plan investments are generally limited to mutual funds. The Swiss plans have recently reset their targets to reduce the insurance allocation and increase the debt allocation.

**Expected long-term rate of return on assets** The long-term rate of return on assets listed above is the average of expected returns developed for each plan weighted by each plan's assets, as of January 1 of the year measured. Individual plan returns have been weighted based on their expected respective allocations. Except for Taiwan, rates of return have been estimated based on various asset-appropriate price and yield indices, adjusted for projected inflation and long-term dividend growth.

#### Other Retirement Benefit Plans

**Savings Plans** The Company sponsors various defined contribution plans for certain employees. Contributions under the plans are based on specified percentages of employee compensation. In aggregate, the Company's contributions to these plans were \$7.7 million, \$6.5 million and \$6.1 million in 2004, 2003 and 2002, respectively.

**Multiemployer Plans** The Company participates in two multiemployer plans. Contributions under the plans are based on specified percentages of associate contributions. The Company's contributions to the plans were \$1.2 million, \$0.2 million and \$0.2 million in 2004, 2003 and 2002, respectively.

## 12. STOCK-BASED COMPENSATION:

In September 2004, the Company amended the Amended and Restated 2003 Stock Purchase and Option Plan (formerly the 2000 Stock Purchase and Option Plan, as amended, (the "Plan")), to increase the number of shares authorized under the Plan. Under the Plan, the Company may grant stock options and restricted stock to the Company's management personnel and directors and allow management personnel and directors to purchase shares of its common stock. There are 5,647,212 authorized shares available for grant under the Plan.

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**Restricted Stock** Restricted stock of the Company can be granted with or without payment of consideration with restrictions on the recipient's right to transfer or sell the stock. In each of the three years ended December 31, 2004, 2003 and 2002 \$0.3 million or 22,794 shares vested.

**Stock Purchase** Eligible management personnel and directors can purchase shares of common stock at prices as determined by the Company's Board of Directors. Under the Plan, the Company sold 477,428 shares during the year ended December 31, 2004 at the fair market value of the stock as determined by the Board of Directors at the date of purchase for gross proceeds of \$7.0 million.

**Stock Options** Stock options granted under this Plan shall have an exercise price at least equal to the fair market value of common stock on the date of grant. There are two types of options available for grant under the Plan. Time options have a life of ten years from the date of grant and vest as follows: time options granted prior to 2004 vest 10% in year one, 10% year two, 25% year three, 25% year four and 30% year five; time options granted in 2004 vest in installments of 20% on each of the first five anniversaries of the grant date. Performance options have a life of ten years and become exercisable with respect to 20% of the total performance options granted upon the achievement of certain performance targets. Performance options become exercisable on the eighth anniversary of the grant date to the extent that the options have not become otherwise exercisable or have not been terminated. In October 2004, the performance targets were modified as a result of the Dynamit Nobel Acquisition. Prior to 2004, none of the performance targets that would trigger exercisability had been achieved. However, certain targets were achieved for 2004 and as a result, 307,550 options vested as of December 31, 2004. Certain option holders have "company-wide performance targets," which targets are based on the achievement by the Company of certain implied equity values. Other option holders have "divisional performance targets," which targets are based on a particular division's achievement of annual or cumulative EBITDA.

The Company recorded no compensation expense in the historical statements of operations related to the Plan. The measurement date for determining compensation expense for each option has been the option issuance date and at that time the market price of the stock was equal to the exercise price in each case. The time options have been accounted for as a fixed plan. The performance options have been treated similar to fixed stock option plans as the Company concluded the predefined (non-accelerated) vesting schedule is substantive as it is deemed to be more likely than not that the applicable individuals will remain employed with the Company through that vesting date, particularly if the performance trigger has not occurred. As such, the measurement date for these options is the option grant date in accordance with APB Opinion 25. The change to the applicable performance targets as a result of the Dynamit Nobel Acquisition was a permitted change per the applicable stock option agreements; as such no modification occurred requiring a new measurement date calculation.

During the 12-month period ended December 31, 2004, the Company granted stock options with exercise prices as follows:

Grant Date	Number of Options Granted	Exercise Price	Fair Value per Share	Intrinsic Value per Share
(thousands)				
September 24, 2004	523	\$ 14.61	\$ 14.61	\$
October 15, 2004	228	14.61	14.61	
October 29, 2004	335	14.61	14.61	
November 30, 2004	985	14.61	14.61	
December 15, 2004	21	14.61	14.61	

The Company's Board of Directors determined that the \$14.61 per share price paid by DLJMB in an arm's-length transaction as part of the Dynamit Nobel Acquisition provided objective



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evidence of the fair value of the common stock sold and options granted in the 2004 Management Equity Program, and thus did not obtain a contemporaneous valuation by an unrelated valuation specialist.

Subsequently, the Company performed a valuation of its common stock as of November 30, 2004 using a retrospective approach consistent with the valuation techniques applied in connection with the July 2004 equity investment by KKR and DLJMB. The results of this valuation approach were materially consistent with the Board of Director's conclusion that the fair value of the common stock on the date of sale or grant was \$14.61 per share. Additionally, the Company performed an implied market value analysis based on the stock price performance of the Company's most comparable peers that further validated this conclusion.

There have been no stock options granted subsequent to December 31, 2004 through the date of this filing. A summary of the status of the Company's options granted at December 31, 2004, 2003, and 2002, and changes during the years ended on those dates is presented below:

	2004		2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	(thousands)		(thousands)		(thousands)	
Outstanding at beginning of year	1,810	\$ 14.61	1,776	\$ 14.61	2,132	\$ 14.61
Granted	2,092	14.61	34	14.61	20	14.61
Forfeited	(14)	14.61			(376)	14.61
Outstanding at end of year	3,888	\$ 14.61	1,810	\$ 14.61	1,776	\$ 14.61
Options exercisable at end of year	931	\$ 14.61	218	\$ 14.61	108	\$ 14.61
Weighted average fair value of options granted during the year	\$ 3.50		\$ 3.03(a)		\$ 3.81	
Weighted-Average Remaining Contractual Life (years)	8.20					

(a) The decrease from 2002 is due to the decrease in the assumed risk-free interest rate; see the table of "other assumptions used in fair-value pricing model" in Note 1 Description of Business and Summary of Significant Accounting Policies.

On July 18, 2005, in connection with a planned offering of its common stock to the public, the Company effected a 34.22553019 for 1 stock split of its common stock.

### 13. REDEEMABLE CONVERTIBLE PREFERRED STOCK:

In connection with the July 2003 refinancing, the Company, issued \$25.0 million of its redeemable convertible preferred stock to an affiliate of KKR. The redeemable convertible preferred stock accrues dividends at 15% per year; the dividends accumulate and compound semi-annually whether or not the Company has earnings or profits, whether or not there are funds legally available for payment of such dividends and whether or not dividends are declared. The holder of the redeemable convertible preferred stock also participates in any dividends paid on the common stock (other than excluded shares, as defined below). The redeemable convertible preferred stock is redeemable by the Company at its option at any time. The redeemable convertible preferred stock is also convertible into common stock of the Company, at the option of the holder, on or after an initial public offering of common stock of the Company at a conversion price equal to the then current market price, subject to adjustment. When the redeemable convertible preferred stock is redeemed or converted into common stock, the holder will also

receive 1% of the aggregate value

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of the Company's common stock (other than excluded shares) in cash or, in the case of conversion, additional shares of common stock of the Company, subject to adjustment ("Redemption Equity Value"). As of December 31, 2004 the Redemption Equity Value was \$3.4 million. In addition, upon a change of control of the Company, the holder will be able to require the Company to repurchase the redeemable convertible preferred stock at 101% of the aggregate liquidation preference and accumulated and unpaid dividends plus 1% of the aggregate consideration paid to holders of common stock (other than excluded shares) in the change of control transaction, subject to adjustment. The proceeds from the issuance of the redeemable convertible preferred stock were contributed to a subsidiary as common equity. "Excluded shares" mean the shares of common stock issued to affiliates of KKR and DLJMB in connection with the Dynamit Nobel Acquisition, the shares of common stock issued pursuant to the 2004 Management Equity Program and pursuant to employee stock options granted after July 29, 2004 prior to December 31, 2004 and any other shares of common stock issued to DLJMB.

The aggregate amount of cumulative unpaid preferred dividends is \$5.9 million and \$1.7 million at December 31, 2004 and 2003, respectively. The aggregate liquidation preference above par or stated value is defined as 1% of the difference between a) the fair market value of the remaining assets of the Company legally available for distribution, if any, after payment by the Company of the amount of par value plus accrued and unpaid dividends and, b) the fair market value of such remaining assets payable to holders of excluded shares, as defined.

The aggregate amount of redemption requirements (defined as the initial issuance value, accumulated and unpaid dividends, and the Redemption Equity Value) as of the end of the periods subsequent to December 31, 2004 is as follows:

	<u>(millions)</u>
As of December 31:	
2005	\$ 39.1
2006	44.7
2007	51.1
2008	58.5
2009	67.1

**14. WARRANTS:**

In connection with the issuance of the redeemable convertible preferred stock as discussed in Note 13 Redeemable Convertible Preferred Stock, the Company issued warrants to an affiliate of KKR, exercisable at any time at a \$14.61 per share exercise price, to purchase 958,315 additional shares of common stock of the Company. The warrants expire July 23, 2013. The Company has attributed a portion of the proceeds from issuance of the redeemable convertible preferred stock to the fair value of the warrants. The warrants were valued at \$6.1 million and were recorded as a component of stockholders' equity.

**15. IMPAIRMENT CHARGES:**

The Company recorded goodwill impairment charges of \$4.0 million and \$19.3 million in 2004 and 2003 related to the same reporting unit and \$50.0 million in 2002 relating to a separate reporting unit within the Electronics segment. These charges were recognized based on Rockwood's annual impairment testing. In computing these impairments, fair value was determined by multiplying the adjusted EBITDA of the reporting unit projected for the following year by a discount factor based primarily on the ratio of enterprise value (generally market capitalization less long-term debt plus cash) to EBITDA of publicly-held companies in similar businesses, both historical and projected, as reported in published industry analysis.

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These impairments resulted from a significant decline, in earnings and operating cash flows, both historical and prospective, based on global economic conditions common to significant competitors, including overcapacity, as well as the erosion of the reporting units' relative competitive position due to continued industry concentration and resulting pricing pressure.

Based on the circumstances described above the Company also performed impairment evaluations of the property, plant and equipment belonging to the respective reporting units and recorded impairment charges of \$7.0 million and \$15.7 million, respectively, in 2004 and 2003. In 2003 the evaluation was computed using the same calculations as described above for goodwill impairment. Based on the availability of additional relevant data, the 2004 impairment was computed by a discounted cash flow analysis of expected future cash flows of the reporting unit (as measured by Adjusted EBITDA).

**16. BUSINESS RESTRUCTURINGS AND ASSET SALES:**

The Company recorded \$1.1 million, \$1.8 million and \$1.2 million of restructuring charges in 2004, 2003 and 2002, respectively, primarily severance related to headcount reduction actions at businesses in each of the Company's reportable segments.

Selected information for the 2001 headcount reduction restructuring program is as follows:

	<b>Severance Costs</b>
	<b>(millions)</b>
Liability balance, January 1, 2002	\$ 6.7
Restructuring charge	1.2
Utilized in 2002	(7.2)
Liability balance, December 31, 2002	0.7
Utilized in 2003	(0.6)
Liability balance, December 31, 2003	0.1
Utilized in 2004	(0.1)
Liability balance, December 31, 2004	\$

Coincident with the KKR Acquisition, the Company began a restructuring plan involving the closure and rationalization of certain facilities acquired.

Selected information for the Acquisition related restructuring program is as follows:

	<b>Severance Costs</b>	<b>Facility Closure Costs</b>	<b>Total</b>
	<b>(millions)</b>		
Liability balance, January 1, 2002	\$ 3.5	\$ 3.5	\$ 7.0
Utilized in 2002	(1.7)	(0.1)	(1.8)
Adjustment recorded to goodwill	(0.4)	(0.5)	(0.9)
Liability balance, December 31, 2002	1.4	2.9	4.3
Utilized in 2003	(0.1)	(0.9)	(1.0)
Adjustment recorded to goodwill	(1.3)	(0.8)	(2.1)
Liability balance, December 31, 2003		1.2	1.2
Utilized in 2004		(0.8)	(0.8)

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	<u>Severance Costs</u>	<u>Facility Closure Costs</u>	<u>Total</u>
Liability balance, December 31, 2004	\$	\$ 0.4	\$ 0.4

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## 2004 Restructuring Actions

### Dynamit Nobel Restructuring

The Company began to assess and formulate specific plans to involuntarily terminate (relocate) certain employees and/or exit certain activities of Dynamit Nobel as of the Dynamit Nobel Acquisition date. This assessment has led to certain restructuring measures being taken by the Company as described below.

The Company closed the former corporate office of Dynamit Nobel located in Troisdorf, Germany in the fourth quarter of 2004. We have recorded \$13.2 million of restructuring charges related to this closure including severance costs of \$8.0 million for 44 general and administrative personnel of the former Dynamit Nobel company, closure costs on this building of \$4.6 million and \$0.6 million of relocation cost for the remaining 27 employees who were relocated to the Company's new Frankfurt, Germany European corporate location.

The Company believed at the time of the acquisition that reduction of certain selling, general and administrative headcount was an opportunity given a review of certain cost as a percentage of net sales metrics. As a result, \$12.2 million of restructuring costs were incurred:

The Titanium Dioxide Pigments segment eliminated four high level sales personnel incurring \$1.4 million of severance charges.

The former Custom Synthesis segment now known as Groupe Novasep downsized their organization by eliminating 12 staff positions. The president of this segment was also severed. Related severance costs incurred were \$2.9 million. As part of the Troisdorf corporate office closure, 27 general and administrative employees of the Company's Groupe Novasep segment that worked at this site were relocated to another location. The incurred relocation cost was \$0.5 million. Closure costs were \$0.4 million.

Specialty Chemicals eliminated 20 administrative employees including two executives from their business incurring severance charges of \$7.0 million and relocation costs of \$0.2 million.

Advanced Ceramics eliminated certain administrative employees incurring severance costs of \$0.5 million.

As part of an overall plant rationalization review contemplated at the acquisition date, in the third quarter of 2004 the Advanced Ceramics segment announced the closure of its New Lebanon plant in New York with consolidation into the Laurens, South Carolina plant. This closure and relocation of certain manufacturing plant employees and equipment is expected to occur in the second quarter of 2005. The total restructuring charge is estimated at \$2.7 million with severance of \$0.6 million related to 50 plant workers, relocation costs of \$1.9 million and closure costs of \$0.2 million. The related property, plant and equipment was recorded in the opening balance sheet at its appraised sale value. Related inventory write-offs of \$0.3 million were also reflected in the opening balance sheet. Advanced Ceramics also plans to close another smaller facility for which they have accrued severance costs of \$0.5 million and closure costs of \$1.2 million.

### Johnson Matthey Pigments and Dispersions Restructuring

As part of the acquisition of the Pigments and Dispersions business of Johnson Matthey the Company enacted a restructuring program. To date, 37 positions have been eliminated. All of these employees are selling, general and administrative personnel. Total restructuring charges of \$0.9 million have been reflected in the applicable opening balance sheet.

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Selected information for the Dynamit Nobel, Johnson Matthey and other 2004 restructuring actions follows:

	Severance Costs	Facility Closure Costs	Relocation Cost	Total
	(millions)			
Liability balance, January 1, 2004	\$	\$	\$	\$
Purchase accounting	21.9	6.8	2.7	31.4
Restructuring charge	1.1			1.1
Utilized in 2004	(4.7)	(0.4)	(0.4)	(5.5)
Historical Dynamit Nobel Restructuring program		3.6		3.6
Foreign Exchange	2.5	1.3	0.3	4.1
	\$	\$	\$	\$
Liability balance, December 31, 2004	20.8	11.3	2.6	34.7
	\$	\$	\$	\$

Remaining facility closure costs will be paid over the lives of the related leases.

### 17. RECEIVABLES SALE AGREEMENT:

In December 2001 and at the end of the first and second quarters in 2002, some of the Company's US-based subsidiaries sold certain receivables to a non-consolidated, bankruptcy-remote subsidiary of the Company ("RS") in return for cash and subordinated notes. RS then sold an undivided fractional ownership interest in those receivables to a non-affiliated investor. The subordinated notes, which represent the Company's retained interest, were subordinated to the investor's interest until the investor fully recovered its investment.

These transactions qualified as sales under the provisions of SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Gain or loss on the sale of receivables depends in part on the previous carrying amount of the financial assets involved in the sale, allocated between the assets sold and the retained interests, based on the relative fair value at the date of transfer. Fair value of the subordinated retained interest approximated carrying value due to the short-term nature of the receivables. Cash proceeds were \$50.0 million for the 2001 transaction and \$96.6 million for the 2002 transactions. There was no outstanding facility at December 31, 2004, 2003 or 2002. The Company serviced the receivables sold and had cash servicing income of \$0.1 million in 2002. No significant credit losses occurred among the receivables sold.

### 18. SALE AND LEASEBACK:

In June 2002, a subsidiary included in Rockwood's Performance Additives segment entered into a sale and leaseback transaction involving real estate with a non-affiliated third party. The Company realized net proceeds of approximately \$12.1 million from the sale. The resulting gain of approximately \$4.1 million was deferred and is being amortized on a straight-line basis over the initial lease term of 15 years. The deferred gain is included in other liabilities on the accompanying consolidated balance sheet. The leaseback portion, classified as an operating lease, had an initial minimum annual base rent of \$1.3 million, with adjustments based on a standard economic index. The Company has two 10-year renewal options beyond the initial lease term.

### 19. COMMITMENTS AND CONTINGENCIES:

**Legal Proceedings** The Company is involved in various legal proceedings, including commercial, intellectual property, product liability and environmental matters of a nature considered

normal to its business. It is the Company's policy to accrue for amounts related to these matters, in accordance with SFAS 5, *Accounting for Contingencies*, if it is probable that a liability has been incurred and an amount can be reasonably estimated. It is the Company's policy to disclose such matters when there is at least a reasonable possibility that a material loss may have been incurred. Although the Company expects to continue to pay legal fees in connection with certain legal actions related to chromated copper arsenate and other product liability matters, based on currently available facts, the Company does not believe that these actions will have a material effect on the financial condition, results of operations or liquidity of the Company. In accordance with the Company's policy, reserves in connection with such matters do not individually exceed \$350,000 and in the aggregate \$1.5 million. The Company's reserve estimates are based on available facts, including damage claims and input from the Company's internal and external legal counsel, past experience, and, in some instances where defense costs are being paid by the Company's insurers, insurance coverage. We are unable to estimate the amount or range of any potential incremental charges should facts and circumstances change and may in the future revise the Company's estimates based on new information becoming available. In addition, the Company does not believe that there is any other individual legal proceeding that is likely to have a material adverse affect on its business or financial condition. However, we cannot predict the outcome of any litigation or the potential for future litigation.

***Indemnity Matters*** Under the terms of the Business and Share Sale and Purchase Agreement, the Deed of Tax Covenant and the Environmental Deed entered into in connection with the KKR Acquisition, Degussa UK Holdings Ltd., as successor to the Laporte Plc, is obligated to indemnify the Company for certain legal, tax and environmental liabilities and obligations that relate to the period prior to the closing of the KKR Acquisition.

Under the terms of the Sale and Purchase Agreement with mg technologies ag and its subsidiary MG NAH ("mg technologies"), mg technologies is obligated to indemnify the Company for certain legal, tax and environmental liabilities and obligations that relate to the period prior to the closing, subject to certain limits and exclusions. In addition, the Company may be subject to indemnity claims relating to properties or business it divested. In the opinion of management, and based upon information currently available, the ultimate resolution of any indemnification obligations owed to us or by us will not have a material effect on the Company's financial condition or results of operations.

#### ***Safety, Health and Environmental Matters***

##### ***General***

The Company is subject to extensive environmental, health and safety laws in the United States, the European Union and elsewhere at the international, national, state, and local levels. Many of these laws impose requirements relating to clean-up of contamination, and impose liability in the event of damage to human beings, natural resources or property, and provide for substantial fines, injunctions and potential criminal sanctions for violations. The products, including the raw materials handled, are also subject to rigorous industrial hygiene regulations and investigation. The nature of the Company's operations exposes it to risks of liability for breaches of these laws and regulations as a result of the production, storage, transportation and sale of materials that can cause contamination or personal injury when released into the environment. Environmental laws are subject to change and have tended to become stricter over time. Such changes in environmental laws, or the enactment of new environmental laws, could result in materially increased capital, operating and compliance costs.



*Safety, Health and Environmental Systems*

The Company is committed to achieving and maintaining compliance with all applicable safety, health and environmental ("SHE") legal requirements, and the Company's subsidiaries have developed policies and management systems that are intended to identify the SHE legal requirements applicable to the operations, enhance compliance with such requirements, ensure the safety of the Company's employees, contractors, community neighbors and customers and minimize the production and emission of wastes and other pollutants. Although SHE legal requirements are constantly changing and are often difficult to comply with, these SHE management systems are designed to assist the Company in meeting its compliance goals and minimizing overall risk.

*SHE Capital Expenditures*

The Company may incur future costs for capital improvements and general compliance under SHE laws. For the year December 31, 2004, the capital expenditures for SHE matters totaled approximately \$23.9 million, excluding costs to maintain and repair pollution control equipment. For 2005 and 2006, the Company estimates capital expenditures for compliance with SHE laws to be at similar levels; however, because capital expenditures for these matters are subject to changes in existing and new SHE laws, the Company cannot provide assurance that its recent expenditures will be indicative of future amounts required to comply with these laws.

*Regulatory Developments*

In October 2003, the European Commission adopted a proposal for a new European Union framework for chemicals known as the Registration, Evaluation and Authorization of Chemicals, or REACH. While it is uncertain as to whether, when and in what form REACH will be finalized and become law, REACH may eventually significantly expand the European Union's regulation of chemicals. As currently proposed, REACH would include requirements that certain manufacturers and importers of chemicals register those chemicals, perform health and environmental risk analyses of those chemicals, and in certain instances, obtain authorizations for the use of the chemicals. As a specialty chemicals company, it is possible that the Company is the only manufacturer of one or more substances to be regulated under REACH and thus could potentially bear the full cost of compliance with REACH for some or all of the Company's products. The Company estimates it has over 400 products that might be subject to REACH.

Under the European Union Integrated Pollution Prevention and Control Directive ("IPPC"), European Union member governments are to adopt rules and implement a cross-media (air, water and waste) environmental permitting program for individual facilities. IPPC requires a consistent application of Best Available Techniques, or BAT, throughout the European Union. Generally, by 2007, facilities located within the European Union must be operating consistent with BAT. While the EU countries are at varying stages in their respective implementation of the IPPC permit program, the Company has submitted all necessary IPPC permit applications required to date, and in some cases received completed permits from the applicable government agency. The Company expects to submit all other IPPC applications and related documents on a timely basis as the various countries implement the IPPC permit program. Although it is not known with certainty what each IPPC permit will require, the Company believes, based upon its experience with the permits received to date, that the costs of compliance with the IPPC permit program will not be material to its results of operations, financial position or liquidity.

***Remediation Liabilities***

Environmental laws have a significant effect on the nature and scope of any clean-up of contamination at current and former operating facilities, the costs of transportation and storage of chemicals and finished products and the costs of the storage and disposal of wastes. In addition, "Superfund" statutes in the United States as well as statutes in other jurisdictions impose strict, joint and several liability for clean-up costs on the entities that generated waste and/or arranged for its disposal at contaminated third party sites, as well as the past and present owners and operators of contaminated sites. Each responsible party may be required to bear some or all clean-up costs regardless of fault, legality of the original disposal or ownership of the disposal site.

Environmental contamination is known to exist at certain of the Company's present and former facilities, including the Company's facilities located in Turin, Italy, St. Fromond, St. Cheron and Sens, France; Hainhaussen, Troisdorf, Schlebusch, Stadeln, Duisburg, Plochingen, Marktredwitz, Ronnenberg-Empelde and Langelsheim, Germany; Oss, The Netherlands; Kidsgrove, and Barrow, U.K.; Boksburg East, South Africa; Pratteln, Switzerland and in the United States, in Valdosta, Georgia, Beltsville, Maryland, Harrisburg, North Carolina, Laurens, South Carolina, Silver Peak, Nevada and La Mirada, California. Soil contamination is also known to exist at the Company's facilities at Freeport, Texas, Chasse-sur-Rhone, France and Sumperk in Czech Republic; however, no further regulatory remedial actions are currently required for these facilities and any liabilities arising from such contamination is covered by indemnity obligations or the previous owners of these facilities with the exception of Freeport. We are currently operating groundwater remediation systems at the Company's Hainhaussen, Troisdorf, Valdosta, and Silver Peak facilities. We also operate ground water remediation systems at the Company's Schlebusch, Plochingen, Marktredwitz, Stadeln and Laurens facilities, for which prior owners or insurers have assumed responsibility and a soil remediation project at the Company's facility in St. Cheron, and we continue to monitor groundwater at the Beltsville facility, which was previously the subject of a soil removal action. Groundwater is also monitored at the St. Fromond and Barrow facilities due to prior spills and at the Harrisburg facility due to a landfill closure. We are also required to monitor groundwater quality at the Company's facilities at Mourenx, France and New Johnsonville, Tennessee. We believe that additional environmental studies, and possibly environmental remediations, will be required at the Turin and Harrisburg facilities. We are also in the process of determining appropriate remedial actions with the regulatory authorities at the following locations: Duisburg, Pratteln, Langelsheim, Troisdorf and La Mirada. Furthermore, as a result of facility closings, divestitures and offsite disposal activities such as a former disposal site in Laurel, Maryland, we are responsible for the following other matters: contamination beneath divested portions of the manufacturing facility in Troisdorf; contamination at a closed Chemetall Oakite facility in Houston, Texas, contamination at a former Chemetall Foote facility in Sunbright, Virginia, contribution towards the clean-up of three industrial landfills in the Basel, Switzerland area, groundwater remediation at Stadeln and former sites operated by Dynamit Nobel's previously divested explosives business. The Company is also a *de minimis* participant in several Superfund matters.

Although the Company cannot provide assurances in this regard, the Company does not believe that these issues will have a material adverse effect on its business or financial condition, but may have a material adverse effect on the results of operations or cash flow in any given quarterly or annual reporting period. Nonetheless, the discovery of contamination arising from present or historical industrial operations at some of the Company's and the Company's predecessor's former and present properties and/or at sites it and its predecessor disposed wastes could expose the Company to cleanup obligations and other damages in the future.

### **Government Enforcement Proceedings and Civil Litigation**

During the course of the Company's business, the Company may receive notices of violation, enforcement and other complaints from regulatory agencies alleging non-compliance with applicable SHE laws. Currently, the Company is party to a consent order with the Metropolitan Sewer District ("MSD") in Saint Louis, Missouri to reduce ammonia concentrations in wastewater discharge to a city treatment plant. The entry into the consent order resulted from violations of its wastewater discharge permit. The order is presently stayed pending MSD's negotiation of its own National Pollution Discharge Elimination System permit with the State of Missouri. Although the Company may be required to make capital expenditures in connection with this matter, it does not believe that this issue will have a material adverse effect on its business or financial condition.

### **Environmental Indemnities**

Pursuant to the environmental deed entered into in connection with the KKR acquisition, Degussa, as successor to Laporte, is required to indemnify the Company and its subsidiaries for certain environmental matters that relate to the business as conducted prior to the closing of the KKR acquisition. The environmental deed provides that Degussa will indemnify the Company and its subsidiaries for claims for which notice is given within a period of two years for breaches of representations and warranties, which expired in 2002, and five years, which expires in September 2005, for claims related to the contamination of the Company's properties or its subsidiaries' properties (inclusive of contamination which leaks or escapes from the Company's properties or its subsidiaries' properties). These indemnity obligations are subject to a minimum per matter loss of \$175,000 and are further subject to a \$5.0 million deductible for the indemnity to be available. In addition, the environmental deed provides that Degussa will indemnify Rockwood and its subsidiaries for claims relating to properties that were formerly owned, occupied or used as of November 20, 2000, as well as properties owned by third parties (inclusive of disposal of waste and certain other identified issues prior to November 20, 2000). The environmental deed provides that in this instance, Degussa will be responsible for reasonable costs and expenses incurred.

In addition, pursuant to the sale and purchase agreement entered into in connection with the Dynamit Nobel Acquisition, mg technologies ag and its subsidiary, MG North America Holdings Inc., are required to indemnify Rockwood and its subsidiaries for 50% of the excess amount of losses over the amount of the related reserves (in the case of known claims) and 50% of claims (in the case of unknown claims) related to the contamination of the Company or its subsidiaries' properties, if notified within ten years. If mg technologies and MG North America Holdings' responsibility for contamination matters cannot be proven, a sliding scale reduces the percentage further for each year during the five-year period from year six to ten. mg technologies and MG North America Holdings are also obligated to indemnify the Company for 85% of claims related to legacy site matters, such as environmental matters relating to properties or businesses owned or operated by Dynamit Nobel prior to, but not on, the closing of Dynamit Nobel Acquisition, if notified within ten years. In addition, mg technologies and MG North America Holdings are obligated to indemnify us for 50% of the excess amount of losses over the amount of the related reserves for operational compliance matters, if notified by December 31, 2006, and 50% of the excess amount of losses over the amount of the related reserves (in the case of known claims) and 50% of claims (in the case of unknown claims) related to certain environmental damage claims unknown at the time of the closing of the Dynamit Nobel Acquisition, if notified within ten years. All of these indemnity obligations are subject to different minimum per-claim thresholds depending on whether the matter was disclosed or not, and on the subject matter, ranging between €100,000 and €750,000 depending on the type of claim. The indemnity obligations are further subject to certain deductibles, exclusions and limitations. Furthermore, mg technologies and MG North America Holdings are obligated to indemnify us for certain environmental risks arising from certain "shared

site" structures for a duration of ten years. This indemnity obligation is not subject to the percentages, *de minimis* exclusions, deductibles and thresholds described above, and it is not subject to most of the general limitations.

In the event the Company seeks indemnity under any of these agreements or through other means, there can be no assurance that mg technologies, MG North America Holdings, Degussa or any other party who may have obligations to indemnify the Company will adhere to their obligations and the Company may have to resort to legal action to enforce its rights under the indemnities. However, the Company does not believe that resolution of the known environmental matters subject to indemnification obligations owed to it will have a material adverse effect on its business or financial condition as such amounts are not significant.

### ***Environmental Reserves***

The Company has established financial reserves relating to anticipated environmental cleanup obligations, site reclamation and remediation and closure costs. Liabilities are recorded when potential liabilities are either known or believed to be probable and can be reasonably estimated. The Company's liability estimates are based upon available facts, existing technology, past experience and, in some instances where the remediation costs are being paid directly by the Company's insurers, insurance recoveries, and are generated by several means, including State-mandated schedules, environmental consultants and internal experts, depending on the circumstances. On a consolidated basis, the Company accrued approximately \$51.9 million and \$6.5 million for known environmental liabilities as of December 31, 2004 and 2003, respectively, all of which are classified as other non-current liabilities on the Company's consolidated balance sheets for such periods. Included in the \$51.9 million as of December 31, 2004 is \$8.8 million that is discounted using 5.0% discount rate (undiscounted amount equals \$13.5 million), and \$3.3 million that is discounted using 5.5% discount rate (undiscounted amount equals \$5.2 million). In certain cases, the Company's remediation liabilities are payable over periods of up to 30 years.

The Company believes these accruals are adequate based on currently available information. The Company may incur losses in excess of the amounts accrued, however, based on currently available information the Company does not believe the additional amount of potential losses would have a material effect on the Company's results of operations or financial condition, but may have a material adverse effect on the results of operations or cash flow in any given quarterly or annual reporting period. The Company is unable to estimate the amount or range of any potential incremental charges should facts and circumstances change and may in the future revise the Company's estimates based on new information becoming available.

The Company is obligated to undertake soil remediation at two facilities in Europe in the event manufacturing operations are discontinued there at some future date. The Company does not contemplate any such action occurring in the foreseeable future, as these facilities' remaining lives are indefinite. Given the indeterminate useful life of these facilities and the corresponding indeterminate settlement date of any soil remediation obligations the Company does not have sufficient information to estimate a range of potential settlement dates for the obligations. Consequently, we cannot employ a present value technique to estimate fair value and, accordingly, we have not accrued for any related costs.

The Company believes these environmental matters will not have a material adverse effect on its results of operations and/or financial condition. However, these matters may have a material adverse effect on its results of operations or cash flows in any given quarterly or annual reporting period.

## Commitments

As of December 31, 2004 the Company has unconditional purchase obligations of \$148.8 million (of which \$7.9 million is accrued) primarily consisting of take-or-pay contracts to purchase goods that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Amounts due within one year are estimated to be \$49.4 million and the remainder (\$99.4 million) is due during 2006 and 2007.

## 20. RESTATEMENT

Subsequent to the issuance of the consolidated financial statements for the year ended December 31, 2004, the Company identified certain purchase accounting errors in connection with the acquisition of Dynamit Nobel and the Groupe Novasep combination that required adjustment. As a result, the Company has restated the December 31, 2004 consolidated balance sheet and the consolidated statement of changes in stockholders' equity for the year then ended. In addition, the Company determined that an error was made in the calculation of net loss applicable to common shares and has restated the consolidated statement of operations and the consolidated statement of changes in stockholders' equity for the year ended December 31, 2003. The restatements do not change the consolidated cash flows for any of the periods presented.

The following errors were identified during the processes of recording the purchase accounting for the combination of Groupe Novasep with the Custom Synthesis business and pushing down the purchase accounting entries for the Dynamit Nobel acquisition to the individual legal entities:

- (a) The Company identified a mathematical error in the determination of the minority interest attributable to the Groupe Novasep combination caused by the incorrect elimination of an inter-company loan balance. In addition, an error was identified in the determination of the Groupe Novasep SAS purchase price, including the fair value of the shares contributed by the minority interest party. The errors resulted in the overstatement of goodwill by \$27.1 million, minority interest by \$27.1 million, the understatement of accrued expenses and other current liabilities by \$1.0 million and a net overstatement of stockholders' equity by \$1.0 million (the understatement of paid in capital by \$30.6 million offset by the overstatement of accumulated other comprehensive income by \$31.6 million) as of December 31, 2004.
- (b) The Company identified certain mathematical errors contained in the valuation report prepared by the Company's independent valuation specialists in conjunction with the Dynamit Nobel acquisition, in the determination of the fair value of certain land, buildings and improvements, including land improvements, mining rights and customer relationships. The errors resulted in the overstatement of property, plant and equipment by \$14.1 million and deferred tax liabilities by \$3.1 million and the understatement of goodwill by \$6.2 million and other intangible assets, net by \$4.8 million as of December 31, 2004.

The Company also corrected an error in the amounts previously reported for the years ended December 31, 2003 and 2002, related to the determination of stock-based employee compensation expense determined under fair value based method, net of tax, in the table included in Note 1 Description of Business and Summary of Significant Accounting Policies. This has increased such amounts and the pro forma net loss previously reported for the years ended December 31, 2003 and 2002 by \$0.2 million and \$0.2 million, respectively.

The Company also corrected the net loss applicable to common shareholders at December 31, 2003 to include \$6.1 million of accretion of the redeemable convertible preferred stock to

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redemption value. This error resulted in an increase in the basic and diluted loss per common share of \$0.29 from the amount previously reported.

These errors had the following impact to the financial statements:

December 31, 2004				
(Dollars in millions)	As Originally Reported	Adjustments	Stock-split Adjustments	As Restated
<b>ASSETS</b>				
Property, plant and equipment, net	\$ 1,580.9	\$ (14.1)		\$ 1,566.8
Goodwill	1,826.8	(20.9)		1,805.9
Other intangible assets, net	655.3	4.8		660.1
Total assets	<b>\$ 5,429.7</b>	<b>\$ (30.2)</b>		<b>\$ 5,399.5</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Accrued expenses and other current liabilities	\$ 227.3	\$ 1.0		\$ 228.3
Deferred income taxes	44.9	(3.1)		41.8
Minority interest	58.3	(27.1)		31.2
Common stock			0.5	0.5
Paid-in-capital	688.5	30.6	(0.5)	718.6
Accumulated other comprehensive income	402.0	(31.6)		370.4
Total liabilities and stockholders' equity	<b>\$ 5,429.7</b>	<b>\$ (30.2)</b>		<b>\$ 5,399.5</b>
Foreign currency translation	\$ 181.6	\$ (31.6)		\$ 150.0
Contribution of minority interest	(30.6)	30.6		

December 31, 2003				
(Dollars in millions)	As Originally Reported	Adjustments	Stock-split Adjustments	As Restated
<b>Statement of Operations</b>				
Accretion of redeemable convertible preferred stock to redemption value	\$ (3.4)	\$ (6.1)		\$ (9.5)
Net loss applicable to common shareholders	(96.8)	(6.1)		(102.9)
Basic and diluted loss per common share	(159.75)	(0.29)	155.08	(4.96)
<b>Statement of Changes in Stockholders' Equity</b>				
Redeemable convertible preferred redemption accretion	\$ (5.1)	\$ (6.1)		\$ (11.2)
Fair value of warrants		6.1		6.1

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**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Dollars in millions except per share amounts)  
(Unaudited)

	Three Months Ended March 31,	
	2005	2004
NET SALES	\$ 769.7	\$ 227.4
COST OF PRODUCTS SOLD	544.1	165.0
	225.6	62.4
GROSS PROFIT		
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	150.2	35.1
RESTRUCTURING CHARGE, net	2.9	
	72.5	27.3
OPERATING INCOME		
OTHER INCOME (EXPENSES):		
Interest, net	(57.3)	(25.1)
Foreign exchange gain, net	47.2	12.2
	(10.1)	(12.9)
Net		
INCOME BEFORE TAXES AND MINORITY INTEREST	62.4	14.4
INCOME TAX PROVISION	24.9	5.5
	37.5	8.9
NET INCOME BEFORE MINORITY INTEREST		
MINORITY INTEREST	0.8	
	38.3	8.9
NET INCOME	\$	\$
Per share data:		
BASIC EARNINGS PER COMMON SHARE	0.74	0.38
	0.73	0.38
DILUTED EARNINGS PER COMMON SHARE	\$	\$

See accompanying notes to condensed consolidated financial statements.

**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Dollars in millions, except per share amounts; shares in thousands)  
(Unaudited)

	<u>March 31,</u> <u>2005</u>
<b>ASSETS</b>	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 237.1
Accounts receivable, net	497.8
Inventories	473.8
Deferred income taxes	31.1
Prepaid expenses and other current assets	66.9
	<hr/>
Total current assets	1,306.7
PROPERTY, PLANT AND EQUIPMENT, net	1,520.8
GOODWILL	1,738.1
OTHER INTANGIBLE ASSETS, net	621.0
DEFERRED DEBT ISSUANCE COSTS, net	81.2
OTHER ASSETS	49.0
	<hr/>
TOTAL ASSETS	<u>\$ 5,316.8</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
CURRENT LIABILITIES:	
Accounts payable	\$ 264.5
Income taxes payable	18.5
Accrued compensation	67.2
Accrued expenses and other current liabilities	259.4
Senior secured revolving credit facility	175.0
Long-term debt, current portion	67.4
	<hr/>
Total current liabilities	852.0
LONG-TERM DEBT	3,254.6
PENSION AND RELATED LIABILITIES	360.0
DEFERRED INCOME TAXES	51.7
OTHER LIABILITIES	172.3
	<hr/>
Total liabilities	4,690.6
MINORITY INTEREST	29.0
REDEEMABLE CONVERTIBLE PREFERRED STOCK (\$.01 par value, \$32.0 and \$27.7 aggregate liquidation preference, respectively; 50 shares authorized; 25 shares issued and outstanding)	35.4
STOCKHOLDERS' EQUITY:	
Common stock (\$.01 par value, 75,296 shares authorized, 50,404 shares issued and 50,310 shares outstanding)	0.5
Paid-in capital	717.5
Accumulated other comprehensive income	271.0
Accumulated deficit	(425.1)
Treasury stock, at cost	(1.4)
Other	(0.7)
	<hr/>
Total stockholders' equity	561.8
	<hr/>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 5,316.8</u>

See accompanying notes to condensed consolidated financial statements.





**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in millions)  
(Unaudited)

	For the Three Months Ended March 31,	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 38.3	\$ 8.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	53.2	13.8
Deferred financing costs amortization	2.9	0.9
Foreign exchange gain	(47.2)	(12.2)
Fair value adjustment of derivatives	(7.6)	(2.3)
Non-cash interest expense on pay-in-kind loans	8.7	8.0
Bad debt provision	0.2	0.6
Deferred income taxes	18.2	1.5
Minority interest	(0.8)	
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:		
Accounts receivable	(11.5)	(23.7)
Inventories, including fair value write-up charge	(11.9)	(4.7)
Prepaid expenses and other assets	(12.9)	(3.1)
Accounts payable	(7.8)	(0.9)
Income taxes payable	1.0	2.8
Accrued expenses and other liabilities	(30.2)	11.7
Net cash (used in) provided by operating activities	(7.4)	1.3
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures, excluding capital leases	(35.7)	(6.7)
Proceeds on sale of property, plant and equipment	0.2	
Net cash used in investing activities	(35.5)	(6.7)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from senior secured revolving credit facility	260.0	
Repayment of senior secured revolving credit facility	(85.0)	
Other changes to stockholder's equity		(0.7)
Payments on long-term debt	(5.9)	(4.5)
Net cash provided by (used in) financing activities	169.1	(3.8)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(0.4)	(0.4)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	125.8	(9.6)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	111.3	41.9
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 237.1	\$ 32.3
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Interest paid, net	\$ 23.7	\$ 8.0
Income taxes paid, net of refunds	\$ 4.8	\$ 1.2
<b>NON-CASH INVESTING ACTIVITIES</b>		

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For the Three Months  
Ended March 31,

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Acquisition of equipment under capital leases

\$ 4.8 \$

See accompanying notes to condensed consolidated financial statements.

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**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**

**Notes To Condensed Consolidated Financial Statements (Unaudited)**

**1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Business Description, Background** Rockwood Holdings, Inc. and Subsidiaries ("Rockwood" or the "Company") is a global developer, manufacturer and marketer of high value-added specialty chemicals and advanced materials used for industrial and commercial purposes.

The Company is controlled by affiliates of Kohlberg Kravis Roberts & Co. L.P. ("KKR") and DLJ Merchant Banking Partners III, L.P. ("DLJMB"), and was formed in connection with an acquisition of certain assets, stock and businesses from Laporte plc ("Laporte") on November 20, 2000.

On July 31, 2004, the Company completed the acquisition of four businesses of Dynamit Nobel from mg technologies ag and Mg North America Holdings, Inc. The businesses acquired are focused on highly specialized markets and consist of: white pigments; surface treatment and lithium chemicals; ceramics; and pharmaceutical intermediates. See Note 2 Acquisitions for a more complete description of the Dynamit Nobel Acquisition.

**Basis of Presentation** The accompanying condensed consolidated balance sheets and the related condensed consolidated statements of operations and cash flows of Rockwood are presented on a consolidated basis. All significant intercompany accounts and transactions have been eliminated.

The interim financial statements included herein are unaudited. The condensed consolidated financial statements are presented based upon accounting principles generally accepted in the United States of America ("US GAAP"), except that certain information and footnote disclosures, normally included in financial statements prepared in accordance with US GAAP, have been condensed or omitted. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained elsewhere in this registration statement. In the opinion of management, this information contains all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results for the periods presented.

The results of operations and cash flows since January 1, 2005 of the businesses acquired in the Dynamit Nobel Acquisition, the Groupe Novasep combination and the pigments and dispersions business of Johnson Matthey Plc. are included in the condensed consolidated financial statements for the three month period ended March 31, 2005 along with the financial position of such operations as of March 31, 2005.

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year.

**Nature of Operations/Segment Reporting** The Company is a global developer, manufacturer and marketer of high value-added specialty chemicals and advanced materials. The Company operates in various business lines within its seven reportable segments consisting of: (1) Performance Additives, which includes color pigments and services, timber treatment chemicals, clay-based additives, and water treatment chemicals, (2) Specialty Compounds, which consists of plastic compounds, (3) Electronics, which consists of electronic chemicals, wafer reclaim and photomasks, (4) Specialty Chemicals, which includes lithium compounds and chemicals, metal surface treatment chemicals, and synthetic metal sulfides, (5) Titanium Dioxide Pigments, which consists of titanium dioxide pigments, and zinc- and barium-based compounds, (6) Advanced Ceramics, which includes ceramic-on-ceramic ball head and liner components used in hip-joint

prostheses systems, ceramics cutting tools and a range of other ceramic components, and (7) Groupe Novasep (formerly known as Custom Synthesis), which includes hazardous chemistry and chiral technologies for the synthesis of pharmaceutical compounds.

The basis for determining an enterprise's operating segments is the manner in which financial information is used internally by the enterprise's chief operating decision maker (the Company's chief executive officer). See Note 3 Segment Information for further segment reporting information.

**Use of Estimates** The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the periods reported. These estimates include, among other things, assessing the collectibility of accounts receivable, the use and recoverability of inventory, the valuation of deferred tax assets, impairment of goodwill as well as property, plant and equipment and other intangible assets, and the useful lives of tangible and intangible assets, among others. Actual results could differ from those estimates.

Such estimates also include the fair value of assets acquired and liabilities assumed allocated to the purchase price of business combinations consummated (See Note 2 Acquisitions).

**Risks Associated with International Operations and Currency Risk** The Company's international operations are subject to risks normally associated with foreign operations, including, but not limited to, the disruption of markets, changes in export or import laws, restrictions on currency exchanges and the modification or introduction of other governmental policies with potentially adverse effects. A majority of the Company's sales and expenses are denominated in currencies other than U.S. dollars. Changes in exchange rates may have a material effect on the Company's reported results of operations and financial position. In addition, a significant portion of the Company's indebtedness is denominated in euros.

**Related party transactions** Rockwood has engaged in transactions with certain related parties including KKR, DLJMB and affiliates of each.

Through the date of the Dynamit Nobel Acquisition, KKR provided consulting and management advisory services to Rockwood for an annual fee of \$0.6 million. Since the date of the Dynamit Nobel Acquisition, KKR and DLJ Merchant Banking III, Inc. have provided the Company with consulting and management advisory services for an annual fee of \$2.1 million, increasing 5% annually. In connection with the expected initial public offering of the Company's common stock, the affiliates of KKR and DLJMB have agreed to terminate the management services agreement effective upon the closing of such offering for an aggregate consideration of \$10.0 million.

Further, the senior discount notes are held by affiliates of KKR and total \$85.2 million as of March 31, 2005 and \$82.8 million at December 31, 2004. Interest on the senior discount notes was \$2.5 million and \$2.2 million for the three months ended March 31, 2005 and 2004, respectively.

**Revenue Recognition** The Company recognizes revenue when the earnings process is complete, except for approximately 1% of consolidated revenues derived from long-term contracts

accounted for under the percentage of completion method within the Groupe Novasep segment. Product sales are recognized when products are shipped to the customer in accordance with the terms of the contract of sale, title and risk of loss have been transferred, collectibility is reasonably assured, and pricing is fixed or determinable. Accruals are made for sales returns and other allowances based on the Company's experience. Revenue under service agreements is realized when the service is performed.

**Foreign Currency Translation** The functional currency of each of the Company's foreign subsidiaries is primarily the respective local currency. Balance sheet accounts of the foreign operations are translated into U.S. dollars at period-end exchange rates and income and expense accounts are translated at average exchange rates during the period. Translation gains and losses related to net assets located outside the U.S. are shown as a component of accumulated other comprehensive income. Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's functional currency), should be included in determining net income for the period in which exchange rates change. However, the related gains or losses on certain intercompany transactions that are of a long-term investment nature for which settlement is not planned or anticipated in the foreseeable future are reported and accumulated in the same manner as translation adjustments.

**Accretion on Senior Discount Notes** The Company's senior discount notes accrete principal value for a portion of their term. The Company records such accretion as interest expense for financial reporting purposes.

**Derivatives** The Company accounts for derivatives based on Statement of Financial Accounting Standard ("SFAS") 133 *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted. SFAS 133 requires that all derivatives be recognized as either assets or liabilities at fair value. Changes in the fair value of derivatives not designated as hedging instruments are recognized currently in earnings. The Company uses derivative instruments to manage its exposure to market risks associated with fluctuations in interest rates and foreign currency exchange rates. See Note 1 *Comprehensive Income* for the impact of the Company's net investment hedge. The Company does not enter into derivative contracts for trading purposes nor does it use leveraged or complex instruments.

**Pension, Postemployment and Postretirement Costs** Defined benefit costs and liabilities have been determined in accordance with SFAS 87, *Employers' Accounting for Pensions*. Other postretirement benefit costs and liabilities have been determined in accordance with SFAS 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. Postemployment benefit costs and liabilities have been determined in accordance with SFAS 112, *Employers' Accounting for Postemployment Benefits*.

**Income Taxes** Income taxes are determined in accordance with SFAS 109 *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts and the corresponding tax carrying amounts of assets and liabilities. Deferred tax assets are also recognized for tax loss and tax credit carryforwards. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized based on available evidence weighted

toward evidence that is objectively verifiable. Deferred taxes are not provided on the undistributed earnings of subsidiaries as such amounts are considered to be permanently invested or could be distributed to the parent company in a tax free manner.

Future realization of the tax benefit of an existing deductible temporary difference or carryforward ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carry forward period available under the tax law. The Company's policy is to consider the following sources of taxable income which may be available under the tax law to realize a tax benefit for deductible temporary differences and carry forwards:

Future reversals of existing taxable temporary differences

Future taxable income exclusive of reversing temporary differences and carry forwards

Taxable income in prior carry back year(s) if carry back is permitted under the tax law

Tax planning strategies that would, if necessary, be implemented to:

- (1) Accelerate taxable amounts to utilize expiring carryforwards
- (2) Change the character of taxable or deductible amounts from ordinary income or loss to capital gain or loss
- (3) Switch from tax-exempt to taxable investments.

Evidence available about each of those possible sources of taxable income will vary between tax jurisdictions and, possibly, from year to year. To the extent evidence about one or more sources of taxable income is sufficient to support a conclusion that a valuation allowance is not necessary, the Company's policy is that other sources need not be considered. Consideration of each source is required, however, to determine the amount of the valuation allowance that may be required to be recognized for deferred tax assets.

For any specific jurisdiction where a history of three years of cumulative losses has occurred or where there has been a substantial change in the business (e.g. a major acquisition or divestiture), the Company does not rely on projections of future taxable income as described above. Instead, the Company determines its need for a valuation allowance on deferred tax assets, if any, by determining an average steady-state normalized taxable income amount over the last three years, adjusted for acquisitions or divestitures if necessary.

The Company will also consider the following positive evidence in the above scenarios, if present:

Existing contracts or firm sales backlog that will produce more than enough taxable income to realize the deferred tax asset based on existing sales prices and cost structures.

An excess of appreciated asset value over the tax basis of the entity's net assets in an amount sufficient to realize the deferred tax asset.

**Comprehensive Income** Comprehensive income includes net income and the other comprehensive income components which include unrealized gains and losses from foreign

currency translation and from certain intracompany transactions that are of a long-term investment nature as well as minimum pension liability adjustments that are recorded directly into a separate section of stockholders' equity in the balance sheets. Also included is the net investment hedge discussed below. Foreign currency translation amounts are not adjusted for income taxes since they relate to indefinite length investments in non-U.S. subsidiaries and certain intercompany debt.

(millions)	Three Months Ended March 31,	
	2005	2004
Net income	\$ 38.3	\$ 8.9
Foreign currency translation	(40.5)	(4.1)
Net investment hedge, net of tax	6.2	
Other comprehensive income	(65.1)	
<b>Total comprehensive (loss) income</b>	<b>\$ (61.1)</b>	<b>\$ 4.8</b>

The Company completed the sale of €375.0 million aggregate principal amount of 7.625% senior subordinated notes and \$200.0 million aggregate principal amount of 7.500% senior subordinated notes, both due in 2014 ("2014 Notes"). In connection with the 2014 notes, the Company entered into cross currency interest rate swaps with a five year term and a notional amount of €155.6 million that effectively convert the U.S. dollar fixed rate debt in respect of the dollar notes sold into euro fixed rate debt. The Company has designated this contract as a hedge of the foreign currency exposure of its net investment in its euro denominated operations. There was no ineffective portion of the net investment hedge as of March 31, 2005. The Company does not expect any of the loss on the net investment hedge residing in other comprehensive income at March 31, 2005 to be reclassified into earnings during the subsequent 12 months.

**Accounting for Environmental Liabilities** In the ordinary course of business, Rockwood is subject to extensive and changing federal, state, local and foreign environmental laws and regulations, and has made provisions for the estimated financial impact of environmental cleanup related costs. Rockwood's policy has been to accrue costs of a non-capital nature related to environmental clean-up when those costs are believed to be probable and can be reasonably estimated. If the aggregate amount of the obligation and the amount and timing of the cash payments for a site are fixed or reliably determinable, the liability is discounted. Expenditures that extend the life of the related property or mitigate or prevent future environmental contamination are capitalized and expenditures related to existing conditions resulting from past or present operations and from which no current or future benefit is discernible are immediately expensed. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, advancements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation and the length of time involved in remediation or settlement. In some matters, Rockwood could share costs with other parties. Rockwood does not include anticipated recoveries from insurance carriers or other third parties in its accruals for environmental liabilities.



**Recent Accounting Pronouncements**

FIN 47      Accounting for Conditional Asset Retirement Obligations    An Interpretation of Statement of Financial Accounting Standard ("SFAS") 143

SFAS 123R    Accounting for Share-Based Payment

FIN 47 clarifies that the term conditional asset retirement obligation as used in SFAS 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 is effective December 31, 2005 for the Company.

SFAS 123R revises SFAS 123 *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS 123R requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which the employee is required to provide services in exchange for the award. This standard eliminates the alternative to use the intrinsic value method of accounting for share based payments as previously provided in APB 25. This standard is effective for the Company beginning in the first quarter of 2006. As we are not a publicly traded equity company, we will apply SFAS 123R on a prospective basis. New awards, modifications to existing awards, repurchases or cancellations subsequent to February 11, 2005 (the date on which the Company filed its Form S-1) will be accounted for in accordance with SFAS 123R on the modified prospective basis.

**Redeemable convertible preferred stock** During 2003 the Company issued redeemable convertible preferred stock to an affiliate of KKR who controls a majority of directors of the Company. As the redemption of the redeemable convertible preferred stock is not mandatory and is not solely in the control of the Company, the redeemable convertible preferred stock is classified outside equity. See Note 9 Redeemable Convertible Preferred Stock.

**Stock-Based Compensation** At March 31, 2005, the Company had in place the Amended and Restated 2003 Stock Purchase and Option Plan, as amended, (formerly the 2000 Stock Purchase and Option Plan), (the "Plan"). The Company accounts for the Plan under the recognition and measurement principles of APB Opinion 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based employee compensation is reflected in net income related to this Plan, as all options granted had an exercise price at least equal to the market value of the underlying common stock on the date of the grant. The following table illustrates the effect on net income if the Company had applied the fair value recognition provisions of SFAS 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. Volatility is assumed to be zero as there is no public market for the underlying stock. Dividend yield

is also assumed to be zero. The Company uses the appropriate treasury rates in calculating the risk-free interest rates for options granted.

(\$ in millions except per common share data)	Three Months Ended March 31,	
	2005	2004
Net income, as reported	\$ 38.3	\$ 8.9
Less: Stock-based employee compensation expense determined under fair value based method, net of tax	(0.2)	(0.1)
Pro forma net income	38.1	8.8
Redeemable convertible preferred stock dividends	(1.1)	(1.0)
Pro forma net income applicable to common shareholders	\$ 37.0	\$ 7.8
Earnings per common share, as reported:		
Basic	\$ 0.74	\$ 0.38
Diluted	\$ 0.73	\$ 0.38
Pro forma earnings per common share:		
Basic	\$ 0.74	\$ 0.38
Diluted	\$ 0.73	\$ 0.38

The Company accounts for earnings per share under the provision of SFAS No. 128 *Earnings per Share* and Emerging Issues Task Force ("EITF") 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128*. Basic earnings per common share was calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if Rockwood's securities or other contracts to issue common stock were exercised, converted into or resulted in the issuance of common stock. The effect of common stock issuable under the assumed exercise of stock options and warrants, computed on the treasury stock method, have been excluded from the diluted earnings per share calculation for all periods presented since the effect of such securities is not dilutive. The assumed conversion of the Company's issued and outstanding redeemable convertible preferred stock has been included for the three months ended March 31, 2005, but excluded for the period ended March 31, 2004 since the effect of such securities is anti-dilutive. The valuation method that the Company will utilize under SFAS 123R may not be the same as the method utilized historically.

## 2. ACQUISITIONS:

### Dynamit Nobel

On July 31, 2004, the Company consummated the Dynamit Nobel Acquisition. The Company paid approximately €1,635.0 million (or \$1,968.5 million) (excluding repayment of certain assumed debt) in cash to mg technologies ag for the businesses acquired, subject to possible post-closing adjustments. The four divisions of Dynamit Nobel acquired by Rockwood were (i) Chemetall, or

Specialty Chemicals; (ii) Sachtleben Chemie, or Titanium Dioxide Pigments; (iii) CeramTec, or Advanced Ceramics and (iv) DNES Custom Synthesis (consisting of Dynamit Nobel Special Chemistry, Finorga, S.A. and Rohner A.G.), or Custom Synthesis, which is now known as Groupe Novasep. Through this acquisition, the Company believes it has created a portfolio of distinct specialty chemicals and advanced performance materials businesses, with diversified geographic and end-use markets, strong market positions and margins, and limited exposure to individual raw material fluctuations.

The allocation of the purchase price to the identifiable assets acquired is complete except that the purchase price is subject to possible post-closing adjustments, including adjustments related to Closing Net Financial Debt and Closing Working Capital (as each term is defined in the Sale and Purchase Agreement dated April 19, 2004). mg technologies ag has notified the Company of several adjustments which would result in the Company paying an additional €31.5 million; however, the Company has notified mg technologies ag of counterclaims in the aggregate of €34.7 million. Management believes the potential future consideration due to mg technologies ag ranges from \$0 to approximately \$30.0 million. Given the complexities of the underlying claims, the Company's inability to predict the success of negotiating a resolution and the possibility of eventual arbitration of some or all of the claims, management believes that no estimate within this range is better than another. The Company expects to finalize the post-closing adjustments within the next twelve months. The recorded amount of goodwill, net of tax, as applicable may change when the post-closing adjustments are finalized.

### **Groupe Novasep Combination**

In December 2004, in connection with the combination of the three business lines of the Custom Synthesis segment (now known as the Company's Groupe Novasep segment) with Groupe Novasep SAS, one of the subsidiaries acquired 69.4% of the stock of Groupe Novasep SAS for a total purchase price of approximately \$139.7 million, including assumed debt of \$48.6 million, cash acquired of \$14.6 million and the exchange of the remaining 30.6% of the stock of Groupe Novasep SAS for stock in the acquiring subsidiary. As a result of this transaction, the Company owns approximately 79% of the new Groupe Novasep. The Company used cash on hand to finance this transaction.

This combination is accounted for using the purchase method of accounting. The Company has not finalized the estimated fair value of the assets acquired and liabilities assumed although values of inventory, identified intangible assets, and property, plant and equipment are completed. The Company expects to complete its research and fair value estimates on remaining purchase price components by the third quarter of 2005. However, significant changes to the preliminary purchase accounting are not expected.

### **Johnson Matthey Pigments and Dispersions Business**

On September 2, 2004 the Company completed the acquisition of the Pigments and Dispersions business of Johnson Matthey Plc for approximately \$50.0 million (including fees and expenses), subject to post-closing adjustments. The acquisition expands the Company's global color pigments and services' business specifically within transparent iron oxide pigments and dispersions, color concentrates and complex inorganic color pigments for the surface and wood

coatings, plastics, building materials and printing inks markets. The Company utilized the remaining undrawn funds from the term loan portion of its senior credit facilities to finance this transaction.

This acquisition was accounted for using the purchase method of accounting. Except for the possible effect of the post-closing adjustments described above, the Company has finalized the estimated fair value of the assets acquired and liabilities assumed.

### 3. SEGMENT INFORMATION:

Items that cannot be readily attributed to individual segments have been classified as "corporate". Major Corporate components within the reconciliation of net income (loss) to Adjusted EBITDA (described more fully below) include systems/ organization establishment expenses such as outside consulting costs for Sarbanes-Oxley initial documentation, tax benefit resulting from corporate losses, interest expense on external debt, foreign exchange losses or gains, and refinancing expenses related to external debt. Corporate identifiable assets primarily represent deferred financing costs that have been capitalized in connection with corporate external debt financing and deferred income tax assets and cash balances maintained in accordance with centralized cash management techniques. The corporate classification also includes the results of operations, assets (primarily real estate) and liabilities (including pension and environmental) of legacy businesses formerly belonging to Dynamit Nobel. These operations are substantially unrelated by nature to businesses currently within the Company's operating segments.

Summarized financial information for each of the reportable segments is provided in the following table.

(millions)	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Groupe Novasep	Corporate	Consolidated	
<b>Three months ended March 31, 2005</b>										
Net sales	\$ 159.5	\$ 58.1	\$ 42.8	\$ 220.0	\$ 104.5	\$ 91.9	\$ 92.9	\$	\$ 769.7	
Adjusted EBITDA	34.2	7.3	5.8	43.0	20.9	21.4	10.2	(9.6)	133.2	
<b>Three months ended March 31, 2004</b>										
Net sales	\$ 139.1	\$ 47.9	\$ 40.4	\$	\$	\$	\$	\$	\$ 227.4	
Adjusted EBITDA	32.1	6.8	6.6					(4.4)	41.1	
(millions)	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Groupe Novasep	Corporate(1)	Eliminations(2)	Consolidated
<b>Identifiable assets as of:</b>										
March 31, 2005	\$ 1,004.7	\$ 235.6	\$ 329.6	\$ 1,579.0	\$ 678.3	\$ 720.1	\$ 529.0	\$ 350.4	\$ (109.9)	\$ 5,316.8

(1) This balance includes \$56.5 million of assets from the legacy businesses formerly belonging to Dynamit Nobel.

(2) Amounts contained in the "Eliminations" column represent the individual subsidiaries' retained interest in their cumulative net cash balance (deposits less withdrawals) included in the corporate centralized cash system and within the identifiable assets of the respective segment. These amounts are eliminated as the corporate centralized cash system balance is included in the Corporate segment's identifiable assets.

The summary of segment information above includes "Adjusted EBITDA", a financial measure used by the Company's chief decision maker, who is the Company's Chief Executive Officer, to evaluate the operating performance of each segment.

*Components of Adjusted EBITDA*

The process of refocusing and restructuring the businesses acquired in the KKR Acquisition and establishing the post-acquisition corporate entity, along with the impact of the Dynamit Nobel Acquisition, resulted in a number of charges that have affected Rockwood's historical results. These charges, along with certain other items, are added to or subtracted from net loss to derive Adjusted EBITDA, as defined below. The more significant of these items include the following:

*Restructuring and Related Charges.* Additional restructuring charges were recorded during the three months ended March 31, 2005, for miscellaneous restructuring activities.

*CCA Litigation Defense Costs.* Such costs were incurred in connection with litigation defense costs related to the Company's timber treatment chemicals business line, and specifically its wood protection products based on chromated copper arsenate, or CCA.

*Systems/Organization Establishment Expenses.* For the three months ended March 31, 2005, these expenses related to the integration of the business acquired in the Dynamit Nobel Acquisition, as well as professional fees incurred regarding systems and internal control documentation in connection with the Sarbanes-Oxley Act of 2002. These expenses are reflected in the "corporate" column when Rockwood's results are presented on a segment basis.

*Acquisition and Disposal Costs.* Such costs were incurred in connection with non-consummated acquisitions and dispositions.

*Foreign exchange gain.* The Company recorded foreign exchange gains primarily related to its long-term debt less cash. These amounts reflect the non-cash translation impact on euro-denominated debt resulting from the strengthening or weakening of the euro against the U.S. dollar during the applicable periods.

On a segment basis, the Company defines Adjusted EBITDA as operating income excluding depreciation and amortization, certain non-cash gains and charges, certain non-recurring gains and charges and certain items deemed by senior management to have little or no bearing on the day-to-day operating performance of its business segments and reporting units. The adjustments made to operating income directly correlate with the adjustments to net income in calculating Adjusted EBITDA on a consolidated basis pursuant to the senior secured credit agreement. The indentures governing the 2011 Notes and the 2014 Notes exclude certain adjustments permitted under the senior credit agreement. Senior management uses Adjusted EBITDA on a segment basis as the primary measure to evaluate the ongoing performance of the Company's business segments and reporting units.

The Company uses Adjusted EBITDA on a segment and consolidated basis to assess its operating performance. In addition, management uses Adjusted EBITDA on a consolidated basis as the most significant criterion in the calculation of performance-based cash bonuses and the determination of whether certain performance-based stock options vest.

Rockwood believes this financial measure on a consolidated basis is helpful in highlighting trends in its overall business because Adjusted EBITDA excludes those items that have little or no bearing on day-to-day operating performance.

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Because the Company views Adjusted EBITDA on both a segment basis and consolidated basis as an operating performance measure, the Company uses net income (loss) as the most comparable GAAP measure. The following table, which sets forth the applicable component of Adjusted EBITDA, presents a reconciliation of net income (loss) to Adjusted EBITDA on a GAAP basis:

(millions)	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Groupe Novasep	Corporate	Consolidated
<b>Three months ended March 31, 2005</b>									
Net income (loss)	\$ 10.8	\$ 5.3	\$ 0.6	\$ 6.9	\$ 1.9	\$ 2.8	\$ (3.1)	\$ 13.1	\$ 38.3
Income tax provision (benefit)	6.4	0.7	0.2	10.1	1.3	1.7	(1.9)	6.4	24.9
Interest, net	6.6	(0.1)	1.3	12.1	8.5	9.4	4.5	15.0	57.3
Depreciation and amortization	8.5	1.4	5.1	11.7	9.2	7.5	8.9	0.9	53.2
Restructuring and related charges	2.4			0.5					2.9
CCA litigation defense costs	0.3							0.1	0.4
Systems/organization establishment expenses								1.2	1.2
Cancelled acquisition and disposal costs								0.2	0.2
Inventory write-up reversal							2.8		2.8
Foreign exchange (gain) loss	(0.9)		(1.4)	1.8				(46.7)	(47.2)
Minority interest							(0.8)		(0.8)
Other	0.1			(0.1)			(0.2)	0.2	
<b>Total Adjusted EBITDA</b>	<b>\$ 34.2</b>	<b>\$ 7.3</b>	<b>\$ 5.8</b>	<b>\$ 43.0</b>	<b>\$ 20.9</b>	<b>\$ 21.4</b>	<b>\$ 10.2</b>	<b>\$ (9.6)</b>	<b>\$ 133.2</b>
<b>Three months ended March 31, 2004</b>									
Net income (loss)	\$ 10.4	\$ 3.7	\$ 0.7	\$	\$	\$	\$	\$ (5.9)	\$ 8.9
Income tax provision (benefit)	8.4	1.7	1.2					(5.8)	5.5
Interest, net	7.6		1.5					16.0	25.1
Depreciation and amortization	7.1	1.4	5.0					0.3	13.8
Foreign exchange gain	(1.4)		(1.8)					(9.0)	(12.2)
<b>Total Adjusted EBITDA</b>	<b>\$ 32.1</b>	<b>\$ 6.8</b>	<b>\$ 6.6</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ (4.4)</b>	<b>\$ 41.1</b>

**4. INVENTORIES:**

Inventories are comprised of the following:

(millions)	March 31, 2005
Raw materials	\$ 135.5

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(millions)	March 31, 2005
Work-in-process	86.3
Finished goods	238.1
Packaging materials	13.9
	<u>473.8</u>
	<u>\$ 473.8</u>

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**5. GOODWILL:**

Below are goodwill balances and activity by segment:

(millions)	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Group Novasep	Total
Balance, January 1, 2005	\$ 463.8	\$ 115.5	\$ 124.2	\$ 665.5	\$ 172.4	\$ 230.7	\$ 33.8	\$ 1,805.9
Foreign exchange	(5.1)	(1.5)	(0.4)	(32.6)	(7.6)	(10.6)	(1.5)	(59.3)
Reversal of deferred tax valuation allowances				(2.3)		(6.6)		(8.9)
Other adjustments	0.4							0.4
Balance, March 31, 2005	\$ 459.1	\$ 114.0	\$ 123.8	\$ 630.6	\$ 164.8	\$ 213.5	\$ 32.3	\$ 1,738.1

The Groupe Novasep portion of this balance represented by assets of the acquisitions and combination discussed in Note 2 Acquisitions is subject to change upon the finalization of purchase accounting. Additionally, the goodwill associated with the acquired businesses of Dynamit Nobel is subject to change based on the final determination of the purchase price as discussed in Note 2 Acquisitions.

**6. OTHER INTANGIBLE ASSETS:**

Other intangible assets, net consist of:

(millions)	As of March 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net
Patents and other intellectual property	\$ 365.4	\$ (50.1)	\$ 315.3
Trade names and trademarks	107.8	(2.5)	105.3
Customer relationships	203.8	(10.3)	193.5
Other	10.3	(3.4)	6.9
Total	\$ 687.3	\$ (66.3)	\$ 621.0

Amortization of other intangible assets was \$14.1 million and \$1.6 million for the three months ended March 31, 2005 and 2004, respectively.

**7. TAXES ON INCOME:**

The income tax expense has been computed based on the projected effective rate for the year. The valuation allowance for U.S. net operating losses established at December 31, 2004 has been reduced by \$13.8 million due to U.S. income generated in the first quarter of 2005. Of this reduction, \$8.9 million has been recorded as a decrease to goodwill representing the expected utilization of certain net operating losses acquired in the Dynamit Nobel acquisition. The remaining \$4.9 million has been reflected as a reduction in the income tax expense for the quarter ended March 31, 2005. The determination of the net operating losses to be utilized is based on a "first-in, first-out" methodology. In accordance with the Company's policy, the company has not reversed the entire U.S. valuation allowance because the steady-state three-year average of cumulative normalized earnings continues to be negative.



**8. EMPLOYEE BENEFIT PLANS:**

The following table represents the net periodic benefit costs and related components in accordance with SFAS 132:

(millions)	Three Months Ended March 31,	
	2005	2004
Service cost	\$ 2.8	\$ 0.3
Interest cost	7.0	0.7
Expected return on plan assets	(2.9)	(0.5)
Net amortization of prior experience losses	0.2	0.2
<b>Net periodic benefit cost</b>	<b>\$ 7.1</b>	<b>\$ 0.7</b>

**9. REDEEMABLE CONVERTIBLE PREFERRED STOCK:**

In connection with the July 2003 refinancing, the Company, issued \$25.0 million of its redeemable convertible preferred stock to an affiliate of KKR. The redeemable convertible preferred stock accrues dividends at 15% per year; the dividends accumulate and compound semi-annually whether or not the Company has earnings or profits, whether or not there are funds legally available for payment of such dividends and whether or not dividends are declared. The redeemable convertible preferred stock is redeemable by the Company at its option at any time. The redeemable convertible preferred stock is also convertible into common stock of the Company, at the option of the holder, on or after an initial public offering of common stock of the Company at a conversion price equal to the then current market price, subject to adjustment.

The aggregate amount of cumulative unpaid preferred dividends is \$7.0 million and \$5.9 million at March 31, 2005 and December 31, 2004, respectively. The aggregate liquidation preference above par or stated value is defined as 1% of the difference between a) the fair market value of the remaining assets of the Company legally available for distribution, if any, after payment by the Company of the amount of par value plus accrued and unpaid dividends and, b) the fair market value of such remaining assets payable to holders of excluded shares, as defined.

The aggregate amount of redemption requirements (defined as the initial issuance value, accumulated and unpaid dividends, and the Redemption Equity Value, as defined) as of the end of the periods subsequent to March 31, 2005 is as follows:

	(millions)
As of March 31:	
2006	\$ 40.4
2007	\$ 46.1
2008	\$ 52.7
2009	\$ 60.4
2010	\$ 69.3

**10. EARNINGS PER COMMON SHARE:**

Basic and diluted earnings per common share were computed using the following data:

(\$ in millions; shares in thousands)	Three Months Ended March 31,	
	2005	2004
<b>Earnings per share numerator Basic:</b>		
Income from continuing operations	\$ 38.3	\$ 8.9
Less: Preferred stock dividends	(1.1)	(1.0)
Net income applicable to common stockholders	\$ 37.2	\$ 7.9
<b>Earnings per share denominator Basic:</b>		
Weighted average number of common shares outstanding	50,310	20,740
<b>Earnings per share numerator Diluted:</b>		
Net income	\$ 38.3	\$ 8.9
<b>Earnings per share denominator Diluted:</b>		
Weighted average number of common shares outstanding	50,310	20,740
Effect of dilutive convertible preferred stock	2,422	
Weighted average number of common shares outstanding and common stock equivalents	52,732	20,740

Stock options representing equivalents of 3,880,000 shares and 1,810,000 shares of common stock during the three months ended March 31, 2005 and 2004, respectively were outstanding but were not included in the computation of diluted earnings per common share because their inclusion would have had an anti-dilutive effect. Also, during the three months ended March 31, 2004 the effect of conversion on an if-converted method of the redeemable convertible preferred stock was anti-dilutive and was therefore not included.

**11. RESTRUCTURING LIABILITY:**

We record restructuring charges from time to time that represent expenses incurred in connection with consolidations and cessations of certain of the Company's operations as well as headcount reduction programs. These charges consist primarily of write-offs of surplus assets and severance costs. Severance charges are based on various factors including the employee's length of service, contract provisions, salary levels and local governmental legislation. At the time a related charge is recorded, we calculate the Company's best estimate based upon detailed analysis. Although significant changes are not expected, actual costs may differ from these estimates.

**Dynamit Nobel Restructuring and Johnson Matthey Pigments and Dispersions Restructuring**

The Company began to assess and formulate specific plans to involuntarily terminate (relocate) certain employees and/or exit certain activities of Dynamit Nobel as of the Dynamit Nobel Acquisition date. This assessment has led to certain restructuring measures being taken by the Company as described below.

The Company closed the former corporate office of Dynamit Nobel located in Troisdorf, Germany in the fourth quarter of 2004. The Company recorded restructuring charges related to this

closure including severance costs for 44 general and administrative personnel of the former Dynamit Nobel company, the closure costs on this building and the relocation costs for the remaining 27 employees who were relocated to the Company's new Frankfurt, Germany location. Also in 2004, as part of the acquisition of the Pigments and Dispersions business of Johnson Matthey, the Company enacted a restructuring program. To date, 40 positions have been eliminated. All of these employees are selling, general and administrative personnel.

**Selected information for the Dynamit Nobel, Johnson Matthey and other 2004 restructuring actions follows:**

During the first quarter of 2005, the Company has identified and accrued \$2.9 million to cover restructuring costs for miscellaneous restructuring actions, primarily in the Performance Additives segment including the announced closure of the Baulking, United Kingdom facility in the Clay-based Additives business. The Company estimates that the severance and relocation costs of the restructuring liability balance will be fully utilized by mid-2006, while the facility closure costs liability balances will be fully utilized by 2009.

(millions)	Severance Costs	Facility Closure Costs	Relocation Costs	Total
Liability balance, January 1, 2005	\$ 20.8	\$ 11.3	\$ 2.6	\$ 34.7
Purchase accounting	0.8			0.8
Restructuring charge	2.9			2.9
Utilized in 2005	(6.8)	(0.9)	(0.4)	(8.1)
Foreign Exchange and other	1.5	(3.0)	0.6	(0.9)
Liability balance, March 31, 2005	\$ 19.2	\$ 7.4	\$ 2.8	\$ 29.4

**12. COMMITMENTS AND CONTINGENCIES:**

**Legal Proceedings** The Company is involved in various legal proceedings, including commercial, intellectual property, product liability and environmental matters of a nature considered normal to its business. It is the Company's policy to accrue for amounts related to these matters, in accordance with SFAS 5, *Accounting for Contingencies*, if it is probable that a liability has been incurred and an amount can be reasonably estimated. It is the Company's policy to disclose such matters when there is at least a reasonable possibility that a material loss may have been incurred. Although the Company expects to continue to pay legal fees in connection with certain legal actions related to chromated copper arsenate and other product liability matters based on currently available facts, the Company does not believe that these actions will have a material effect on the financial condition, results of operations or liquidity of the Company. In accordance with the Company's policy, reserves in connection with such matters do not individually exceed \$350,000 and in the aggregate \$1.5 million. The Company's reserve estimates are based on available facts, including damage claims and input from the Company's internal and external legal counsel, past experience, and, in some instances where defense costs are being paid by the Company's insurers, insurance coverage. The Company is unable to estimate the amount or range of any potential incremental charges should facts and circumstances change and may in the future revise the

Company's estimates based on new information becoming available. In addition, the Company does not believe that there is any other individual legal proceeding that is likely to have a material adverse affect on its business or financial condition. However, the Company cannot predict the outcome of any litigation or the potential for future litigation.

***Indemnity Matters*** Under the terms of the Business and Share Sale and Purchase Agreement, the Deed of Tax Covenant and the Environmental Deed entered into in connection with the KKR Acquisition, Degussa UK Holdings Ltd., as successor to the Laporte Plc, is obligated to indemnify the Company for certain legal, tax and environmental liabilities and obligations that relate to the period prior to the closing of the KKR Acquisition.

Under the terms of the Sale and Purchase Agreement with mg technologies ag and its subsidiary MG NAH, mg technologies is obligated to indemnify the Company for certain legal, tax and environmental liabilities and obligations that relate to the period prior to the closing, subject to certain limits and exclusions. Pursuant to these agreements, we have various claims for indemnification with Degussa and mg technologies. In addition, the Company may be subject to indemnity claims relating to properties or businesses it divested. In the opinion of management, and based upon information currently available, the ultimate resolution of any indemnification obligations owed to us or by us will not have a material effect on the Company's financial condition or results of operations.

## **Safety, Health and Environmental Matters**

### ***General***

The Company is subject to extensive environmental, health and safety laws in the United States, the European Union and elsewhere at both the national and local level. Many of these laws impose requirements relating to clean-up of contamination, and impose liability in the event of damage to human beings, natural resources or property, and provide for substantial fines, injunctions and potential criminal sanctions for violations. The products, including the raw materials handled, are also subject to rigorous industrial hygiene regulations and investigation. The nature of the Company's operations exposes it to risks of liability for breaches of these laws and regulations as a result of the production, storage, transportation and sale of materials that can cause contamination or personal injury when released into the environment. Environmental laws are subject to change and have tended to become stricter over time. Such changes in environmental laws, or the enactment of new environmental laws, could result in materially increased capital, operating and compliance costs.

### ***Safety, Health and Environmental Systems***

The Company is committed to achieving and maintaining compliance with all applicable safety, health and environmental ("SHE") legal requirements, and the Company's subsidiaries have developed policies and management systems that are intended to identify the SHE legal requirements applicable to the operations, enhance compliance with such requirements, ensure the safety of the Company's employees, contractors, community neighbors and customers and minimize the production and emission of wastes and other pollutants. Although SHE legal requirements are constantly changing and are often difficult to comply with, these SHE

management systems are designed to assist the Company in meeting its compliance goals and minimizing overall risk.

### ***Regulatory Developments***

In October 2003, the European Commission adopted a proposal for a new European Union framework for chemicals known as the Registration, Evaluation and Authorization of Chemicals, or REACH. While it is uncertain as to whether, when and in what form REACH will be finalized and become law, REACH may eventually significantly expand the European Union's regulation of chemicals. As currently proposed, REACH would include requirements that certain manufacturers and importers of chemicals register those chemicals, perform health and environmental risk analyses of those chemicals, and in certain instances, obtain authorizations for the use of the chemicals. As a specialty chemicals company, it is possible that the Company is the only manufacturer of one or more substances to be regulated under REACH and thus could potentially bear the full cost of compliance with REACH for some or all of the Company's products. The Company estimates it has over 400 products that might be subject to REACH.

Under the European Union Integrated Pollution Prevention and Control Directive ("IPPC"), European Union member governments are to adopt rules and implement a cross-media (air, water and waste) environmental permitting program for individual facilities. While the EU countries are at varying stages in their respective implementation of the IPPC permit program, the Company has submitted all necessary IPPC permit applications required to date, and in some cases received completed permits from the applicable government agency. The Company expects to submit all other IPPC applications and related documents on a timely basis as the various countries implement the IPPC permit program. Although it is not known with certainty what each IPPC permit will require, the Company believes, based upon its experience with the permits received to date, that the costs of compliance with the IPPC permit program will not be material to its results of operations, financial position or liquidity.

### ***SHE Capital Expenditures***

The Company may incur future costs for capital improvements and general compliance under SHE laws. For the year December 31, 2004, the capital expenditures for SHE matters totaled approximately \$23.9 million, excluding costs to maintain and repair pollution control equipment. For 2005 and 2006, the Company estimates capital expenditures for compliance with SHE laws to be at similar levels; however, because capital expenditures for these matters are subject to changes in existing and new SHE laws, the Company cannot provide assurance that its recent expenditures will be indicative of future amounts required to comply with these laws.

### ***Remediation Liabilities***

Environmental laws have a significant effect on the nature and scope of any clean-up of contamination at current and former operating facilities, the costs of transportation and storage of chemicals and finished products and the costs of the storage and disposal of wastes. In addition, "Superfund" statutes in the United States as well as statutes in other jurisdictions impose strict, joint and several liability for clean-up costs on the entities that generated waste and/or arranged for its disposal at contaminated third party sites, as well as the past and present owners and operators

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of contaminated sites. All responsible parties may be required to bear some or all clean-up costs regardless of fault, legality of the original disposal or ownership of the disposal site.

Environmental contamination is known to exist at certain of the Company's present and former facilities, including the Company's facilities located in Turin, Italy, St. Fromond, St. Cheron and Sens, France; Hainhaussen, Troisdorf, Schlebusch, Stadeln, Duisburg, Plochingen, Marktredwitz, Ronnenberg-Empelde and Langelsheim, Germany; Oss, The Netherlands; Kidsgrove, and Barrow, U.K.; Boksburg East, South Africa; Pratteln, Switzerland and in the United States, in Valdosta, Georgia, Beltsville, Maryland, Harrisburg, North Carolina, Laurens, South Carolina, Silver Peak, Nevada and La Mirada, California. Soil contamination is also known to exist at the Company's facilities at Freeport, Texas, Chasse-sur-Rhone, France and Sumperk in Czech Republic; however, no further regulatory remedial actions are currently required for these facilities and any liabilities arising from such contamination is covered by indemnity obligations or the previous owners of these facilities with the exception of Freeport. We are currently operating groundwater remediation systems at the Company's Hainhaussen, Troisdorf, Valdosta, and Silver Peak facilities. We also operate ground water remediation systems at the Company's Schlebusch, Plochingen, Marktredwitz, Stadeln and Laurens facilities, for which prior owners or insurers have assumed responsibility and a soil remediation project at the Company's facility in St. Cheron, and we continue to monitor groundwater at the Beltsville facility, which was previously the subject of a soil removal action. Groundwater is also monitored at the St. Fromond and Barrow facilities due to prior spills and at the Harrisburg facility due to a landfill closure. We are also required to monitor groundwater quality at the Company's facilities at Mourenx, France and New Johnsonville, Tennessee. We believe that additional environmental studies, and possibly environmental remediations, will be required at the Turin and Harrisburg facilities. We are also in the process of determining appropriate remedial actions with the regulatory authorities at the following locations: Duisburg, Pratteln, Langelsheim, Troisdorf and La Mirada. Furthermore, as a result of facility closings, divestitures and offsite disposal activities such as a former disposal site in Laurel, Maryland, we are responsible for the following other matters: contamination beneath divested portions of the manufacturing facility in Troisdorf; contamination at a closed Chemetall Oakite facility in Houston, Texas, contamination at a former Chemetall Foote facility in Sunbright, Virginia, contribution towards the clean-up of three industrial landfills in the Basel, Switzerland area, groundwater remediation at Stadeln and former sites operated by DNSC's Dynamit Nobel's previously divested explosives business. The Company is also a *de minimis* participant in several Superfund matters.

Although the Company cannot provide assurances in this regard, the Company does not believe that these issues will have a material adverse effect on its business or financial condition, but may have a material adverse effect on the results of operations or cash flow in any given quarterly or annual reporting period. Nonetheless, the discovery of contamination arising from present or historical industrial operations at some of the Company's and the Company's predecessor's former and present properties and/or contamination at sites it and its predecessor disposed wastes could expose the Company to cleanup obligations and other damages in the future.

### **Government Enforcement Proceedings and Civil Litigation**

During the course of the Company's business, the Company may receive notices of violation, enforcement and other complaints from regulatory agencies alleging non-compliance with applicable SHE laws. Currently, the Company is party to a consent order with the Metropolitan Sewer District ("MSD") in Saint Louis, Missouri to reduce ammonia concentrations in wastewater discharge to a city treatment plant. The entry into the consent order resulted from violations of its wastewater discharge permit. The order is presently stayed pending MSD's negotiation of its own National Pollution Discharge Elimination System permit with the State of Missouri. Although the Company may be required to make capital expenditures in connection with this matter, it does not believe that this issue will have a material adverse effect on its business or financial condition.

### **Environmental Indemnities**

Pursuant to the environmental deed entered into in connection with the KKR acquisition, Degussa, as successor to Laporte, is required to indemnify the Company and its subsidiaries for certain environmental matters that relate to the business as conducted prior to the closing of the KKR acquisition. The environmental deed provides that Degussa will indemnify the Company and its subsidiaries for claims for which notice is given within a period of two years for breaches of representations and warranties, which expired in 2002, and five years, which expires in September 2005, for claims related to the contamination of the Company's properties or its subsidiaries' properties (inclusive of contamination which leaks or escapes from the Company's properties or its subsidiaries' properties). These indemnity obligations are subject to a minimum per matter loss of \$0.2 million and are further subject to a \$5.0 million deductible for the indemnity to be available. In addition, the environmental deed provides that Degussa will indemnify Rockwood and its subsidiaries for claims relating to properties that were formerly owned, occupied or used as of November 20, 2000, as well as properties owned by third parties (inclusive of disposal of waste and certain other identified issues prior to November 20, 2000). The environmental deed provides that in this instance, Degussa will be responsible for reasonable costs and expenses incurred.

In addition, pursuant to the sale and purchase agreement entered into in connection with the Dynamit Nobel Acquisition, mg technologies ag and its subsidiary, MG North America Holdings Inc., are required to indemnify Rockwood and its subsidiaries for 50% of the excess amount of losses over the amount of the related reserves (in the case of known claims) and 50% of claims (in the case of unknown claims) related to the contamination of the Company or its subsidiaries' properties, if notified within ten years. If mg technologies and MG North America Holdings' responsibility for contamination matters cannot be proven, a sliding scale reduces the percentage further for each year during the five-year period from year six to ten. mg technologies and MG North America Holdings are also obligated to indemnify the Company for 85% of claims related to legacy site matters, such as environmental matters relating to properties or businesses owned or operated by Dynamit Nobel prior to, but not on, the closing of Dynamit Nobel Acquisition, if notified within ten years. In addition, mg technologies and MG North America Holdings are obligated to indemnify us for 50% of the excess amount of losses over the amount of the related reserves for operational compliance matters, if notified by December 31, 2006, and 50% of the excess amount of losses over the amount of the related reserves (in the case of known claims) and 50% of claims (in the case of unknown claims) related to certain environmental damage claims unknown at the

time of the closing of the Dynamit Nobel Acquisition, if notified within ten years. All of these indemnity obligations are subject to different minimum per-claim thresholds depending on whether the matter was disclosed or not, and on the subject matter, ranging between €100,000 and €750,000 (\$0.1 million and \$0.9 million) depending on the type of claim. The indemnity obligations are further subject to certain deductibles, exclusions and limitations. Furthermore, mg technologies and MG North America Holdings are obligated to indemnify us for certain environmental risks arising from certain "shared site" structures for a duration of ten years. This indemnity obligation is not subject to the percentages, *de minimis* exclusions, deductibles and thresholds described above, and it is not subject to most of the general limitations.

In the event the Company seeks indemnity under any of these agreements or through other means, there can be no assurance that mg technologies, MG North America Holdings, Degussa or any other party who may have obligations to indemnify the Company will adhere to their obligations and the Company may have to resort to legal action to enforce its rights under the indemnities. In addition, the Company maybe required to make indemnity payments in connection with certain environmental matters. However, the Company does not believe that resolution of the known environmental matters subject to indemnification obligations owed to it or by it will have a material adverse effect on the Company's long-term business or financial condition as such amounts are not significant.

### ***Environmental Reserves***

The Company has established financial reserves relating to anticipated environmental cleanup obligations, site reclamation and remediation and closure costs. Liabilities are recorded when potential liabilities are either known or believed to be probable and can be reasonably estimated. The Company's liability estimates are based upon available facts, existing technology, past experience and, in some instances where the remediation costs are being paid directly by the Company's insurers, insurance recoveries, and are generated by several means, including State-mandated schedules, environmental consultants and internal experts, depending on the circumstances. On a consolidated basis, the Company accrued approximately \$51.2 million and \$51.9 million for known environmental liabilities as of March 31, 2005 and December 31, 2004, respectively, all of which are classified as other non-current liabilities on the Company's consolidated balance sheets for such periods. Included in the \$51.2 million and \$51.9 million as of March 31, 2005 and December 31, 2004 is €6.5 million (\$8.4 million using the exchange rate on March 31, 2005 of €1.00=\$1.2996) that is discounted using 5.0% discount rate (undiscounted amount equals \$13.0 million), and €2.4 million (\$3.2 million) that is discounted using 5.5% discount rate (undiscounted amount equals \$4.9 million). In certain cases, the Company's remediation liabilities are payable over periods of up to 30 years.

The Company believes these accruals are adequate based on currently available information. The Company may incur losses in excess of the amounts accrued, however, based on currently available information the Company does not believe the additional amount of potential losses would have a material effect on the Company's results of operations or financial condition, but may have a material adverse effect on the results of operations or cash flow in any given quarterly or annual reporting period. The Company is unable to estimate the amount or range of any potential



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incremental charges should facts and circumstances change and may in the future revise the Company's estimates based on new information becoming available.

The Company is obligated to undertake soil remediation at two facilities in Europe in the event manufacturing operations are discontinued there at some future date. The Company does not contemplate any such action occurring in the foreseeable future, as these facilities' remaining lives are indefinite. Given the indeterminate useful life of these facilities and the corresponding indeterminate settlement date of any soil remediation obligations the Company does not have sufficient information to estimate a range of potential settlement dates for the obligations. Consequently, we cannot employ a present value technique to estimate fair value and, accordingly, we have not accrued for any related costs.

The Company believes these environmental matters will not have a material adverse effect on the Company's long-term results of operations and/or financial condition. However, these matters may have a material adverse effect on the Company's results of operations or cash flows in any given quarterly or annual reporting period.

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**Independent Auditor's Report**

To the Board of Directors of  
Dynamit Nobel AG:

We have audited the accompanying combined balance sheets of Dynamit Nobel as of December 31, 2003 and 2002, and September 30, 2002 and 2001, and the related combined statements of income, changes of investment by mg technologies ag and cash flows for the year ending December 31, 2003, the three months ending December 31, 2002 and each of the twelve month periods ending September 30, 2002 and September 30, 2001. These combined financial statements are the responsibility of Dynamit Nobel's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Dynamit Nobel as of December 31, 2003 and 2002, and September 30, 2002 and 2001 and the results of their operations and cash flows for the year ending December 31, 2003, the three months ending December 31, 2002, and each of the twelve months periods ending September 30, 2002 and September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

As described in Notes B and E 10 to the combined financial statements, Dynamit Nobel adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" on October 1, 2001. As described in Note B to the combined financial statements, Dynamit Nobel adopted the provisions of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities an Interpretation of Accounting Research Bulletin No. 51" as of December 31, 2003.

Frankfurt am Main, Germany  
August 16, 2004

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

## DYNAMIT NOBEL

## COMBINED INCOME STATEMENTS

(\$ '000)	Notes E)	January 1- December 31, 2003	October 1- December 31, 2002	October 1, 2001- September 30, 2002	October 1, 2000- September 30, 2001
Net sales		1,595,910	336,889	1,421,948	1,446,504
Cost of sales		-1,060,060	-219,274	-914,757	-949,458
<b>Gross profit</b>		<b>535,850</b>	<b>117,615</b>	<b>507,191</b>	<b>497,046</b>
Selling, general and administrative expenses		-321,770	-75,854	-286,349	-305,674
Research and development costs		-32,356	-7,330	-29,397	-27,707
Other operating income		30,221	8,019	31,679	77,476
Other operating expenses		-26,373	-9,421	-16,860	-11,037
Amortization of Goodwill					-19,545
<b>Operating income</b>		<b>185,572</b>	<b>33,029</b>	<b>206,264</b>	<b>210,559</b>
Income from investments		2,938	2,149	3,872	4,897
Interest expense, net and other financial expense	2	-25,163	-6,858	-22,797	-24,152
<b>Earnings from continuing operations before income taxes, minority interests and cumulative effect of change in accounting principles</b>		<b>163,347</b>	<b>28,320</b>	<b>187,339</b>	<b>191,304</b>
Income taxes	3	-61,725	-11,882	-80,479	-94,187
Minority interests		-315	106	773	0
<b>Earnings from continuing operations before cumulative effect of change in accounting principles</b>		<b>101,307</b>	<b>16,544</b>	<b>107,633</b>	<b>97,117</b>
<b>Income from discontinued operations</b>		<b>1,393</b>	<b>232</b>	<b>2,628</b>	<b>1,346</b>
thereof earning from operations		-2,240	380	4,265	2,854
thereof gains on disposal		6,427	0	0	0
thereof income taxes		-2,794	-148	-1,637	-1,508
<b>Earnings before cumulative effect of change in accounting principles</b>		<b>102,700</b>	<b>16,776</b>	<b>110,261</b>	<b>98,463</b>
Cumulative effects of change in accounting principles, net of income taxes of \$1,180		-1,793	0	0	0
<b>Net income</b>		<b>100,907</b>	<b>16,776</b>	<b>110,261</b>	<b>98,463</b>

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The accompanying notes are an integral part of these financial statements.

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## DYNAMIT NOBEL

## COMBINED BALANCE SHEETS

Assets (\$ '000)	Notes(E)	December 31, 2003	December 31, 2002	September 30, 2002	September 30, 2001
Cash and cash equivalents	4	7,832	7,007	9,503	10,718
Trade receivables	5	200,369	158,625	178,091	160,713
Receivables from related parties	6	72,631	29,053	28,936	9,316
Other assets and accounts receivable		45,060	68,600	59,731	50,418
Inventories	7	276,349	247,632	211,429	229,165
Prepaid expenses		4,931	7,120	3,885	4,348
Deferred taxes	3	34,990	25,917	34,283	11,166
<b>Current assets</b>		<b>642,162</b>	<b>543,954</b>	<b>525,858</b>	<b>475,844</b>
Investments		42,540	33,615	31,376	17,431
Property, plant and equipment	8	918,195	766,179	723,912	663,283
Goodwill	10	405,247	380,358	377,314	378,507
Other intangible assets	9	19,947	19,892	19,235	12,353
Receivables from related parties	6	0	7,651	14,292	19,842
Other assets		3,482	17,157	12,721	12,494
Prepaid expenses		2,646	3,026	2,955	3,631
Deferred tax assets	3	397,407	372,888	24,813	13,298
<b>Non-current assets</b>		<b>1,789,464</b>	<b>1,600,766</b>	<b>1,206,618</b>	<b>1,120,839</b>
<b>Total assets</b>		<b>2,431,626</b>	<b>2,144,720</b>	<b>1,732,476</b>	<b>1,596,684</b>

The accompanying notes are an integral part of these financial statements.

## DYNAMIT NOBEL

## COMBINED BALANCE SHEETS

Total liabilities and investment by mg (\$ '000)	Notes(E)	December 31, 2003	December 31, 2002	September 30, 2002	September 30, 2001
Short-term debt including current portion of long-term debt	11	183,431	129,586	108,097	123,605
Trade payables		165,795	138,754	126,698	117,403
Liabilities to related parties	6	220,150	180,844	278,725	136,747
Accruals and Provisions	13	123,120	98,708	98,224	115,607
Other current liabilities		50,656	48,680	50,550	46,686
Deferred tax liabilities	3	2,642	3,578	3,116	3,658
<b>Current liabilities</b>		<b>745,794</b>	<b>600,150</b>	<b>665,410</b>	<b>543,706</b>
Long-term debt	11	231,627	201,594	94,114	137,905
Liabilities to related parties	6	31,575	34,958	32,868	38,045
Provisions for pensions and similar obligations	12	275,829	220,809	207,650	185,598
Other provisions	13	42,480	28,648	38,706	39,811
Other liabilities		12,349	14,392	16,597	12,865
Deferred tax liabilities	3	55,261	77,581	74,144	38,036
<b>Non-current liabilities</b>		<b>649,121</b>	<b>577,982</b>	<b>464,079</b>	<b>452,260</b>
<b>Minorities</b>	<b>14</b>	<b>3</b>	<b>298</b>	<b>385</b>	<b>910</b>
<b>Investment by mg</b>		<b>1,036,708</b>	<b>966,290</b>	<b>602,602</b>	<b>599,807</b>
<b>Total liabilities and investment by mg</b>		<b>2,431,626</b>	<b>2,144,720</b>	<b>1,732,476</b>	<b>1,596,684</b>

The accompanying notes are an integral part of these financial statements.

## DYNAMIT NOBEL

## COMBINED STATEMENTS OF CASH FLOWS

(\$ '000)	January 1 - December 31, 2003	October 1 - December 31, 2002	October 1, 2001 - September 30, 2002	October 1, 2000 - September 30, 2001
Net income	100,907	16,776	110,261	98,463
Adjustment of net income from discontinued operations	-1,393	-232	-2,628	-1,346
Depreciation and amortization	94,629	21,129	83,140	103,315
Change in provisions for pensions	5,938	408	9,188	3,667
Change in other provisions	11,086	-17,419	-22,275	-42,135
Gains on disposal of non-current assets	-2,580	-1,889	-12,697	-49,639
Change in inventories	22,542	-25,686	-1,040	-5,742
Change in trade receivables	-9,203	30,796	-26,439	47,889
Change in trade payables	-198	1,463	13,843	-2,284
Change in deferred tax assets and liabilities	8,223	13,428	149	7,767
Change in derivatives	-859	438	1,481	1,352
Change in other assets and liabilities	37,973	2,922	-10,909	-33,342
<b>Net cash provided by operating activities</b>	<b>267,065</b>	<b>42,134</b>	<b>142,074</b>	<b>127,965</b>
Proceeds from disposal of fixed assets	3,690	2,713	14,810	5,573
Purchases of property, plant and equipment and intangible assets	-121,978	-26,344	-111,990	-125,068
Purchases of investments and long-term financial assets	-1,996	-161	-12,214	-1,231
Purchases of securities	-626	-17	-15	-16
Payments for acquisition of businesses, net of cash acquired	0	0	0	-29,766
Proceeds from disposal of businesses	18,198	0	46,942	90,241
<b>Net cash used for investing activities</b>	<b>-102,712</b>	<b>-23,809</b>	<b>-62,467</b>	<b>-60,267</b>
Dividends paid to MG North America Holdings Inc.	0	0	-3,842	-1,298
Principal payments on capital leases liabilities	-6,092	-654	-3,072	-1,373
Net increase (decrease) in other debt	-4,640	100,683	-66,670	-42,327
Net financing provided by mg	-186,111	-130,965	-22,341	-37,258
<b>Net cash used for financing activities</b>	<b>-196,843</b>	<b>-30,936</b>	<b>-95,925</b>	<b>-82,256</b>
Exchange-rate-related changes in cash and cash equivalents	33,315	10,237	15,068	8,303
<b>Change in unrestricted cash and cash equivalents</b>	<b>825</b>	<b>-2,374</b>	<b>-1,250</b>	<b>-6,255</b>
Unrestricted cash and cash equivalents at beginning of year	7,007	9,381	10,631	16,886
<b>Unrestricted cash and cash equivalents at end of year</b>	<b>7,832</b>	<b>7,007</b>	<b>9,381</b>	<b>10,631</b>
Restricted cash and cash equivalents with term greater than three months	0	0	122	87

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(\$ '000)	January 1 - December 31, 2003	October 1 - December 31, 2002	October 1, 2001 - September 30, 2002	October 1, 2000 - September 30, 2001
Cash and cash equivalents as reported on the balance sheet	7,832	7,007	9,503	10,718

The accompanying notes are an integral part of these financial statements

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## DYNAMIT NOBEL

## COMBINED STATEMENTS OF CHANGES IN INVESTMENT BY MG TECHNOLOGIES AG

(\$ '000)	Accumulated Other Comprehensive Loss					Investment by mg
	Investment by mg	Cumulative translation adjustment	Minimum pension liability	Hedge Accounting	Available for sale securities	
<b>Balance at October 1, 2000</b>	842,535	-231,283	-1,849	0	-7	609,396
Net Income	98,463					98,463
Other Comprehensive Income		10,832	-8,055	-2,031	10	756
<b>Comprehensive Income</b>	<b>98,463</b>	<b>10,832</b>	<b>-8,055</b>	<b>-2,031</b>	<b>10</b>	<b>99,219</b>
Net distributions to mg	-108,809					-108,809
<b>Balance at September 30, 2001</b>	<b>832,189</b>	<b>-220,451</b>	<b>-9,904</b>	<b>-2,031</b>	<b>3</b>	<b>599,806</b>
Net Income	110,261					110,261
Other Comprehensive Income		12,595	-3,802	-2,760	-2	6,031
<b>Comprehensive Income</b>	<b>110,261</b>	<b>12,595</b>	<b>-3,802</b>	<b>-2,760</b>	<b>-2</b>	<b>116,292</b>
Net distributions to mg	-113,495					-113,495
<b>Balance at September 30, 2002</b>	<b>828,955</b>	<b>-207,857</b>	<b>-13,706</b>	<b>-4,791</b>	<b>1</b>	<b>602,603</b>
Net Income	16,776					16,776
Other Comprehensive Income		36,492	451	-138	-7	36,798
<b>Comprehensive Income</b>	<b>16,776</b>	<b>36,492</b>	<b>451</b>	<b>-138</b>	<b>-7</b>	<b>53,574</b>
Net investment by mg	310,113					310,113
<b>Balance at December 31, 2002</b>	<b>1,155,844</b>	<b>-171,364</b>	<b>-13,255</b>	<b>-4,929</b>	<b>-6</b>	<b>966,290</b>
Net Income	100,907					100,907
Other Comprehensive Income		117,374	-3,288	2,361	-15	116,432
<b>Comprehensive Income</b>	<b>100,907</b>	<b>117,374</b>	<b>-3,288</b>	<b>2,361</b>	<b>-15</b>	<b>217,339</b>
Net distributions to mg	-146,921					-146,921
<b>Balance at December 31, 2003</b>	<b>1,109,830</b>	<b>-53,990</b>	<b>-16,543</b>	<b>-2,568</b>	<b>-21</b>	<b>1,036,708</b>

The accompanying notes are an integral part of these financial statements

**DYNAMIT NOBEL**

**NOTES TO COMBINED FINANCIAL STATEMENTS**

(\$ '000)

**A) Description of Business and Basis of Presentation**

**Description of Business:** The Dynamit Nobel Group (Dynamit Nobel) specializes in advanced technologies in the fields of chemicals and materials engineering. This internationally active industrial group supplies innovative specialty products to niche markets in several sectors such as the life science, chemical, automotive and construction industries. Its business activities are subdivided into its four business units: Custom Synthesis, Advanced Ceramics, Specialty Chemicals, and Pigment Chemicals.

The product spectrum of the Custom Synthesis business unit ranges from individual synthesis for customers in the life science industry to complex specialty chemicals. In the pharmaceutical sector, its custom synthesis includes preliminary products and active compounds for the treatment of carcinomas, allergies, high blood pressure, and depression. Its customers are based in North America, Europe, and Japan.

The Advanced Ceramics business unit operates in the fields of functional and structural ceramics. Functional ceramics includes substrates, resistor supports, piezoceramics, and electrical components. Structural ceramics encompasses wearing parts for mechanical and plant engineering, high-quality cutting tools, and bioceramics for medical equipment, such as artificial hip joints.

The Specialty Chemicals business unit operates worldwide in the fields of surface technology, polymer chemistry, and lithium chemistry. The unit principally supplies customized products and develops the processes needed to manufacture them. Its customers come from the metalworking, pharmaceutical, electronics, ceramics, glass, automotive, and aerospace industries.

The Pigment Chemicals business produces white pigments, fillers, and water-based chemicals and has a worldwide customer base. These products are mainly used in synthetic fibers, varnishes, paints, cosmetics, medicines, plastics, and paper. This business unit also produces chemicals for chromatography and catalysis as well as additives for the cement and metallurgical industries.

**Basis of presentation:** The preparation of these Dynamit Nobel combined financial statements is due to the sale of Dynamit Nobel to companies affiliated with Rockwood Specialties Group Inc. (Rockwood), Delaware, U.S.A., under the Sale and Purchase Agreement of April 19, 2004. Dynamit Nobel is part of the mg technologies ag Group, Frankfurt am Main (mg or mg Group). The Dynamit Nobel segment included in mg's consolidated financial statements is not identical to these combined financial statements of Dynamit Nobel since in addition to the companies included herein, the Dynamit Nobel segment includes the Plastics business unit, the Industrial Ignition Systems business, and the Defense Technology business. Rockwood has not acquired these activities.

These combined financial statements of Dynamit Nobel include only the assets, liabilities and transactions of the activities that Rockwood has acquired. These include the assets and liabilities of:

Dynamit Nobel AG and its direct and indirect subsidiaries,

the acquired North American companies, which were held by mg through MG North America Holdings Inc., Delaware, U.S.A., and

whose beneficial ownership had been transferred to mg for tax purposes (for further information see Note 3, "Income Taxes").

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These combined financial statements of Dynamit Nobel constitute a carve out from mg's consolidated financial statements and as such the excess of assets over liabilities is reflected as mg's investment in Dynamit Nobel.

The combined financial statements of Dynamit Nobel for the fiscal years October 1, 2000 through September 30, 2001 (fiscal year 2000/2001); October 1, 2001 through September 30, 2002 (fiscal year 2001/2002); the three months period October 1, 2002 through December 31, 2002 (stub period 2002 or SFY 2002), and the year January 1 through December 31, 2003 (year 2003) have been prepared in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP). All amounts are presented in thousands of US dollars (\$'000).

**Relationship between the Dynamit Nobel Group and mg:** The combined financial statements of Dynamit Nobel include expenses that have been incurred by mg on behalf of Dynamit Nobel. Management believes the assumptions underlying the combined financial statements of Dynamit Nobel, including the methods used to allocate expenses incurred on Dynamit Nobel's behalf by mg technologies ag are reasonable. Management believes that the amount of expenses reflected in the combined income statements approximates the estimated expenses Dynamit Nobel would have incurred had it not been affiliated with mg technologies ag. These expenses include remuneration paid to the chief executive officer of Dynamit Nobel AG for 2003, who continued to serve on the Executive Board of mg technologies ag during this period. The full cost of this remuneration was borne by mg technologies ag and based in proportion of hours worked, half of this cost has been allocated to Dynamit Nobel and is reflected in these combined financial statements. Compensation incurred by mg to an additional Executive Board member of Dynamit Nobel AG has also been reflected. Unless described elsewhere in these combined financial statements, additional services have not been rendered by mg to Dynamit Nobel without consideration by Dynamit Nobel.

Dynamit Nobel participates in mg's centralized financial and cash management system and in its Group-wide cash-pooling system under which surplus cash is transferred to the cash pool. Cash required for funding purposes is withdrawn from the cash pool subject to certain limitations. The balance due by Dynamit Nobel under the profit-and-loss transfer agreement with mg (see Note 3, "Income Taxes") and certain other items are combined with the cash pool balance in one current account with mg. The account balance amounted to US\$187,816 at December 31, 2003 (December 31, 2002: US\$90,421; September 30, 2002: US\$158,654; September 30, 2001: US\$47,011) and are included in liabilities to mg on the balance sheet. Until March 1, 2002, interest of 2.0% was paid on all balances due by mg and 6.0% was charged for balances due to mg. Subsequent to March 1, 2002, the interest rates paid have been the interbank rate and 1-month Euribor, respectively, plus a margin of 0.7% or 1.0%. However, at December 31, 2003 guarantees issued by mg for the bank loans obtained by Dynamit Nobel amounted to US\$12,251 (SFY 2002: US\$10,172; 2001/02: US\$0; 2000/01: US\$0).

Until mid-2003, Dynamit Nobel also issued standby letters of credit and executed derivatives transactions by itself. Since then, mg has performed these functions on a centralized basis. Dynamit Nobel seconded an employee to mg to perform these services.

Dynamit Nobel is integrated in the tax sharing agreements of mg. For the purposes of these combined financial statements, however, Dynamit Nobel has been presented as if the combined entities were a separate taxable entity. As a result, income taxes have been estimated. For further information see Note 3, "Income Taxes".

Despite the adjustments made, these combined financial statements do not present the net assets, financial position, results of operations and cash flows of Dynamit Nobel as if it had existed independently of mg. Consequently, the combined financial statements are not indicative of Dynamit Nobel's future development.

Purchase accounting adjustments including the recognition of goodwill arising from mg's acquisition of Dynamit Nobel are reflected in the combined financial statements of Dynamit Nobel (push-down accounting). These adjustments are accounted for at the reporting unit level.

## B) Summary of Significant Accounting Policies

**Principles of combination:** These combined financial statements include the assets and liabilities and transactions of the combined Dynamit Nobel entities as defined in the Basis of Presentation. In addition, certain variable-interest entities for which Dynamit Nobel is considered to be the primary beneficiary are also included.

The assets, liabilities, and transactions of entities whose individual and aggregated influence are not material to the fair presentation of Dynamit Nobel's net assets, financial position and results of operations and cash flows have not been included. They are carried on the cost method and are included in "Investments" on the balance sheet. In aggregate, these entities, which were controlled by Dynamit Nobel during the periods covered by the combined financial statements, represent less than 2.0% of the total assets and less than 2.0% of net sales and net income of Dynamit Nobel.

Dynamit Nobel's investment in Guangzhou Huali Sachtleben Chemicals Company Ltd. is accounted for using the equity method of accounting in all the periods presented due to Dynamit Nobel's ability to exert significant influence. The equity method of accounting has also been applied to its investment in ChemStore GmbH, which was established in 2003.

**Currency translation:** Foreign-currency transactions included in these combined financial statements are translated at the exchange rate prevailing at the time of the transaction. Foreign-currency items are adjusted to the exchange rate prevailing at each balance sheet date. The resulting translation adjustments are reported as "Other operating income" or "Other operating expenses". Consequently, in 2003 income of US\$11,324 (SFY 2002: US\$3,802; 2001/2002: US\$4,957; 2000/2001: US\$4,113) and expenses of US\$11,298 (SFY 2002: US\$7,615; 2001/2002: US\$7,226; 2000/2001: US\$4,831) were recognized. Adjustments arising from the translation of nonderivative instruments hedging a net investment in a foreign entity are included in "Accumulated other comprehensive income/loss". In 2003, the amount included in accumulated other comprehensive income was US\$ 13,644 (SFY 2002: US\$ 2,783; 2001/2002: US\$ 4,704; 2000/2001: US\$ 684).

Assets and liabilities of foreign entities where the functional currency is not the US dollar are translated into the reporting currency (US dollar) at year-end exchange rates and income and

expenses are translated at the average exchange rates during the period for the respective years. The resulting translation gains and losses are reported as "Accumulated other comprehensive income/loss".

**Revenue recognition:** Revenue is generated primarily from the sale of products and is recognized once title to the products has passed to the customer, provided the consideration has been contractually agreed or can be determined and collectibility is reasonably assured. If formal customer acceptance is required, revenue is not recognized until it has been obtained. Revenue under service agreements is realized when the service is performed. Customer incentives, discounts, rebates and other allowances reduce the amount of revenue recognized. Freight and shipping costs borne by Dynamit Nobel do not reduce the revenue recognized but are reported as selling expenses. If these costs are passed on to the customer, they are included as part of revenue. In 2003, freight and shipping costs, including custom duties, borne by the seller amounted to US\$50,452 (SFY 2002: US\$10,745; 2001/2002: US\$44,415; 2000/2001: US\$46,836).

**Product Warranties:** Expected product warranty costs are provided and included in the cost of sales at the time the related revenue is recognized. The amount of the provision or accrued liability is calculated either individually or as a lump sum amount based on past experience. In the case of new products, these estimates include product-specific information obtained during the development and production stages. Rights of recourse to suppliers reduce the provision if it is likely that the amount can be recovered from the supplier.

**Research and development:** Research and development costs are expensed as incurred.

**Advertising:** Advertising and sales-promotion costs are expensed as incurred and reported as selling expenses. The selling and administrative expenses reported in 2003 include advertising costs of US\$4,207 (SFY 2002: US\$1,132; 2001/2002: US\$4,508; 2000/2001: US\$6,579).

**Cash and cash equivalents:** Cash comprises readily available funds such as checks, cash on hand and bank deposits. Cash equivalents cover all liquid assets with an original term to maturity of no more than three months.

**Trade accounts receivable:** Accounts receivable are stated at nominal value less discounts and valuation allowances.

Valuation allowances for doubtful accounts receivable are determined on the basis of systematic and regular assessments. If the recoverability of these receivables is monitored in the form of aggregated portfolios, the assessment is primarily based on past collection experience adjusted to the prevailing economic situation. Accounts receivable from large corporate customers are individually monitored and assessed. As soon as receivables are expected to be unrecoverable, they are written off against the valuation allowance.

**Inventories:** Inventories are valued at the lower of cost or market. Cost is computed on average cost or the first-in, first-out method. Manufacturing costs include direct costs and applicable manufacturing overheads as well as depreciation charges and production-related administrative costs. General administrative expenses are not included in inventory.

**Investments:** Marketable securities are carried at fair value with changes in fair value after initial purchase being recognized as a separate component of comprehensive income, net of applicable income taxes. If the fair value is below cost and the decline in fair value is determined to be other than temporary, the impairment write down results in a permanent reduction of the cost basis. The measurement of this write down is based on all available information such as market conditions, asset-specific aspects, and the duration and extent of the asset impairment.

**Property, plant and equipment:** Property, plant and equipment is recognized at cost, less accumulated depreciation. Costs of internally produced plant and equipment include all direct costs and applicable overheads and depreciation charges and qualifying capitalized interest during the construction period. In 2003, interest of US\$593 (SFY 2002: US\$140; 2001/2002: US\$1,339; 2000/2001: US\$1,120) was capitalized.

Maintenance and repair costs are treated as an expense unless the expenditure leads to a sustainable increase in the asset's potential benefit, in which case it is capitalized.

The following depreciation methods and estimated useful lives are used:

	<b>Method of Depreciation</b>	<b>Useful Life</b>
Buildings and fixtures	Straight-line	5 to 50
Plant and equipment, other equipment	Straight-line	3 to 30
Office furniture and equipment	Straight-line	3 to 25

Property, plant and equipment includes mining rights for the extraction of a raw material used to produce lithium carbonate. These rights are amortized using the depletion method based on the estimated deposits of minerals relating to the rights. The useful economic life estimated on this basis is 57 years with a remaining estimated useful life of 52 years.

**Goodwill:** As a result of the adoption of SFAS 142 ("Goodwill and Other Intangible Assets") at the beginning of fiscal 2001/2002 (October 1, 2001), goodwill is no longer amortized over its useful life; but instead tested for impairment. Prior to the adoption of SFAS 142, goodwill was amortized on a straight-line basis over its estimated useful life, usually 25 years. Goodwill is tested for impairment at least once a year at balance date and if significant events or circumstances occur that indicate that its carrying amount may have been impaired. The annual goodwill impairment assessment is performed by applying a two step approach to each of the nine reporting units. The first step involves estimating the fair value of the reporting unit and comparing it to the carrying value of net assets of the reporting unit. If the carrying value of the reporting unit exceeds its fair value, the second step is required to determine the amount of impairment loss, if any. The discounted cash flow method is used to determine the fair value of the reporting units and this requires significant estimates and assumptions to be made by management.

**Intangible assets:** Other intangible assets are shown at their acquisition cost and amortized on a straight-line basis over their estimated useful lives. The estimated useful lives applied are as follows:

	<u>Estimated Useful Life (Years)</u>
Patents, licenses, trademarks and similar rights and assets, including licenses for such rights and assets	3 to 10
Software	2 to 10

**Impairment of property, plant and equipment and intangible assets:** The carrying amount of a long-term asset or group of assets is reviewed for recoverability when events or changes in circumstances may indicate that the carrying amount of an asset may not be recoverable. Recoverability is tested by comparing the carrying amount of any asset or group of assets with the sum of the anticipated undiscounted future cash flows attributable to this asset or group of assets. If the carrying value is greater than the anticipated, undiscounted cash flows, the asset or group of assets is written down to fair value.

**Leases:** A lease is an agreement that conveys the right to use a certain tangible asset for an agreed period. This definition also applies to agreements in which the right to use the asset is not explicitly stated. Leases under which the lessee bears substantive risks and rewards arising from the use of the leased asset are classified as capital leases. In this case, the leased asset and the corresponding liability are shown on the lessee's balance sheet. Leases under which the lessor bears substantive risks and rewards in connection with the leased asset are classified as operating leases. In this case, the lease installments are expensed as incurred by the lessee.

Some of the entities included in these combined financial statements have sold and leased back tangible assets. In the case of leaseback agreements, gains on these sales are deferred and recognized over the term of the lease or over their estimated useful life. Gains resulting from leasebacks involving only a minor portion of the useful life of the asset are recognized immediately. In cases where there is neither a minor nor a leaseback involving substantially all of the future use, gains are deferred proportionately and recognized over the term of the lease or over their estimated useful life.

**Derivative instruments:** Derivative instruments are used only for hedging purposes, particularly in order to mitigate the risk of interest rate fluctuations inherent in financing transactions and to hedge against currency risk and price movements. At the time they are entered into, derivative instruments are often designated either as fair value hedges (hedges against fluctuations in the fair value of assets, liabilities, or firm commitments) or as cash flow hedges (hedges for an anticipated transaction or future cash flows in connection with assets and liabilities). According to SFAS 133 ("Accounting for Derivative Instruments and Hedging Activities"), as amended by SFAS 137 ("Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133"), SFAS 138 ("Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment of FASB Statement No. 133"), and SFAS 149 ("Amendment of Statement 133 on Derivative Instruments and Hedging Activities"), all derivative instruments are reported at their fair value as "Accounts receivable" or "Other current liabilities", irrespective of their intended purpose. In the case of derivative instruments designated as fair value

hedges, changes in the fair value of the derivative and the underlying transaction are immediately recognized in income. The hedge-effective part of changes in the fair value of financial instruments used as cash flow hedges is initially reported as "Accumulated other comprehensive income/loss". It is only recorded in the income statement when the hedged underlying transaction has been recognized in income. The hedge-ineffective part of the changes in fair value is immediately recognized in income. Derivative instruments that do not qualify for hedge accounting are accounted for at fair value with changes in fair value reported in income.

**Pensions and other postretirement obligations:** Pensions and other postretirement obligations are measured based upon the projected unit credit method in accordance with SFAS 87 and SFAS 106. The amounts reported are based on calculations by actuaries.

**Environmental liabilities:** Provisions are established for environmental liabilities when such losses are probable and can be reasonably estimated. The valuation of such provisions is based either on experts' reports on the rectification of environmental damage or on internal estimates based on past experience. The anticipated costs of environmental liabilities are generally not discounted. However, anticipated payments are discounted when their timing and amounts are known. Once the relevant tests are performed and the necessary clean-up measures are being implemented, the corresponding provisions and accrued liabilities are adjusted to reflect the findings obtained. The amount of the provisions in each case will be influenced by the extent of the environmental damage and by the clean-up measures required by law and the regulatory authorities. Rights of recourse to third parties are only recorded if it is almost certain that they can be enforced.

**Provisions and accrued liabilities:** Provisions for loss contingencies are recorded when an obligation to a third party is probable, and its amount can be reasonably estimated. If the amount of the required provision or accrued liability can only be estimated within a certain range, the most probable amount within the range is reported. When all amounts within the range are of equal probability the lowest amount in the range is reported.

After the adoption of SFAS 143 on October 1, 2002, liabilities for asset retirement obligations are initially reported at fair value. When a liability is recorded, the costs must be capitalized by increasing the carrying amount of the long-lived assets and depreciated over the estimated useful life. In subsequent years, the liability is subject to changes as a result of the accretion of interest and revisions to estimates.

In accordance with FIN 45, as of January 1, 2003 provisions and accrued liabilities for certain guarantees covering third-party financial obligations and for guarantees covering changes in the value of underlying instruments have been shown at the fair value of the guarantee at the time the guarantee is issued, irrespective of the likelihood that the obligation will occur.

**Deferred taxes:** Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts and respective tax bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred tax assets are also recognized on net operating loss carry forwards. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that a deferred tax asset will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.



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**Stock-based compensation:** mg has established a stock option and employee stock ownership program for its managers and staff. The compensation cost of the options issued under the stock option and employee share ownership program has been recognized in these combined financial statements if this cost is attributable to the managers and staff of the companies included in these combined financial statements. The cost of these options is accounted for at their fair value at the grant date in accordance with SFAS 123 ("Accounting for Stock-Based Compensation") and is recognized over the service period, which is usually the vesting period. The cost of the options is reported under "Selling, general and administrative expenses".

**Estimates:** The preparation of these combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the period. Estimates include assessing the impairment of goodwill, intangibles and other long-lived assets, valuation allowances on deferred income taxes, the collectibility of accounts receivable, the use and recoverability of inventory, product warranty claims and environmental remediation liabilities, among others.

Additionally, factors that may cause these amounts to differ from projections are deterioration in the global economy, movements in exchange rates and interest rates, significant litigation, and changes in environmental or other statutory regulations. Production errors, the loss of key customers, and changes in funding can also impair Dynamit Nobel's future performance.

Although such estimates are based on management's best judgment, due to the inherent uncertainties in the estimating process, actual results could differ from these estimates.

**Changes in accounting standards:** SFAS 142 was adopted on October 1, 2001. This standard describes under what conditions intangible assets are capitalized and reported separately from goodwill. SFAS 142 states that goodwill and intangible assets with an indefinite useful life are not amortized. Instead, they are tested for impairment once a year. Intangible assets with a limited useful life are still amortized. These assets are subjected to an impairment test in accordance with SFAS 144 ("Accounting for the Impairment or Disposal of Long-Lived Assets"). Due to the adoption of SFAS 142, goodwill has not been amortized since October 1, 2001. Goodwill amortization expense in fiscal 2000/2001 was US\$19,545. Excluding goodwill amortization, a net income of US\$118,008 would have been reported. There are no intangible assets with unlimited useful lives.

SFAS 143 ("Accounting for Asset Retirement Obligations") was adopted as of October 1, 2002. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which the liability is incurred if a reasonable estimate of fair value can be made. At the same time, the fair value of the liability is capitalized by increasing the carrying amount of the long-lived asset. Over the estimated life of the asset, the liability is accreted to its present value and the related capitalized charge is depreciated over the useful life of the asset. Upon adoption, Dynamit Nobel recorded a liability for asset retirement obligations of US\$1,079. This obligation was based on estimated anticipated payments of US\$2,575, which have been discounted at a rate of 5.5%. The carrying basis of the long-lived asset was increased by US\$393. The adoption of this

standard gave rise to an expense of US\$686 before deferred taxes in the statement of income. The accretion on the liability is included under the cost of sales.

SFAS 150 ("Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity") was issued in May 2003. SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. These are reported as a liability and accounted for at their fair value. Stock options and convertible bonds issued as remuneration are exempted. SFAS 150 is applicable to financial instruments issued or modified after May 31, 2003. Dynamit Nobel first adopted this standard for existing financial instruments as of December 31, 2003, although the valuation rules pertaining to certain financial instruments are not applicable until further notice owing to FASB Staff Position No. 150-3 ("Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity").

FIN 46R ("Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51 (revised)") was issued in December 2003. The primary objective of FIN 46R is to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable-interest entity") and how to determine whether an entity is primary beneficiary and required to consolidate it. Dynamit Nobel adopted FIN 46R as of December 31, 2003. As a result, it included two special purpose leasing entities in its combined financial statements.

These leasing companies own laboratory facilities and one piece of real estate, which are leased to Dynamit Nobel and are used in the normal course of business. The leasing companies work exclusively for Dynamit Nobel. In the past, the laboratory leased by one of the companies had been accounted as a capital lease. The requirement to consolidate this leasing company had no material accounting impact on Dynamit Nobel's financial statements.

The adoption of FIN 46R and consolidation of the two lessor entities increased property, plant and equipment and its bank debt by US\$2,530 and US\$10,166 respectively. In addition deferred income related to previous sale-and-leaseback agreement was reversed upon adoption.

### **C) Acquisitions**

On March 1, 2001, all of the common shares in SYLACHIM S.A. (renamed Finorga S.A. on October 1, 2001), a producer and distributor of active ingredients for medicines based in Chasse Sur Rhône, France, were acquired for US\$87,984. The purchase price comprised a cash component of US\$30,693, the waiver of a debt of US\$47,139 owed by the seller, and a contingent purchase price of US\$10,152. The contingent purchase price component was deposited in an escrow account and paid in 2003 after a performance target had been achieved. SYLACHIM S.A. has been combined with Dynamit Nobel since March 1, 2001. The excess of the fixed consideration given over the fair value of net assets acquired was recorded as goodwill of US\$18,747. The useful economic life was estimated to be 25 years. The contingent purchase price component was paid out in 2003 and resulted in an additional goodwill.

**D) Disposal of Businesses**

**Fiscal 2000/2001:** Effective November 30, 2000, Dynamit Nobel sold the electroplating business of the Speciality Chemicals business unit. This generated a gain of US\$25,397. The disposal included goodwill of US\$1,480.

In addition, Dynamit Nobel sold five other businesses during fiscal year 2000/01 which are not significant individually or in the aggregate involving several of its business units which resulted in gains of US\$20,633 and included the disposition of goodwill of US\$477.

**Fiscal 2001/2002:** Effective August 31, 2002, the ammunition business of Dynamit Nobel AG, Troisdorf, Germany, which forms part of the Custom Synthesis business, was sold. This generated a gain of US\$10,679. The goodwill included in the disposal price amounts to US\$1,760.

Effective September 30, 2002, the military ignition systems activities of the Custom Synthesis business were sold at a loss of US\$3,437.

**Year 2003:** A controlling 60.0% interest in a business of the Advanced Ceramics unit was sold effective March 1, 2003. This disposal resulted in a loss of US\$1,180.

Effective June 10, 2003, the Glazing Sealing Compounds business belonging to the Specialty Chemicals business unit were transferred to KÖMMERLING CHEMISCHE FABRIK GmbH, Pirmasens, Germany, as part of an asset deal. The disposal generated a gain of US\$6,427, which forms part of the income from discontinued operations. The assets and liabilities belonging to this business are each reported separately at December 31, 2002 as current assets and liabilities in "Other assets and accounts receivable" (US\$13,332) and "Other current liabilities" (US\$3,860), respectively. The assets held for sale at December 31, 2002 include goodwill of US\$5,408, property, plant and equipment of US\$2,364 and inventories of US\$5,389, the liabilities consist of trade payables, accrued liabilities and provisions.

As a general rule, all buyers of these businesses are entitled to indemnification against any environmental damage caused prior to the date of disposal. This indemnity also covered any damage that was not known prior to the date of disposal. Provisions and accrued liabilities of US\$7,836 have been recorded at December 31, 2003 to cover for the probable contingent loss from such indemnity.

The acquisitions and disposals of businesses do not significantly affect the comparability of the combined financial statements.

## E) Notes to the Combined Financial Statements

## 1) Transactions with related parties

The following income and expenses were generated by Dynamit Nobel's transactions with related parties:

\$ '000	January 1, to December 31, 2003	October 1, to December 31, 2002	October 1, 2001 to September 30, 2002	October 1, 2000 to September 30, 2001
Sales	23,187	3,581	17,691	8,512
(thereof with mg)	(3,264)	(797)	(4,314)	(5,406)
(thereof with subsidiaries)	(19,923)	(2,784)	(13,377)	(3,106)
Other operating income	16	226	20	1,985
(thereof with mg)	(10)	(3)	(8)	(1,599)
(thereof with subsidiaries)	(6)	(223)	(12)	(386)
Other operating expenses	-367	-18	-239	
(thereof with mg)	(-359)	(-17)	(-219)	(-)
(thereof with subsidiaries)	(-8)	(-1)	(-20)	(-)
Income from investments in subsidiaries	2,589	2,002	3,248	4,313
Interest and similar income	6,015	996	4,761	13,144
(thereof with mg)	(5,957)	(978)	(4,694)	(13,038)
(thereof with subsidiaries)	(58)	(18)	(67)	(106)
Interest and similar expenses	-9,035	-1,726	-4,171	-34,675
(thereof with mg)	(-8,672)	(-1,631)	(-3,782)	(-34,322)
(thereof with subsidiaries)	(-363)	(-95)	(-389)	(-353)

## 2) Interest Expense, Net, and Other Financial Expense

Interest expense, net, and other financial expense consist of the following:

\$ '000	January 1, to December 31, 2003	October 1, to December 31, 2002	October 1, 2001 to September 30, 2002	October 1, 2000 to September 30, 2001
Income from securities and loans included in investments	34	18	21	16
Other interest and similar income	6,807	1,302	5,566	13,144
Other interest and similar expenses	-31,758	-8,119	-28,080	-36,171
<b>Interest expense, net</b>	<b>-24,917</b>	<b>-6,799</b>	<b>-22,493</b>	<b>-23,011</b>
Impairment of securities and long-term financial assets	-246	-59	-304	-1,141
<b>Total</b>	<b>-25,163</b>	<b>-6,858</b>	<b>-22,797</b>	<b>-24,152</b>

## 3) Income Taxes

Income taxes contain the following components:

\$ '000	January 1, to December 31, 2003	October 1, to December 31, 2002	October 1, 2001 to September 30, 2002	October 1, 2000 to September 30, 2001
Current taxes on continued operations				
German	16,680	-3	53,103	51,302
Foreign	21,541	4,227	22,830	26,732
Deferred taxes on continued operations				
German	25,526	5,398	-2,459	14,796
Foreign	-2,022	2,260	7,005	1,357
<b>Total taxes on continued operations</b>	<b>61,725</b>	<b>11,882</b>	<b>80,479</b>	<b>94,187</b>
Taxes on discontinued operations	2,794	148	1,637	1,508
Taxes allocated to other comprehensive income	-242	979	4,405	3,847
Taxes on changes in accounting principles	-1,180			
<b>Total taxes</b>	<b>63,097</b>	<b>13,009</b>	<b>86,521</b>	<b>99,542</b>

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With the exception of the explanations given below, the companies included in these financial statements are separate taxable entities:

**Tax group with mg technologies ag:** The main German operations of Dynamit Nobel are included in the combined tax return of mg Group for both corporation income tax and local trade taxes. Under the terms of the profit-and-loss transfer agreement between Dynamit Nobel and mg, the taxable income of Dynamit Nobel entities was transferred to mg technologies ag and subject to taxation at parent level. For purposes of these combined financial statements, income taxes were recognized for the German subsidiaries in the respective fiscal year as if Dynamit Nobel had been a separate taxable entity, excluding the tax-sharing agreement with mg technologies ag.

**Tax-sharing agreement in the U.S.:** Since February 1, 2000, a tax-sharing agreement has existed between the North American subsidiaries and the parent company MG North America Holdings Inc. Under this agreement, the North American subsidiaries are part of a consolidated tax group and are therefore included in the consolidated federal tax return of the parent MG North America Holdings Inc. A large proportion of this tax group is not included in these combined financial statements. In accordance with SFAS 109 ("Accounting for Income Taxes"), the income taxes attributable to the companies included in these combined financial statements were computed as if these companies were standalone taxable entities. According to these calculations, the federal tax net operating loss carryforward at December 31, 2003 amounted to approximately US\$61,685 million for these companies. As some of these losses were utilized by offsetting against profits within the group, the losses carried forward at December 31, 2003 would amount to approximately US\$27,854 million if these companies were to leave the group. The liabilities owed by Dynamit Nobel's North American subsidiaries to MG North America Holdings Inc. amounted to US\$971 at December 31, 2003 (December 31, 2002: US\$86; September 30, 2002: US\$94; September 30, 2001: US\$98).

**Restructuring in Germany:** In the stub-period 2002, mg technologies ag implemented a tax planning strategy to use net operating loss carry-forwards generated by mg entities that are not combined with Dynamit Nobel. The strategy involves the transfer of beneficial ownership of a significant position of Dynamit Nobel's German assets and liabilities to mg technologies ag.

The transfer of beneficial ownership of these business operations to mg gave rise to taxable capital gains which, under the existing profit and loss transfer agreement, were subject to taxes at mg level. If Dynamit Nobel had been a separate taxable entity these capital gains would have given rise to current tax expense in Germany for the stub period 2002. At the same time, this transfer of beneficial ownership and the resulting capital gain established a higher tax basis of those assets and the potential for future tax deductions through higher depreciation and amortization.

Deferred taxes are computed on those temporary deductible differences using applicable tax rates which, according to the enacted law at the balance sheet date, will apply on the date on which the temporary differences are likely to be realized. As the tax base resulted from the transaction with mg, the owner of Dynamit Nobel, the resulting deferred tax asset was reported as a deemed contribution from mg.

The changes to Germany's overall tax rates are outlined below:

In fiscal 2000/2001 allowing for the effects of the solidarity surcharge, the corporation tax rate in Germany was 42.2%.

Since fiscal 2001/2002, a uniform corporation tax rate of 25.0% has applied to German corporations. Under Germany's flood victims' solidarity legislation of September 19, 2002, the rate of German corporation tax for 2003 was raised on a one-off basis by 1.5 percentage points to 26.5%.

At December 31, 2002, German companies therefore computed deferred taxes for 2003 based on the corporation tax rate of 26.5% applicable for this year (a total rate of 28.0% including the solidarity surcharge). German companies' computation of deferred taxes was thus based on the pertinent tax rates of 26.4% and 28.0% and the relevant local trade tax rates of 13.3% and 13.0% respectively. The calculation of German companies' deferred taxes was therefore based on an overall rate of 39.7% and 41.0% respectively. The impact of this tax increase due to the flood victims' solidarity legislation, which was limited to one year, was not of material importance. At December 31, 2003, German companies calculated their deferred taxes based on an overall tax rate of 39.7%.

The main items of the reconciliation from the anticipated tax expense to the tax expense actually reported are non-deductible expenses, tax-exempt income, foreign tax rate differential, and changes in the valuation allowance on deferred tax assets.

Deferred tax assets and liabilities are recognized for all temporary differences between the amounts reported for tax purposes and those in the combined financial statements. Furthermore, deferred tax assets are recognized for losses carried forward. A valuation allowance is established to reduce the deferred tax assets to a level that is more likely than not to be realized. Deferred tax liabilities on retained earnings at foreign entities of Dynamit Nobel were not established because these earnings are not intended to be paid out as dividends in the future, but constitute a permanent investment. It is not practicable to determine the amount of potential deferred taxes on these earnings at this time.

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The primary components of deferred tax assets and liabilities and the related valuation allowances result from adjustments in the following items:

\$ '000	December 31, 2003	December 31, 2002	September 30, 2002	September 30, 2001
<b>Deferred tax assets</b>				
Net operating loss carryforwards	35,162	42,007	35,131	32,447
Intangible assets	372,428	326,601	8,084	10,582
Inventories	2,526	2,402	2,547	2,176
Receivables/Liabilities	33,155	15,212	15,189	16,494
Pension and other postretirement benefits	31,368	27,483	25,456	19,316
Other provisions and accruals	12,630	7,236	8,854	7,083
Deferred income	4,302	5,226	5,138	4,633
Other	1,586	4,568	5,840	9,980
<b>Total</b>	<b>493,157</b>	<b>430,735</b>	<b>106,239</b>	<b>102,711</b>
Less valuation allowance	-17,932	-21,390	-21,295	-20,698
<b>Total deferred tax assets</b>	<b>475,225</b>	<b>409,345</b>	<b>84,944</b>	<b>82,013</b>
<b>Deferred tax liabilities</b>				
Intangible assets	-28,755	-30,405	-29,907	-23,904
Property, plant and equipment	-57,160	-42,249	-58,498	-54,850
Inventories	-7,267	-8,297	-7,284	-6,436
Other provisions and accruals	-1,718	-2,137	-3,719	-3,341
Other	-5,831	-8,611	-3,700	-10,712
<b>Total deferred tax liabilities</b>	<b>-100,732</b>	<b>-91,699</b>	<b>-103,108</b>	<b>-99,243</b>
<b>Total deferred tax assets, net</b>	<b>374,494</b>	<b>317,646</b>	<b>-18,164</b>	<b>-17,230</b>

At December 31, 2003, the Group reported corporate tax net operating loss carryforwards of US\$84,014 million and German trade tax net operating losses of US\$1,240 million. The losses of foreign companies can usually only be carried forward for a limited period. A valuation allowance of US\$14,547 million has been established against the total net operating losses.



Significant foreign losses carried forward:

Expiration date	\$ million
2006	1.8
2007	4.3
2008	3.0
2009	1.0
2010	2.3
up to 2023	18.8
<b>Total</b>	<b>31.2</b>

The valuation allowance at September 30, 2001 was US\$20,128. During the periods ending September 30, 2002, December 31, 2002 and December 31, 2003, the valuation allowance decreased by US\$983, US\$1,200 and US\$6,989, respectively.

#### 4) Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

\$ '000	December 31, 2003	December 31, 2002	September 30, 2002	September 30, 2001
Cash and cash equivalents less than three months	7,832	7,007	9,435	10,718
Cash and cash equivalents greater than three months			68	
<b>Total cash and cash equivalents</b>	<b>7,832</b>	<b>7,007</b>	<b>9,503</b>	<b>10,718</b>

Restricted cash of US\$54 were held at September 30, 2002 (September 30, 2001: US\$87) and is included in cash and cash equivalents less than three months.

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The Cash flow statements include the following interest, tax payments and noncash investing activities:

\$ '000	January 1, to December 31, 2003	October 1, to December 31, 2002	October 1, 2001 to September 30, 2002	October 1, 2000 to September 30, 2001
Cash paid for interest	29,893	7,146	25,405	26,832
Cash paid for taxes	10,773	6,133	17,203	17,956
Acquisition of Finorga				
Cash paid, net of cash acquired	12,894			29,766
Debt forgiven				47,139
Goodwill	12,894			18,747
Other assets acquired/liabilities assumed				58,157

**5) Trade Receivables**

Valuation allowances on trade receivables are as follows:

\$ '000	December 31, 2003	December 31, 2002	September 30, 2002	September 30, 2001
Trade receivables	205,312	161,731	181,214	164,153
Less valuation allowance	-4,943	-3,106	-3,123	-3,440
<b>Total</b>	<b>200,369</b>	<b>158,625</b>	<b>178,091</b>	<b>160,713</b>

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**6) Accounts Receivable from and Liabilities to Related Parties**

Current and non-current accounts receivable from related parties consist of the following:

\$ '000	December 31, 2003	December 31, 2002	September 30, 2002	September 30, 2001
<b>Current</b>				
Accounts receivable from mg	60,402	20,906	21,230	2,180
Accounts receivable from subsidiaries	12,229	8,147	7,706	7,136
Current accounts receivable from related parties	72,631	29,053	28,936	9,316
<b>Non-current</b>				
Accounts receivable from mg		7,614	14,292	19,842
Accounts receivable subsidiaries		37		
Non-current accounts receivable from related parties		7,651	14,292	19,842
<b>Total</b>	<b>72,631</b>	<b>36,704</b>	<b>43,228</b>	<b>29,158</b>

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Current and non-current liabilities to related parties consist of the following:

\$ '000	December 31, 2003	December 31, 2002	September 30, 2002	September 30, 2001
<b>Current</b>				
Liabilities to mg	209,165	171,131	269,052	127,986
Provisions and accrued liabilities to mg		83	78	72
Liabilities to subsidiaries	10,985	9,630	9,595	8,689
<b>Current liabilities to related parties</b>	<b>220,150</b>	<b>180,844</b>	<b>278,725</b>	<b>136,747</b>
<b>Non-current</b>				
Liabilities to mg	31,575	34,956	32,866	38,045
Liabilities to subsidiaries		2	2	
<b>Non-current liabilities to related parties</b>	<b>31,575</b>	<b>34,958</b>	<b>32,868</b>	<b>38,045</b>
<b>Total</b>	<b>251,725</b>	<b>215,802</b>	<b>311,593</b>	<b>174,792</b>

7) Inventories

\$ '000	December 31, 2003	December 31, 2002	September 30, 2002	September 30, 2001
Raw materials and supplies	79,877	75,004	55,074	56,362
Work in process	55,000	49,995	52,409	56,426
Finished goods	121,585	107,309	89,128	94,617
Merchandise	19,887	15,324	14,818	21,760
<b>Total</b>	<b>276,349</b>	<b>247,632</b>	<b>211,429</b>	<b>229,165</b>

**8) Property, Plant and Equipment**

Property, plant and equipment are broken down as follows:

<b>\$ '000</b>	<b>December 31, 2003</b>	<b>December 31, 2002</b>	<b>September 30, 2002</b>	<b>September 30, 2001</b>
Lands	160,487	135,485	129,895	125,673
Buildings, including buildings on land owned by others	558,581	454,578	427,976	376,613
Mining rights	24,404	24,403	24,403	24,504
Plant and equipment	1,411,979	1,131,308	1,046,384	943,797
Other plant, office furniture and equipment	228,420	191,283	180,320	168,088
Construction in progress	88,088	75,617	78,533	93,414
	<b>2,471,959</b>	<b>2,012,674</b>	<b>1,887,511</b>	<b>1,732,089</b>
Accumulated depreciation	-1,553,764	-1,246,495	-1,163,599	-1,068,806
(thereof current depreciation)	(-88,584)	(-19,851)	(-77,893)	(-78,690)
<b>Total</b>	<b>918,195</b>	<b>766,179</b>	<b>723,912</b>	<b>663,283</b>

Property, plant and equipment include land and buildings, plant and equipment, and office furniture and equipment recorded under capital leases. The changes in the values of these leased assets are as follows:

<b>\$ '000</b>	<b>December 31, 2003</b>	<b>December 31, 2002</b>	<b>September 30, 2002</b>	<b>September 30, 2001</b>
Land	148	123	115	107
Buildings	49,368	40,992	38,541	35,691
Plant and equipment	169	119	119	3,431
Other plant, furniture and equipment	9,594	9,139	8,135	4,634
	<b>59,279</b>	<b>50,373</b>	<b>46,910</b>	<b>43,863</b>
Accumulated depreciation	-13,547	-10,755	-9,076	-7,506
(thereof current depreciation)	(-2,899)	(-699)	(-3,120)	(-2,071)
<b>Total</b>	<b>45,732</b>	<b>39,618</b>	<b>37,834</b>	<b>36,357</b>

The leases on real estate relate to two properties. The lease term on one property runs through 2019 and thereafter the lease is automatically extended by one year at a time, with a notice period of three years. There is an option to purchase the property at its residual value once the minimum

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lease term has expired. The initial lease term on the other property expired in 2002 and the lease has been extended on a revolving basis. There is an option to purchase the property at its carrying amount plus a premium.

The decrease in "Office furniture and equipment" at December 31, 2003 is due to the consolidation of the leasing company in accordance with FIN 46R.

Property, plant and equipment include buildings and plant and equipment which are leased by Dynamit Nobel to a third party under the terms of an operating lease:

\$ '000	December 31, 2003
Buildings	5,614
Plant and equipment	10,531
	16,145
Accumulated depreciation	-9,608
(thereof current depreciation)	(-962)
<b>Total</b>	<b>6,537</b>

Future minimum lease payments on assets under operating leases amount to US\$1,614 annually for each of the next five years.

9) Other Intangible Assets

Other intangible assets consist of the following:

\$ '000	December 31, 2003	December 31, 2002	September 30, 2002	September 30, 2001
Patents, licenses, trademarks and similar rights and assets, including licenses for such rights and assets	50,488	40,564	37,519	24,906
Software	18,594	15,841	14,760	13,816
Intangible pension asset	1,041	2,194	2,351	2,952
	<b>70,123</b>	<b>58,599</b>	<b>54,630</b>	<b>41,674</b>
Accumulated amortization	-50,176	-38,707	-35,395	-29,321
(thereof current amortization)	(-5,799)	(-1,219)	(-4,960)	(-5,064)
<b>Total</b>	<b>19,947</b>	<b>19,892</b>	<b>19,235</b>	<b>12,353</b>

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The estimated future amortization expense related to intangible assets during the five succeeding years is as follows:

\$ '000	December 31, 2003
2004	5,743
2005	4,332
2006	2,926
2007	1,865
2008	1,128

**10) Goodwill**

Changes in the carrying amount of goodwill are as follows:

\$ '000	December 31, 2003	December 31, 2002	September 30, 2002	September 30, 2001
Carrying amount at beginning of year	380,358	377,314	378,507	377,086
Additions	12,894		20	27,216
Disposals			-2,084	-2,011
Reclassification			-2,740	-5,515
Amortization				-19,545
Foreign currency exchange rate effect	11,995	3,044	3,611	1,276
<b>Carrying amount at end of year</b>	<b>405,247</b>	<b>380,358</b>	<b>377,314</b>	<b>378,507</b>

The amortization of goodwill was discontinued at the beginning of the 2001/2002 fiscal year as of October 1, 2001 in accordance with SFAS 142. Instead, goodwill is tested for impairment on an annual basis. In none of the periods shown did such tests result in any goodwill impairment.

**11) Debt**

Current- and non-current debt consist of the following:

\$ '000	December 31, 2003	December 31, 2002	September 30, 2002	September 30, 2001
<b>Current</b>				
Liabilities to banks	180,705	126,790	105,411	121,709
Liabilities under capital leases	2,726	2,796	2,686	1,896
Current debt including portions of non-current debt classified as current	183,431	129,586	108,097	123,605
<b>Non-current</b>				
Preferred stock of subsidiary	21,504	19,345	18,796	17,616
Liabilities to banks	169,461	145,105	39,918	86,754
Liabilities under capital leases	40,662	37,144	35,400	33,535
Non-current debt	231,627	201,594	94,114	137,905
<b>Total</b>	<b>415,058</b>	<b>331,180</b>	<b>202,211</b>	<b>261,510</b>

"Liabilities to banks" primarily relate to the US\$230,000 loan to finance the 1998 acquisition of Chemetall Foote Corp., Delaware, U.S.A., (previously Cyprus Foote Mineral Company). Beginning in 2000, this loan is being repaid under scheduled principal repayments until September 29, 2006. At December 31, 2003, the balance of the loan outstanding amounted to US\$105,200 (December 31, 2002: US\$45,600; September 30, 2002: US\$0; September 30, 2001: US\$0). In prior years Dynamit Nobel had temporarily repaid this loan a few days before the end of the period. The loan was then drawn upon again subsequent to these balance sheet dates. The interest rate on the loan is LIBOR (US\$) plus a margin of 50 basis points through September 30, 2004, after which it will be LIBOR (US\$) plus a margin of 60 basis points. The loan agreement contains covenants obliging a combined entity to maintain a certain amount of shareholders' equity as well as debt-to equity ratios and earnings-to-interest ratios. If one of these covenants is breached, the lender is entitled to call the loan. The loan agreement contains a change of control provision that entitles the lender to call the loan in such a case.

The average interest rate payable on the other liabilities to banks outstanding at December 31, 2003 is 4.63% (December 31, 2002: 4.77%; September 30, 2002: 4.90%; September 30, 2001: 5.57%). The interest rates on any floating-rate loans are hedged. The majority of loans are denominated in euros and the residual terms of these loans vary between one and eight years at December 31, 2003. Some of the loans contain covenants obliging the borrower to perform or



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refrain from certain actions or allow the loan to be terminated if certain events occur. One loan with a balance of US\$16,144 at December 31, 2003 can be called if a change in control occurs.

The fair value of liabilities to banks amounted to US\$351,202 at December 31, 2003 (December 31, 2002: US\$273,580; September 30, 2002: US\$146,247; September 30, 2001: US\$210,363). The fair value is calculated by discounting the future cash flows at a credit risk adjusted risk free interest rate.

The initial consolidation of the two leasing entities at December 31, 2003 in accordance with the adoption of FIN 46R increased the liabilities to banks by US\$10,166 and reduced the liabilities under capital leases by US\$2,545.

The **preferred stock** relates to Chemetall Plc. 12 million shares with a par value of £1 each. The shares were issued on August 22, 1988 and will be redeemed by the issuer at their par value on July 3, 2008 and may be called at an earlier date. The shares have a liquidation preference and pay an annual dividend of 9.0% of their par value. The dividend is payable on January 3 and July 3 of each year. If, in the opinion of management, the level of profit reported does not allow the payment of a dividend, the dividend arrearage must be paid in subsequent years. The preferred stock does not confer any voting rights unless the payment of the dividend or redemption price is more than six months in arrears or a vote is being held on the company's liquidation or a capital reduction. The terms and conditions governing the issuance of the preferred stock contain covenants obliging the issuer to maintain a certain debt/equity ratio.

The future minimum lease payments under capital leases are as follows:

\$ '000	December 31, 2003
2004	5,555
2005	4,377
2006	4,250
2007	4,108
2008	4,095
Thereafter	41,078
	<b>63,463</b>
Less amounts representing interest	-20,075
<b>Liabilities under capital leases</b> (thereof current portion)	<b>43,388</b> 2,726

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The maturities of all financial liabilities, excluding the separately shown liabilities under capital leases, are as follows:

\$ '000	December 31, 2003
2004	180,705
2005	42,941
2006	46,636
2007	10,000
2008	33,990
Thereafter	57,397
Total	371,669

At December 31, 2003, total debt of US\$47,755 (December 31, 2002: US\$43,838; September 30, 2002: US\$17,355; September 30, 2001: US\$8,615) was collateralized by mortgages on land and buildings.

At December 31, 2003, Dynamit Nobel maintained unutilized credit lines of US\$40,229. No charges were incurred for the provision of these credit lines.

### 12) Provisions for Pensions and Similar Obligations

Provisions for pensions and similar obligations relate to:

\$ '000	December 31, 2003	December 31, 2002	September 30, 2002	September 30, 2001
Pension plans	258,540	205,913	193,251	173,504
Other postretirement benefits	14,682	12,454	11,910	10,709
Other accrued pension-related obligations	2,607	2,442	2,489	1,385
Total	275,829	220,809	207,650	185,598

a) *Defined-benefit pension plans*

aa) *Pension liabilities and funded status*

Pension benefits are provided to the majority of employees of the companies included in these combined financial statements. The benefits in Germany usually consist of entitlements to future pension payments. The employees generally receive fixed pension amounts per year of service. The subsidiaries outside Germany operate country-specific pension plans, some of which are funded. Benefit obligations in Germany are primarily unfunded.

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The two tables below show pension liabilities, plan assets, and the funded status for defined benefit pension plans at the companies classified as continuing operations.

\$ '000	January 1, to December 31, 2003		October 1, to December 31, 2002		October 1, 2001 to September 30, 2002		October 1, 2000 to September 30, 2001	
	German	Foreign	German	Foreign	German	Foreign	German	Foreign
<b>Changes in projected benefit obligation</b>								
Projected benefit obligation at beginning of year	178,455	138,791	167,209	130,944	155,327	120,833	154,759	116,845
Service cost	2,935	5,377	614	638	2,656	4,661	2,229	4,375
Interest cost	10,962	6,973	2,489	874	9,963	5,855	9,473	5,477
Employee contributions		1,439		340		1,033		1,063
Actuarial loss (+) / gain (-)	16,286	-2,148	-23	1,766	1,067	-2,538	8	-3,117
Acquisitions							33	
Disposals	-332				-5,585	-1,859		
Plan redemptions / reductions	-469						-2,816	
Plan changes						48		176
Currency translation adjustment	38,136	15,715	10,787	6,309	13,352	9,480	333	335
Benefits paid	-13,129	-4,931	-2,621	-2,080	-9,571	-6,569	-8,692	-4,321
<b>Projected benefit obligation at end of year</b>	<b>232,844</b>	<b>161,216</b>	<b>178,455</b>	<b>138,791</b>	<b>167,209</b>	<b>130,944</b>	<b>155,327</b>	<b>120,833</b>
<b>Changes in plan assets</b>								
Fair value of plan assets at beginning of year	10,017	113,062	9,390	106,161	9,470	100,467	10,284	111,359
Expected return on plan assets	359	6,983	65	657	462	6,010	629	6,668
Actuarial loss (-) / gain (+)	-158	-1,652		765	-1,217	-7,122	-1,515	-18,342
Employer contributions	1,010	5,488	210	1,595	769	4,311	841	3,797
Employee contributions		1,439		340		1,033		1,063
Currency translation adjustment	2,091	13,273	599	5,624	791	8,031	18	243
Benefits paid	-1,199	-4,931	-247	-2,080	-885	-6,569	-787	-4,321
<b>Fair value of plan assets at end of year</b>	<b>12,120</b>	<b>133,662</b>	<b>10,017</b>	<b>113,062</b>	<b>9,390</b>	<b>106,161</b>	<b>9,470</b>	<b>100,467</b>

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## 12) Provisions for Pensions and Similar Obligations

\$ '000	December 31, 2003		December 31, 2002		September 30, 2002		September 30, 2001	
	German	Foreign	German	Foreign	German	Foreign	German	Foreign
<b>Funded status</b>	<b>220,724</b>	<b>27,554</b>	<b>168,438</b>	<b>25,729</b>	<b>157,819</b>	<b>24,783</b>	<b>145,857</b>	<b>20,366</b>
Unrecognized transition obligation	-2,157	-200	-4,179	-359	-4,490	-378	-6,237	-485
Unrecognized service cost arising from retroactive plan changes		-197		-227		-234		-215
Unrecognized actuarial losses (-) / gains (+)	-4,696	-21,251	9,098	-21,323	8,628	-20,494	9,700	-15,850
<b>Net amount recognized</b>	<b>213,871</b>	<b>5,906</b>	<b>173,357</b>	<b>3,820</b>	<b>161,957</b>	<b>3,677</b>	<b>149,320</b>	<b>3,816</b>

The amount recognized is included under the following balance sheet items:

Provisions for pensions and similar obligations	241,630	16,912	190,251	15,663	178,312	14,939	160,212	13,292
Prepaid expenses		-1,748		-1,899		-1,549		-1,851
Other intangible assets	-1,022	-19	-1,977	-217	-2,126	-225	-2,952	
Accumulated other comprehensive income/loss	-26,737	-9,239	-14,917	-9,727	-14,229	-9,488	-7,940	-7,625
<b>Net amount recognized</b>	<b>213,871</b>	<b>5,906</b>	<b>173,357</b>	<b>3,820</b>	<b>161,957</b>	<b>3,677</b>	<b>149,320</b>	<b>3,816</b>

\$ '000	January 1, to December 31, 2003		October 1, to December 31, 2002		October 1, 2001 to September 30, 2002		October 1, 2000 to September 30, 2001	
	German	Foreign	German	Foreign	German	Foreign	German	Foreign
Employer contributions		1,010		5,488		210		1,595
Employee contributions						769		4,311
Payments		13,129		4,931		2,080		9,571
				2,621		6,569		8,692
								4,321

Employer contributions of US\$7,155 in connection with defined benefit pension plans are expected in 2004 (German: US\$568 and; foreign: US\$6,587).

*ab) Measurement of the additional minimum pension liability*

The decrease of US\$5,622, increase of US\$556, decrease of US\$6,426 and decrease of US\$11,184 in the minimum pension liability in 2003, stub period 2002, 2001/2002, and 2000/2001, respectively are included in "Accumulated other comprehensive income/loss".

The accumulated benefit obligation is US\$378,910 at December 31, 2003 and at December 31, 2002 it is US\$304,565. At September 30, 2002 it is US\$285,805, and at September 30, 2001 it is US\$262,176.

*ac) Net periodic pension cost*

Net periodic pension cost for German and foreign pension plans is as follows:

\$ '000	January 1, to December 31, 2003		October 1, to December 31, 2002		October 1, 2001 to September 30, 2002		October 1, 2000 to September 30, 2001	
	German	Foreign	German	Foreign	German	Foreign	German	Foreign
Service cost	2,935	5,377	614	638	2,656	4,661	2,229	4,375
Interest cost	10,962	6,973	2,489	874	9,963	5,855	9,473	5,477
Expected return on plan assets	-359	-6,983	-65	-657	-462	-6,010	-629	-6,668
Amortization of unrecognized transitional amount	2,568	188	569		2,088	139	2,022	131
Amortization of service cost arising from retroactive plan changes		29		38		72		26
Amortization of unrecognized net actuarial losses (+) / gains (-)	232	969	-48	226	-340	790	-405	1
<b>Net periodic pension cost</b>	<b>16,338</b>	<b>6,553</b>	<b>3,559</b>	<b>1,119</b>	<b>13,905</b>	<b>5,507</b>	<b>12,690</b>	<b>3,342</b>

*ad) Valuation assumptions used*

The assumptions made about the discount rate, future compensation increases, and long-term returns on plan assets, which are used to calculate the accumulated benefit obligation and the net periodic pension cost, vary according to the economic climate in the country in which the pension entitlements were granted and in line with the prevailing capital market conditions. The computation of the accumulated postretirement benefit obligation is based on the actuarial assumptions below (weighted averages).

	December 31, 2003		December 31, 2002		September 30, 2002		September 30, 2001	
	German	Foreign	German	Foreign	German	Foreign	German	Foreign
Discount rate	5.50%	4.90%	6.00%	4.91%	6.00%	4.95%	6.50%	4.97%
Rate of compensation increase	3.00%	2.86%	3.00%	2.81%	3.00%	2.82%	3.00%	3.39%

The actuarial assumptions used to calculate the projected benefit obligation at the relevant balance sheet date are used to compute the interest cost and the cost of pension entitlements arising in the following year. In addition, the long-term returns anticipated at this time are used to determine the returns on plan assets in the following year. The computation of the net periodic pension cost is based on the actuarial assumptions below (weighted averages).

	December 31, 2003		December 31, 2002		September 30, 2002		September 30, 2001	
	German	Foreign	German	Foreign	German	Foreign	German	Foreign
Discount rate	5.50%	4.91%	6.00%	4.95%	6.50%	4.97%	6.50%	5.09%
Rate of compensation increase	3.00%	2.81%	3.00%	2.82%	3.00%	3.39%	3.00%	3.33%
Expected long-term return on plan assets	3.52%	6.01%	2.77%	5.77%	4.89%	6.00%	6.49%	6.26%

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The expected long-term return on plan assets is based on local assumptions and the valuation of German and foreign plan assets at their fair value.

The date on which pension plans are valued is the balance sheet date, i.e. December 31 or September 30 for all German plans and the majority of foreign plans prior to the change of mg's fiscal year.

During the stub period from October 1 through December 31, 2002, no comprehensive actuarial calculations were carried out for any German pension plan or for some foreign plans. Instead, the actuarial parameters available at September 30, 2002 were used to estimate the accrued pension liability, the projected benefit obligation, and the plan assets. Net periodic pension cost for the stub period is based on one quarter of the estimated cost for the twelve month period ending September 30, 2003. Furthermore, the pension payments made during the stub period 2002 as well as the employer and employee contributions to plan assets were recognized based on actual amounts. The computation of pension cost for 2003 is based on the projected benefit obligation at December 31, 2002.

### *b) Defined-contribution pension plans*

The individual companies included in these combined financial statements offer various postretirement benefits in the form of defined-contribution pension plans. The pension obligation for these plans resides not with the companies themselves but with the respective pension provider. Total payments to the pension providers of US\$2,463 were made in 2003 (stub period 2002: US\$757; 2001/2002: US\$1,902; 2000/2001: US\$1,755).

### *c) Other postretirement benefits*

In addition to pensions and similar benefits, certain retired employees in Germany are provided with postretirement benefits for private health insurance premiums. Outside Germany, one company in the U.S. provides various retirees with postretirement benefits for health insurance and life assurance.

The three tables below show accumulated postretirement benefit obligations as well as the reconciliation of the funded status to the amount reported in the balance sheet. They also show the relevant employer and employee contributions, the payments made, and the net periodic cost of other postretirement benefits.

\$ '000	December 31, 2003		December 31, 2002		September 30, 2002		September 30, 2001	
	German	Foreign	German	Foreign	German	Foreign	German	Foreign
Accumulated postretirement benefit obligations at end of year	11,140	3,391	8,113	3,298	7,571	3,134	6,538	3,147
Funded status	11,140	3,391	8,113	3,298	7,571	3,134	6,538	3,147
Unrecognized service cost arising from retroactive plan changes		107		-260		-264		-444
Unrecognized actuarial losses (-) / gains (+)	-901	945	77	1,227	74	1,396	185	1,282
<b>Net amount recognized</b>	<b>10,239</b>	<b>4,443</b>	<b>8,190</b>	<b>4,265</b>	<b>7,645</b>	<b>4,266</b>	<b>6,723</b>	<b>3,985</b>

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\$ '000	January 1, to December 31, 2003		October 1, to December 31, 2002		October 1, 2001 to September 30, 2002		October 1, 2000 to September 30, 2001	
	German	Foreign	German	Foreign	German	Foreign	German	Foreign
Employer contributions		121		29		74		75
Employee contributions		40		7		32		26
Payments	485	161	86	36	311	106	292	101
Net periodic cost	648	300	143	85	540	295	532	353

No separate plan assets are held to fund the other postretirement benefits.

Employer contributions of US\$133 in connection with additional postretirement benefits are expected in 2004 (German: US\$0; foreign: US\$133).

The assumptions used to calculate the accumulated postretirement benefit obligation and the net periodic cost vary according to the economic climate of the country in which the additional postretirement benefits were provided and in line with the prevailing capital market conditions. The computation of the accumulated postretirement benefit obligation is based on the actuarial assumptions below (weighted averages).

	December 31, 2003		December 31, 2002		September 30, 2002		September 30, 2001	
	German	Foreign	German	Foreign	German	Foreign	German	Foreign
Discount rate	5.50%	6.25%	6.00%	6.75%	6.00%	7.00%	6.50%	7.50%

The actuarial assumptions used to calculate the accumulated postretirement benefit obligation at the relevant balance sheet date are used to compute the interest cost and the cost of additional postretirement benefits arising in the following year. The calculation of the net periodic cost is based on the actuarial assumptions below (weighted averages).

	January 1, to December 31, 2003		October 1, to December 31, 2002		October 1, 2001 to September 30, 2002		October 1, 2000 to September 30, 2001	
	German	Foreign	German	Foreign	German	Foreign	German	Foreign
Discount rate	5.50%	6.75%	6.00%	7.00%	6.50%	7.50%	6.50%	7.50%

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The changes in the healthcare cost trend over time are as follows:

	January 1, to December 31, 2003		October 1, to December 31, 2002		October 1, 2001 to September 30, 2002		October 1, 2000 to September 30, 2001	
	German	Foreign	German	Foreign	German	Foreign	German	Foreign
Healthcare cost trend for the following year	4.00%	9.00%	4.00%	9.50%	4.00%	9.50%	4.00%	9.50%
Level to which the cost trend is likely to fall (final rate)		5.00%		5.00%		5.00%		5.00%
Year in which the final rate will be reached		2011		2011		2011		2010

The healthcare cost trend for German additional postretirement benefits has remained constant at 4.0% in recent years. This rate is not expected to change in the next few years and it is therefore not possible to state the probable final rate for German additional postretirement benefits or the year in which this final rate will be reached.

The measurement dates used are mostly the same as those used for pension plans.

### 13) Other Provisions and Accrued Liabilities

Current- and non-current provisions and accrued liabilities consist of the following:

\$ '000	December 31, 2003	December 31, 2002	September 30, 2002	September 30, 2001
<b>Current</b>				
Taxes	9,264	8,725	11,062	12,441
Personnel	55,927	45,398	44,921	57,870
Environmental and clean-up costs	2,459	1,715	1,824	1,226
Guarantees	2,646	2,301	2,611	4,115
Rebates	5,901	3,451	3,424	3,253
Outstanding invoices from suppliers	16,512	13,760	12,421	12,269
Loss provisions	9,878	2,897	2,776	1,075
Other	20,533	20,461	19,185	23,358
	<b>123,120</b>	<b>98,708</b>	<b>98,224</b>	<b>115,607</b>
<b>Non-current</b>				
Taxes	332	2,067	2,018	3,839
Personnel	18,874	12,204	22,945	15,472
Environmental protection and reclamation	21,471	12,919	13,675	14,217
Guarantees	505	73		
Asset retirement obligations	1,085	1,028		
Other	213	357	68	6,283
	<b>42,480</b>	<b>28,648</b>	<b>38,706</b>	<b>39,811</b>
<b>Total</b>	<b>165,600</b>	<b>127,356</b>	<b>136,930</b>	<b>155,418</b>

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**Provisions and accrued liabilities for taxes** relate to current taxes and were largely established to cover foreign tax liabilities and future tax audits.

**Provisions for personnel** expenditures largely comprise bonuses, vacation not yet taken, anniversaries, part-time retirement, and accumulated overtime hours.

Provisions for **environmental protection and recultivation** totaled US\$23,930 at December 31, 2003 (December 31, 2002: US\$14,634; September 30, 2002: US\$15,499; September 30, 2001: US\$15,443). These provisions largely relate to soil decontamination, treatment of effluents, and the clean-up of landfill sites. In addition to the recorded liabilities, there is a further maximum potential liability risk of US\$11,056 at December 31, 2003.

The cost of cleaning up two landfill sites is being borne by several companies, and the cost of one of these sites is additionally being borne by the local authorities. The share of the cost borne by each of the parties involved is determined by the volume of waste they have dumped at these landfill sites. The share of the cost borne by Dynamit Nobel is 3.9% for one site and less than 1,0% for the other. However, if one of the parties involved is unable to bear its share of the cost, its share is borne jointly by the other parties. At December 31, 2003, there was no indication that it would be necessary for Dynamit Nobel to bear such additional costs.

At December 31, 2003, two environmental liabilities involving cash flows of US\$10,893 and US\$2,373 are reported at their net present values of US\$6,315 and US\$1,892 respectively. The first of these amounts was discounted at a rate of 5.0% and the second at 5.5%. The first of the provisions covers a groundwater decontamination liability and its estimated costs are based on calculations conducted by internal and external experts. Decontamination of the site is expected to be completed in 2029. The second of the provisions relates to the piping for a ditch which is being planned and installed by the local waste treatment authority. This provision was first established on September 30, 2000. The measurement of the provision at December 31, 2003 is based on the assumption that the implementation of these remediation measures will commence in 2007. For both provisions the following payments are expected to be made in subsequent years:

\$ '000	December 31, 2003
2004	632
2005	410
2006	410
2007	2,784
2008	410
Thereafter	8,621
<b>Total</b>	<b>13,267</b>

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The table below shows the changes in current and non-current provisions for **product warranties**. Most warranties run for a term between one and two years in accordance with the legal and contractual provisions.

\$ '000	December 31, 2003	December 31, 2002
Balance at beginning of year	2,374	2,611
Payments	-285	-167
Provision for new warranties	1,253	153
Changes in estimates	-701	-369
Foreign currency exchange rate effect	510	146
<b>Balance at end of year</b>	<b>3,151</b>	<b>2,374</b>

The **asset retirement obligation** relates to the removal of evaporation basins of brine which are used to produce lithium and the sealing of related bore holes. Removal is expected to commence in 2019 and no payments will be incurred prior to this date. The changes in this provision are as follows:

\$ '000	December 31, 2003	December 31, 2002
Balance at beginning of year	1,028	1,015
Accrued interest	57	13
<b>Balance at end of year</b>	<b>1,085</b>	<b>1,028</b>

#### 14) Minority Interests

The minority interest at December 31, 2003 relates to the 0.05% outstanding interest in DNVJ Vermögensverwaltung GmbH. Minority interests in prior years essentially consisted of the 40.0% interest in CeramTec Heimbach Dewatering Technology GmbH, which was sold in 2003.

#### 15) Stock-Based Compensation

##### Stock option program

Employees of Dynamit Nobel participate in either the mg's stock option program for executives or in the employee share ownership program, which was expired in 2003. The stock option program is offered annually to executives of the mg Group in tranches, each of which runs for a period of three years. The options can only be exercised if a certain targeted profit increase with respect to mg's pre-tax earnings per share during the three-year period is met. The purchase price for one mg share is determined by dividing the share's market price by the profit increase factor at the time of exercise. Of the total options that had been issued by mg at December 31, 2003,

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660,000 (December 31, 2002: 593,000; September 30, 2002: 593,000; September 30, 2001: 452,000) had been issued to executives of Dynamit Nobel.

The fair value of the options is estimated at the grant date using a modified Black-Scholes model. The fair values of awards granted under the stock option program (expense per option) were computed based on the following assumptions:

Year of grant	2003	2002	2001
<b>Fair value at grant date</b>	<b>US\$1.69 per option</b>	<b>US\$1.82 per option</b>	<b>US\$1.86 per option</b>
<b>Assumptions used:</b>			
Volatility of mg's share price over a three-year period	56.4%	51.4%	40.6%
Volatility of EPS increase	60.9%	47.4%	39.0%
Correlation coefficient between stock yield and EPS	0.4241	0.3102	0.3058
Risk-free interest rate	2.46%	4.42%	4.68%
Dividend yield	2.7%	1.0%	1.0%

### Employee share ownership program

Under the employee share ownership program, employees can purchase shares of mg. Eligible participants are all mg Group employees resident in Germany who have an in force employment or training contract at the time they agree to participate in the program and at the time the two-year subscription period expires. These employees may only participate and acquire stock-purchasing rights in their own name and for their own account. The stock-purchasing rights may not be transferred or pledged. Once they have agreed to participate in the program, all eligible employees have the right to purchase either 50, 100 or 200 shares two years after they enroll in the program.

The purchase price for employees is calculated as the average of the closing prices for mg shares in Xetra trading on the Frankfurt Stock Exchange over the five trading days following the Annual Shareholders' Meeting of mg technologies ag in the year of the respective agreement to participate in the employee share ownership program, and is fixed on the last of these five trading days, i.e. the purchase price is fixed at the start of the respective employee share ownership program tranche, two years prior to the exercise period.

During the exercise period, participants can choose to buy the shares and place them in a securities account, or to buy and immediately sell them, or not to exercise their stock-purchasing rights at all. In order to prevent employees from suffering losses if mg's share price performs poorly, their agreement to exercise their stock-purchasing rights is only valid (and is therefore merely conditional) if mg's share price is above the purchase price at the time the stock-purchasing right is exercised.

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If the right to purchase shares on this basis has not been exercised by the time the exercise period expires, the respective employees' stock-purchasing rights expire and their initial deposit is returned with accumulated interest.

Options for the purchase of 49,400 mg shares had been issued under the employee share ownership program at December 31, 2003 (December 31, 2002: 123,000 shares; September 30, 2002: 128,700 shares; September 30, 2001: 135,050 shares). In the past, it has not been possible to exercise any of the stock-purchasing rights.

The fair value of these options is calculated at their grant date using a Black-Scholes model. The fair value of each option under the 2002 employee share ownership program was US\$2.46 at their grant date; the fair value of each option under the 2001 employee share ownership program was US\$2.14.

Aggregate compensation expense recognized for the stock option program and the employee share ownership program amounted to US\$505 in 2003 (2002: US\$127; 2001/2002: US\$458; 2000/2001: US\$303).

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## 16) Accumulated Other Comprehensive Income/Loss

Changes in the components of accumulated other comprehensive income/loss are as follows:

\$ '000	January 1, to December 31, 2003	October 1, to December 31, 2002	October 1, 2001 to September 30, 2002	October 1, 2000 to September 30, 2001
<b>Accumulated other comprehensive income/loss at beginning of year</b>	-189,554	-226,352	-232,383	-233,139
Unrealized holding gains on available-for-sale securities	-23	-9	-1	8
Realized losses on available-for-sale securities				
Tax effect of available-for-sale securities	8	2	-1	2
<b>Total gains (losses) on available-for-sale securities</b>	<b>-15</b>	<b>-7</b>	<b>-2</b>	<b>10</b>
Unrealized holding gains on cash flow hedges	3,535	-1,410	-4,542	-2,749
Realized gains on derivatives	1,410	190		
Tax effect of derivatives	-2,584	1,082	1,782	718
<b>Total gains (losses) on derivatives</b>	<b>2,361</b>	<b>-138</b>	<b>-2,760</b>	<b>-2,031</b>
<b>Cumulative translation adjustment</b>	<b>117,374</b>	<b>36,492</b>	<b>12,595</b>	<b>10,832</b>
Change in minimum pension liability	-5,622	556	-6,426	-11,184
Tax effect of change in pension liability	2,334	-105	2,624	3,129
<b>Total gains (losses) on change in pension liability</b>	<b>-3,288</b>	<b>451</b>	<b>-3,802</b>	<b>-8,055</b>
<b>Accumulated other comprehensive loss at end of year</b>	<b>-73,122</b>	<b>-189,554</b>	<b>-226,352</b>	<b>-232,383</b>

**17) Commitments and Contingencies**

The table below details the amounts of contingent liabilities at the respective balance sheet dates:

\$ '000	December 31, 2003	December 31, 2002	September 30, 2002	September 30, 2001
Guarantees	14,543	1,124	2,271	1,650
Other	32	21	22	27
<b>Total</b>	<b>14,575</b>	<b>1,145</b>	<b>2,293</b>	<b>1,677</b>

**Guarantees** in 2003 relate mainly to guarantees issued to mg or a bank on behalf of a subsidiary not combined. The remaining liabilities and those in prior years essentially cover environmental and performance guarantees as well as guarantees for the bank debt of subsidiaries not included in these combined financial statements.

The terms of guarantees range up to eight years. There are also contingencies whose contingency periods depend on the performance of contractually agreed obligations or the occurrence of certain events. These contingent liabilities are largely to customers, banks and to a lesser degree employees. Dynamit Nobel is subject to claims under its guarantees only if the debtor is unable to meet its contractual obligations.

**Other financial commitments** at December 31, 2003 consist of:

\$ '000	December 31, 2003
Rental and lease agreements	43,581
(thereof on land and buildings)	(-27,862)
Orders	67,981
(for property, plant and equipment)	(-35,538)
(for inventories)	(-32,443)
(issued to subsidiaries)	(-105)
Factoring and repurchase agreements	5,119
<b>Total</b>	<b>116,681</b>

**Liabilities from rental and lease agreements** relate to real estate, plant and equipment, and office furniture and equipment. The leases on real estate mostly contain unlimited terms or fixed terms with an option to extend. Some of the leases contain payment escalation clauses and there are usually no call or put options on the part of the lessor. The terms of the fixed-term leases run until 2021 and some of the buildings have been sub-let.

The lease terms on office furniture and equipment run until 2010 and they do not contain any payment escalation clauses. Leases containing extension or call options are usually leases on vehicles or plant and equipment.

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Payment obligations for all non-cancelable rental and operating lease agreements are as follows:

\$ '000	December 31, 2003
2004	12,754
2005	8,665
2006	5,143
2007	3,227
2008	1,723
Thereafter	12,069
	<b>43,581</b>
Income from sub-leases	6,632
<b>Total</b>	<b>36,949</b>

Several of the companies included in these combined financial statements sell receivables on a revolving basis to financial services providers. In one agreement, Dynamit Nobel as the seller of the receivables retains a subordinated interest in the receivables of less than ten percent of total receivables sold. In cases in which the buyer has recourse to Dynamit Nobel, the maximum exposure is shown under "Factoring and repurchase agreements".

### 18) Litigation

Dynamit Nobel is involved in litigation from time to time in the ordinary course of business. However, Dynamit Nobel does not believe that there is any such litigation, either individually or in the aggregate, that is likely to have a material adverse effect on their business or financial position except that Dynamit Nobel is party to legal proceeds involving a number of product liability and warranty cases, the outcome of which is unclear at present and for which Dynamit Nobel is unable to predict the outcome or the extent, if any, of possible loss exposure.

### 19) Derivatives and Financial Instruments

#### a) Use of derivative instruments

**Derivative instruments** are used to mitigate the risk of adverse movements in interest rates, share prices and other investments.

**Forward exchange contracts** are largely used to hedge assets, liabilities, and forecasted transactions and, to a lesser degree, firm commitments denominated in foreign currency. Hedges are used to mitigate the risk of adverse movements in the exchange rates of certain currencies, especially the U.S. dollar and pound sterling.

**Interest rate swaps and options** are used to hedge the interest rate risk inherent in liabilities to banks.

**Commodity derivatives** are used to a certain degree to mitigate the risks inherent in commodity prices.

*b) Fair value of financial instruments*

The fair value of a financial instrument is the price at which one party is willing to assume the rights and/or obligations arising from this financial instrument from another party. Fair values have been computed on the basis of the market information available at the balance sheet date and the valuation methods outlined below, which are based on certain assumptions. Because of the varying factors influencing them, the fair values stated here may differ from the values that can be realized in the market at the present time.

**Financial instruments**

**Securities:** Fair value is the market price.

**Cash and cash equivalents:** Owing to their short maturity, the book values of cash and cash equivalents correspond to their fair value.

**Debt:** The fair value of preferred shares is their quoted price. The fair value of other non-current debt corresponds to the present value of future anticipated cash flows. The discount rate used is the current market interest rate on bonds of the same maturity. Due to their short maturity, it is assumed that the nominal value of borrowings under revolving credit facilities or secured borrowings on receivables approximates to their fair value. It is generally assumed that the carrying amount of floating-rate loans corresponds to their fair value.

**Liabilities under capital leases:** In order to compute the fair value of liabilities under capital leases, the future lease installments are discounted at a rate appropriate to their risk and maturity.

**Derivative Instruments**

**Forward exchange contracts:** The fair value of forward exchange deals is determined using current balance sheet date reference rates that take account of forward premiums and discounts.

**Interest-rate instruments:** The fair value of interest-rate instruments is determined using discounted anticipated future cash flows based on the market interest rates applicable to the residual maturities of these financial instruments. Options are valued using recognized option pricing models.



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The book and fair values of derivatives and financial instruments other than accounts receivable, trade payables, cash and cash equivalents and balances due to or from mg for all of which the carrying amount approximates their fair value, are as follows:

\$ '000	December 31, 2003		December 31, 2002		September 30, 2002		September 30, 2001	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
<b>Assets</b>								
Financial instruments								
Securities	923	923	207	207	183	183	235	235
Derivatives								
Forward exchange contracts	787	787	2,169	2,169	40	40	225	225
Interest-rate instruments	28	28	86	86	121	121	298	298
<b>Liabilities</b>								
Financial instruments								
Debt	415,058	432,388	331,180	349,266	202,211	219,036	261,510	284,720
Derivatives								
Forward exchange contracts	1,945	1,945	3,045	3,045	293	293	593	593
Interest-rate instruments	6,383	6,383	8,412	8,412	7,712	7,712	2,982	2,982
Commodity derivatives			31	31	271	271	237	237

c) *Nominal values of derivative instruments and credit risk*

The nominal value of derivative instruments is obtained by multiplying their notional amount by the agreed contract prices. The aggregate notional amounts include offsetting buy and sell agreements.

The notional amounts of derivatives are as follows:

\$ '000	December 31, 2003	December 31, 2002	September 30, 2002	September 30, 2001
Forward exchange contracts	169,071	225,365	243,273	203,355
Interest-rate instruments	160,664	196,855	193,699	152,313
Commodity derivatives zinc (copper at September 30, 2001 only)		4,811	6,415	3,083

Potential credit risk arises from the non-performance of contractual agreements by the counterparties. Until mid-2003, the counterparties were all banks with investment-grade ratings. In 2003, forward exchange contracts were also concluded with mg as part of its treasury activities. The general credit risk attaching to forward exchange contracts and interest-rate instruments was

therefore not material in any of the years presented. The counterparties with respect to commodity derivatives are all counter parties located outside of Germany.

*d) Management of foreign-exchange, interest-rate and other price risks*

**Management of foreign-exchange risk:** The international dimension of the company's business gives rise to a foreign-exchange risk that has an impact on its operating results and cash flows. Foreign-exchange risk exists, for example, if sales are billed in a currency other than that of their related costs. In order to mitigate the impact of currency fluctuations, foreign-exchange risk is constantly evaluated and, where necessary, hedged through the use of derivatives (forward exchange contracts). Until mid-2003, Dynamit Nobel was responsible for hedging its own foreign-exchange risk. In doing so, it applied the policies and procedures prescribed by mg.

**Management of interest-rate risk:** Dynamit Nobel monitors its interest-rate risk on an ongoing basis by following changes in its net interest positions that could adversely impact its future cash flows and implementing suitable hedging strategies. Dynamit Nobel enters into interest-rate hedges directly with banks.

**Management of price risk:** Commodity derivatives are used for hedging purposes only. Derivatives contracts are governed by policies and procedures of mg.

*e) Reporting of derivative instruments and hedge accounting*

**Management of foreign-exchange risk:** The hedging of foreign-exchange risks inherent in firm commitments and forecasted transactions is accounted for as a cash flow hedge. This requires the foreign-exchange hedge to offset the exposure from the underlying transaction. The effectiveness of the hedge is ensured if the maturity, volume and currency of the underlying transaction and the hedge are identical. The hedge-effective part of the changes in the fair value of derivatives is reported as part of "Accumulated other comprehensive income/loss". The accumulated other comprehensive income is reclassified into income once the firm commitments or forecasted transactions have been recognized. In the following twelve months, a net gain of US\$211 is expected to be reclassified from accumulated other comprehensive income/loss to the income statement because the underlying transactions are likely to be recognized in income.

Sometimes only the net position of a planned transaction is hedged. This macro currency hedge does not qualify for hedge accounting purposes, i.e. changes in the fair value of forward exchange contracts are reported in the statements of income as "Other operating income" or "Other operating expenses". As a result, a net figure of US\$344 was reported in the statements of income for 2003.

Hedge accounting is not generally used to hedge recognized foreign currency denominated receivables and payables, as these constitute a natural hedge. This means that changes in the fair value of these derivatives and those in the carrying amounts of the respective receivables and liabilities are recognized in income.

Foreign-exchange gains and losses are reported as other operating income and other operating expenses respectively.

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At December 31, 2003, Dynamit Nobel held derivatives mostly with maturities of no more than 12 months in order to hedge the foreign-exchange risk of forecasted transactions.

**Interest-rate instruments:** Changes in the fair value of interest-rate swaps designated as cash flow hedges to cover floating-rate bank loans are reported as part of "Accumulated other comprehensive income/loss". This requires that the main characteristics of the interest-rate swap and the bank loan are identical. Gains and losses on interest-rate instruments are reported under "Interest expense, net" as interest expense.

Changes in the fair value of interest-rate options are excluded from calculations of hedges' effectiveness. For the years presented, interest expense (net) includes the following net losses, which arise from some of the financial instruments which have been excluded from calculations of hedges' effectiveness:

\$ '000	December 31, 2003	December 31, 2002	September 30, 2002	September 30, 2001
Net loss	-66	-36	-190	-461

At December 31, 2003, Dynamit Nobel held interest-rate derivatives with terms of up to 84 months.

**Commodity derivatives:** All changes in the fair value of commodity derivatives are recognized in income.

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## DYNAMIT NOBEL

CONDENSED COMBINED INCOME STATEMENTS  
(Unaudited)

(\$ '000)	January 1 June 30, 2004	January 1 June 30, 2003
Net sales	\$ 885,499	\$ 800,002
Cost of sales	-587,000	-524,899
<b>Gross profit</b>	<b>298,499</b>	<b>275,103</b>
Selling, general and administrative expenses	-181,677	-158,119
Research and development costs	-17,757	-16,141
Other operating income	8,282	12,727
Other operating expenses	-3,205	-9,785
<b>Operating income</b>	<b>104,142</b>	<b>103,785</b>
Income from investments	515	760
Interest expense, net and other financial expense	-14,395	-13,561
<b>Earnings from continuing operations before income taxes and minority interests</b>	<b>90,262</b>	<b>90,984</b>
Income taxes	-32,062	-34,165
Minority interests	0	-309
<b>Earnings from continuing operations</b>	<b>58,200</b>	<b>56,510</b>
<b>Income from discontinued operations</b>	<b>0</b>	<b>1,362</b>
thereof earnings from operations	0	-2,191
thereof gains on disposal	0	6,287
thereof income taxes	0	-2,734
<b>Net income</b>	<b>\$ 58,200</b>	<b>\$ 57,872</b>

See accompanying notes to condensed combined financial statements.

## DYNAMIT NOBEL

**CONDENSED COMBINED BALANCE SHEET**  
**JUNE 30, 2004**  
**(Unaudited)**

**Assets**  
**(\$ '000)**

<b>Cash and cash equivalents</b>	\$	9,468
Trade receivables		254,246
Receivables from related parties		58,701
Other assets and accounts receivable		60,432
Inventories		275,062
Prepaid expenses		5,797
		<b>663,706</b>
<b>Current assets</b>		<b>663,706</b>
Investments		40,443
Property, plant and equipment		886,202
Goodwill		402,227
Other intangible assets		19,249
Other assets		10,723
Prepaid expenses		2,617
Deferred tax assets		405,210
		<b>1,766,671</b>
<b>Non-current assets</b>		<b>1,766,671</b>
<b>Total assets</b>	<b>\$</b>	<b>2,430,377</b>

See accompanying notes to condensed combined financial statements.

## DYNAMIT NOBEL

**CONDENSED COMBINED BALANCE SHEET**  
**JUNE 30, 2004**  
**(Unaudited)**

**Liabilities and investment by mg**  
**(\$ '000)**

<hr/>	
Short-term debt including current portion of long-term debt	\$ 119,554
Trade payables	109,450
Liabilities to related parties	409,547
Accruals and provisions	126,916
Other current liabilities	45,685
Deferred tax liabilities	5,731
	<hr/>
Current liabilities	816,883
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Long-term debt	203,340
Provisions for pensions and similar obligations	269,998
Other provisions	37,333
Other liabilities	12,010
Deferred tax liabilities	52,991
	<hr/>
Non-current liabilities	575,672
	<hr/>
Minority interests	2
	<hr/>
Investment by mg	1,037,820
	<hr/>
Total liabilities and investment by mg	\$ 2,430,377
	<hr/>

See accompanying notes to condensed combined financial statements.

## DYNAMIT NOBEL

CONDENSED COMBINED STATEMENTS OF CASH FLOWS  
(Unaudited)

(\$ '000)	January 1 - June 30, 2004	January 1 - June 30, 2003
Net income	\$ 58,200	\$ 57,872
Adjustment of net income from discontinued operations	0	1,362
Depreciation and amortization	51,950	45,664
Change in provisions for pensions	4,172	1,715
Change in other provisions	4,921	8,169
Gains on disposal of non-current assets	-490	-6,947
Change in inventories	-9,177	6,726
Change in trade receivables	-61,670	-26,639
Change in trade payables	-51,871	-41,768
Change in deferred tax assets and liabilities	14,074	14,267
Change in other assets and liabilities	-28,338	-2,865
<b>Net cash (used for) provided by operating activities</b>	<b>-18,229</b>	<b>57,556</b>
Proceeds from disposal of fixed assets	13,313	14,403
Purchases of property, plant and equipment and intangible assets	-58,246	-39,442
Purchases of investments and long-term financial assets	-11	-1,191
Purchases of securities	0	-612
Proceeds from disposal of businesses	0	17,801
<b>Net cash used for investing activities</b>	<b>-44,944</b>	<b>-9,041</b>
Principal payments on capital leases liabilities	-1,384	-1,419
Net increase (decrease) in other debt	-76,213	63,429
Net financing provided by (distributed to) mg	149,326	-118,569
<b>Net cash provided by (used for) financing activities</b>	<b>71,729</b>	<b>-56,559</b>
Exchange-rate-related change in cash and cash equivalents	-6,920	6,119
<b>Change in cash and cash equivalents</b>	<b>1,636</b>	<b>-1,925</b>
Cash and cash equivalents at beginning of period	7,832	7,007
<b>Cash and cash equivalents at end of period</b>	<b>\$ 9,468</b>	<b>\$ 5,082</b>

See accompanying notes to condensed combined financial statements.

**DYNAMIT NOBEL**

**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS**

**(Unaudited)**

**(\$ '000)**

**A) Description of Business and Basis of Presentation**

**Description of Business:** The Dynamit Nobel Group (Dynamit Nobel) specializes in advanced technologies in the fields of chemicals and materials engineering. This internationally active industrial group supplies innovative specialty products to niche markets in several sectors such as the life science, chemical, automotive and construction industries. Its business activities are subdivided into its four business units: Custom Synthesis, Advanced Ceramics, Specialty Chemicals, and Pigment Chemicals.

**Basis of presentation:** The preparation of these Dynamit Nobel condensed combined financial statements is due to the sale of Dynamit Nobel to companies affiliated with Rockwood Specialties Group, Inc. (Rockwood), Delaware, U.S.A., under the Sale and Purchase Agreement of April 19, 2004. Dynamit Nobel is part of the mg technologies ag Group, Frankfurt am Main (mg or mg Group). The Dynamit Nobel segment included in mg's consolidated financial statements is not identical to these condensed combined financial statements of Dynamit Nobel since in addition to the companies included herein, the Dynamit Nobel segment includes the Plastics business unit, the Industrial Ignition Systems business, and the Defense Technology business. Rockwood has not acquired these activities.

These condensed combined financial statements of Dynamit Nobel include only the assets, liabilities and transactions of the activities that Rockwood has acquired, constituting a carve out from mg's consolidated financial statements and as such the excess of assets over liabilities is reflected as mg's investment in Dynamit Nobel. The condensed combined financial statements of Dynamit Nobel include expenses that have been incurred by mg on behalf of Dynamit Nobel.

Despite the adjustments made, these condensed combined financial statements do not present the net assets, financial position, results of operations and cash flows of Dynamit Nobel as if it had existed independently of mg. Consequently, the condensed combined financial statements are not indicative of Dynamit Nobel's future development.

Purchase accounting adjustments including the recognition of goodwill arising from mg's acquisition of Dynamit Nobel are reflected in the condensed combined financial statements of Dynamit Nobel (push-down accounting). These adjustments are accounted for at the reporting unit level.

The main German operations of Dynamit Nobel are included in the combined tax return of mg technologies ag (mg) for both corporation income tax and local trade taxes. Under the terms of the profit-and-loss transfer agreement between Dynamit Nobel and mg, the taxable income of the Dynamit Nobel entities was transferred to mg and subject to taxation at the parent level. For purposes of these condensed combined financial statements, income taxes were recognized for the German subsidiaries as if Dynamit Nobel had been a separate taxable entity, excluding the tax-sharing agreement with mg. The distribution due to mg as part of the profit-and-loss transfer agreement has been reflected as a distribution from the investment by mg and shown as a liability to related parties.

**Principles of combination:** These condensed combined financial statements include the assets and liabilities and transactions of the combined Dynamit Nobel entities as defined in the Basis of Presentation. In addition, certain variable-interest entities for which Dynamit Nobel is considered to be the primary beneficiary are also included.



The interim condensed combined financial statements included herein are unaudited. The condensed combined financial statements are presented based upon accounting principles generally accepted in the United States of America ("US GAAP"), except that certain information and footnote disclosures, normally included in financial statements prepared in accordance with US GAAP, have been condensed or omitted. The accompanying condensed combined financial statements should be read in conjunction with the combined financial statements and the notes thereto contained elsewhere herein as of and for the years ended December 31, 2003, September 30, 2002 and 2001, and the three months ended December 31, 2002. Management believes the disclosures herein are adequate and the condensed combined financial statements reflect adjustments consisting only of normal recurring adjustments necessary to present fairly the financial position of Dynamit Nobel as of June 30, 2004 and the results of its operations and its cash flows for the six months ended June 30, 2004 and 2003. The results of operations for the interim period are not necessarily indicative of the results of operations for the full year.

**Currency Translation:** Assets and liabilities of foreign entities where the functional currency is not the US dollar are translated into the reporting currency (US dollar) at year-end exchange rates and income and expenses are translated at the average exchange rates during the period. The resulting translation gains and losses are reported as a component of other comprehensive income.

**B) Summary of Significant Accounting Policies**

**Revenue recognition:** Revenue is generated primarily from the sale of products and is recognized once title to the products has passed to the customer, provided the consideration has been contractually agreed or can be determined and collectibility is reasonably assured. If formal customer acceptance is required, revenue is not recognized until it has been obtained. Revenue under service agreements is realized when the service is performed. Customer incentives, discounts, rebates and other allowances reduce the amount of revenue recognized. Freight and shipping costs borne by Dynamit Nobel do not reduce the revenue recognized but are reported as selling expenses. If these costs are passed on to the customer, they are included as part of revenue.

**Comprehensive income:** Comprehensive income includes net income and other comprehensive income, summarized as follows:

	Six months ended June 30,	
	2004	2003
Net income	\$ 58,200	\$ 57,872
Other comprehensive income	6,842	54,144
Comprehensive income	\$ 65,042	\$ 112,016

Other comprehensive income is primarily composed of translation gains and losses, the change in the minimum pension liability and the gains and losses on derivative transactions.

**Stock-based compensation:** mg has established a stock option and employee stock ownership program for its managers and staff. The compensation cost of the options issued under the stock option and employee share ownership program has been recognized in these combined financial statements if this cost is attributable to the managers and staff of the companies included in these combined financial statements. The cost of these options is accounted for at their fair value at the grant date in accordance with SFAS 123 ("Accounting for Stock-Based Compensation") and is recognized over the service period, which is usually the vesting period. The cost of the options is reported under "Selling, general and administrative expenses".

Aggregate compensation expense recognized for the stock option program and the employee share ownership program amounted to \$160 and \$252 in the six months ended June 30, 2004 and 2003. Upon the closing of the sale of Dynamit Nobel to companies affiliated with Rockwood Specialties Group, Inc. all such options effectively expired unexercised.

**Estimates:** The preparation of these condensed combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the period. Estimates include assessing the impairment of goodwill, intangibles and other long-lived assets, valuation allowances on deferred income taxes, the collectibility of accounts receivable, the use and recoverability of inventory, product warranty claims and environmental remediation liabilities, among others.

Additionally, factors that may cause these amounts to differ from projections are deterioration in the global economy, movements in exchange rates and interest rates, significant litigation, and changes in environmental or other statutory regulations. Production errors, the loss of key customers, and changes in funding can also impair Dynamit Nobel's future performance.

Although such estimates are based on management's best judgment, due to the inherent uncertainties in the estimating process, actual results could differ from these estimates.

**Recent Accounting Pronouncements:** No new accounting pronouncements have been adopted nor issued during 2004 that would have a significant impact on the Company's financial position, results of operations or cash flows.

### C) Disposal of Business

Effective June 10, 2003, the Glazing Sealing Compounds business belonging to the Specialty Chemicals business unit was transferred to KÖMMERLING CHEMISCHE FABRIK GmbH, Pirmasens, Germany, as part of an asset transaction. The disposal generated a gain of US\$6,427, which forms part of the income from discontinued operations.

The assets and liabilities belonging to this business are each reported separately at December 31, 2002 as current assets and liabilities in "Other assets and accounts receivable" (US\$13,332) and "Other current liabilities" (US\$3,860), respectively. The assets held for sale at December 31, 2002 include goodwill of US\$5,408, property, plant and equipment of US\$2,364 and inventories of US\$5,389. The liabilities consist of trade payables, accrued liabilities and provisions.

**D) Notes to the Condensed Combined Financial Statements**

**1) Inventories:**

Inventories are comprised of the following as of June 30, 2004:

Raw materials and supplies	\$ 83,327
Work-in-process	64,283
Finished goods	107,169
Merchandise	20,283
	<u>275,062</u>
	<u>\$ 275,062</u>

**2) Goodwill:**

Below are goodwill balances and activity:

Balance, December 31, 2003	\$ 405,247
Foreign exchange	(3,020)
	<u>402,227</u>
Balance, June 30, 2004	<u>\$ 402,227</u>

**3) Other Intangible Assets:**

Other intangible assets as of June 30, 2004 consist of:

Patents, licenses, trademarks and similar assets	\$ 50,816
Less accumulated amortization	(34,695)
	<u>16,121</u>
Patents, licenses, trademarks and similar assets, net	<u>16,121</u>
Software	18,439
Less accumulated amortization	(16,314)
	<u>2,125</u>
Software	<u>2,125</u>
Intangible pension assets	<u>1,003</u>
Other intangible assets, net	<u>\$ 19,249</u>

Amortization of other intangible assets was \$2,612 and \$3,066 for the six months ended June 30, 2004 and 2003, respectively.

**4) Employee Benefit Plans:**

The following represents the net periodic pension benefit costs and related components in accordance with SFAS 132:

	Six months ended June 30,	
	2004	2003
Service cost	\$ 3,756	\$ 4,156
Interest cost	8,649	8,968
Expected return on plan assets	(505)	(3,671)
Amortization of unrecognized transitional amount	0	1,378

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	Six months ended June 30,	
	<u>          </u>	<u>          </u>
Net amortization of prior experience losses	2,026	615
	<u>          </u>	<u>          </u>
Net periodic benefit cost	\$ 13,926	\$ 11,446
	<u>          </u>	<u>          </u>

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**5) Contingencies:**

Dynamit Nobel is involved in litigation from time to time in the ordinary course of business. However, Dynamit Nobel does not believe that there is any such litigation, either individually or in the aggregate, that is likely to have a material adverse effect on their business or financial position except that Dynamit Nobel is party to legal proceeds involving a number of product liability and warranty cases, the outcome of which is unclear at present and for which Dynamit Nobel is unable to predict the outcome or the extent, if any, of possible loss exposure.

**6) Accounts Receivable from and Liabilities to Related Parties:**

Current accounts receivable from related parties as of June 30, 2004 consist of the following:

Accounts receivable from mg	\$ 46,041
Accounts receivable from subsidiaries	12,660
	<hr/>
<b>Total</b>	<b>\$ 58,701</b>
	<hr/>

Current liabilities to related parties as June 30, 2004 consist of the following:

Liabilities to mg	\$ 407,398
Liabilities to subsidiaries	2,149
	<hr/>
<b>Total</b>	<b>\$ 409,547</b>
	<hr/>









No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

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Through and including September 10, 2005 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

20,408,163 Shares  
**Rockwood Holdings, Inc.**

Common Stock

**Goldman, Sachs & Co.**

**Credit Suisse First Boston**

**Lehman Brothers**

**UBS Investment Bank**

**Deutsche Bank Securities**

**First Analysis Securities Corporation**

**JPMorgan**

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