

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.

***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
								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
<b>EBITDA</b>	<b>73.8</b>	<b>56.7</b>	<b>93.5</b>	<b>53.3</b>	<b>173.7</b>	<b>302.3</b>	<b>174.2</b>
Minority interest					(0.8)		(0.8)
<b>EBITDA (before minority interest)</b>	<b>\$ 73.8</b>	<b>\$ 56.7</b>	<b>\$ 93.5</b>	<b>\$ 53.3</b>	<b>\$ 172.9</b>	<b>\$ 302.3</b>	<b>\$ 173.4</b>

(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
<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)

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)
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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>          </u>		<u>          </u>
Total pro forma as adjusted effect of offering on interest expense, net	\$ 309.0		\$ 45.7
	<u>          </u>		<u>          </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>          </u>		<u>          </u>
Total pro forma as adjusted effect of offering on interest expense, net	\$ 312.3		\$ 11.2
	<u>          </u>		<u>          </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
	\$ (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.

**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