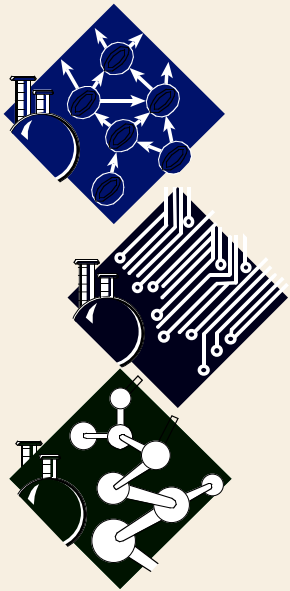


# Rohm and Haas

ANNUAL REPORT 1998

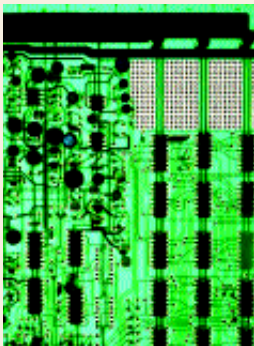


## New Business Groups

page 2

## Executive Council Named

page 7



## Focus on Technology

pages 10, 15 and 20



## Electronic Materials

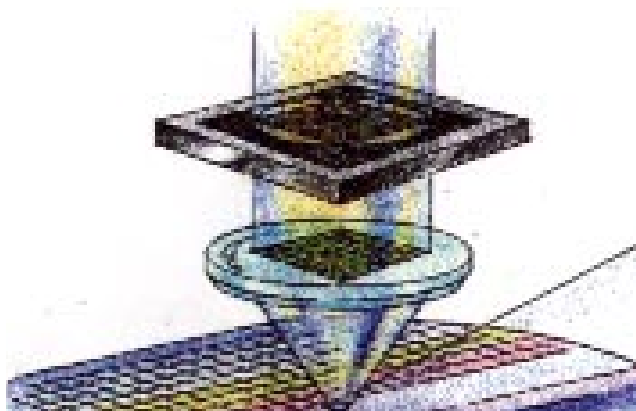
An important source of future profitable growth

# ROHM AND HAAS

Annual Report 1998



Chemical Specialties engineers operate high-tech facilities to manufacture the company's Agricultural Chemicals products. Page 18.



Electronic Materials delivers important technology to makers of semiconductors and printed wiring boards. Page 14.

## FINANCIAL HIGHLIGHTS

Millions of dollars (except per-share amounts)

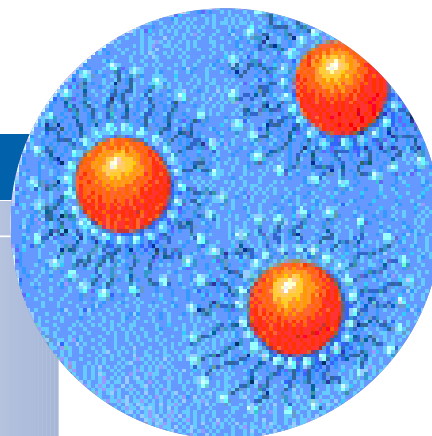
	1998	1997
<b>FOR THE YEAR:</b>		
Net sales	\$3,720	\$3,999
Net earnings	440	410
Net earnings, excluding non-recurring items <sup>(1)</sup>	395	394
Capital additions	229	254
Free cash flow <sup>(2)</sup>	328	416
<b>AT YEAR END:</b>		
Total assets	\$3,648	\$3,900
Total debt	581	606
Stockholders' equity	1,561	1,797
<b>RATIOS:</b>		
Total debt-to-equity <sup>(3)</sup>	34%	31%
Return on net assets	13	11
Return on common stockholders' equity <sup>(3)</sup>	25	23
<b>PER COMMON SHARE: <sup>(4)</sup></b>		
Net earnings		
Basic	\$2.47	\$2.17
Diluted	\$2.45	\$2.13
Net earnings, excluding non-recurring items		
Basic	\$2.22	\$2.08
Diluted	\$2.20	\$2.05
Common dividends	\$ .70	\$ .63

<sup>(1)</sup>In 1998, non-recurring items include gains on the sale of joint venture interests in AtoHaas and RohMax, asset write-downs, business realignment costs, and loss on early extinguishment of debt. In 1997, non-recurring items include an insurance recovery.

<sup>(2)</sup>Free cash flow is cash provided by operating activities less fixed asset spending and dividends.

<sup>(3)</sup>Stockholders' equity is before reduction for the ESOP transaction.

<sup>(4)</sup>1997 restated to reflect the 1998 three-for-one stock split.



Performance Polymers' rheology modifiers add value to dozens of customers' products. Page 10.

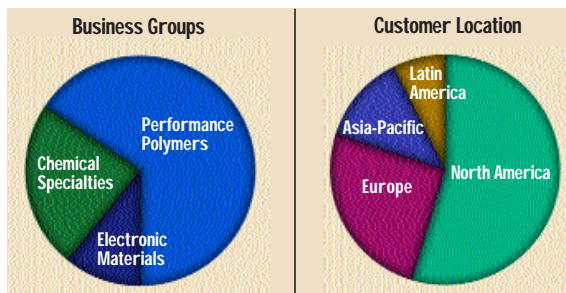


The U.S. Environmental Protection Agency awarded Rohm and Haas the Presidential Green Chemistry Award for environmental sensitivity. Page 21.





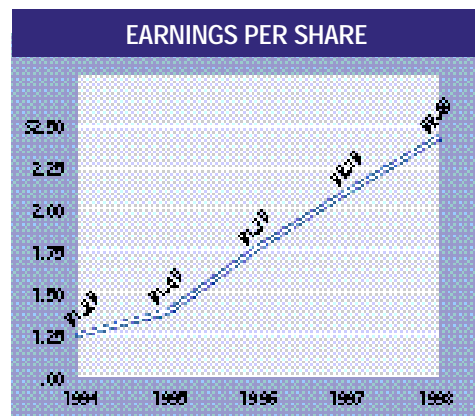
Rohm and Haas responded to economic challenges in the Asia-Pacific Region, preparing for future profitable growth. Page 13.



New business groups streamline management and improve customer focus around the world. Page 2.



President and Chief Operating Officer J. Michael Fitzpatrick discusses strategy with other members of the new Executive Council. Page 7.



Rohm and Haas's earnings per share continued their steady climb despite worldwide economic uncertainty. See Financial Index on page 25.

## CONTENTS

### 2 New Business Groups

### 3 Letter to Shareholders

### 7 Executive Council

### 8 Performance Polymers

### 10 **TECHNOLOGY:** Coatings

### 13 Focus on Asia-Pacific Region

### 14 Electronic Materials

### 15 **TECHNOLOGY:** Photoresists

### 18 Chemical Specialties

### 20 **TECHNOLOGY:** MAC Insecticides

### 22 Corporate Responsibility

### 24 Directors and Officers

### 25 Financial Index

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(215) 592-3045  
[www.rohmhaas.com](http://www.rohmhaas.com)

# PLATFORMS FOR GROWTH

Rohm and Haas entered 1998 with a corporate structure designed for excellent customer focus and profitable growth.

During the year, the company reorganized its portfolio into three business groups in order to greatly improve its operational excellence. The resulting new organization maintains an outstanding customer orientation while reflecting each group's areas of technological expertise, as well as the nature of its operations and strategies.

Performance Polymers includes all aspects of the company's acrylic technologies. These begin with the Monomers business, which produces acrylic feedstocks from commodity petrochemicals. Monomers supplies a variety of these materials to each of the other five Performance Polymers businesses: Coatings, Specialty Polymers, Plastics Additives, Building Products and Formulation Chemicals. Each of these businesses applies elements of Rohm and Haas's proprietary acrylic expertise in the design of specialty products used by customers to deliver hundreds of end uses, from paint to laundry detergent to hair spray, and much more. Because the Performance Polymers businesses exploit a common technological platform, this group is designed to be fully integrated in both its operations and its market strategies.

Electronic Materials comprises all aspects of Rohm and Haas's participation in the electronics industry. This group includes Shipley Company, which produces photoresists and ancillaries required for the manufacture of semiconductors. Shipley's newly formed Shipley Ronal division is the result of

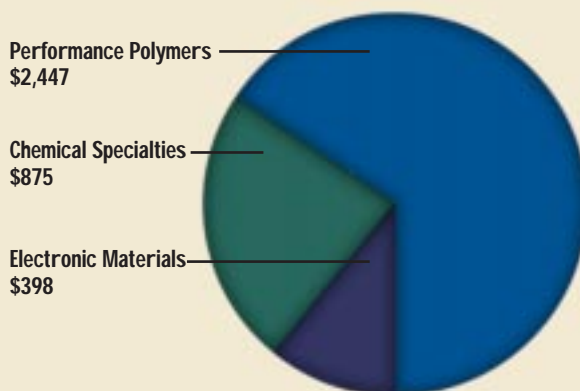
the company's acquisition of LeaRonol, which was completed in January 1999 (*see page 14*). Shipley Ronal offers customers

a full line of chemical products for the production of printed wiring boards. Rohm and Haas also owns a 48% interest in Rodel, Inc., which produces slurries and pads used in chemical-mechanical planarization, also an enabling technology used by the electronics industry. Shipley and Rodel maintain separate operations, yet they pursue coordinated strategies in serving their common customer base.

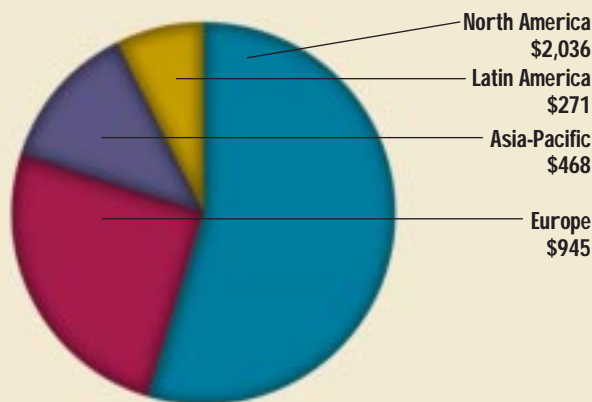
Chemical Specialties encompasses several businesses that share a specialty focus on small-molecule chemistry. Agricultural Chemicals produces traditional fungicides and herbicides, as well as newer, bioengineered pesticides. Ion Exchange Resins manufactures a number of specialty products used by the pharmaceutical industry, as well as in water treatment and food processing, to alter the properties of water and other fluids. Biocides supplies targeted applications of isothiazolone chemistry, which controls algae, fungi and bacteria in a wide variety of end uses, from paints to personal-care products. Primeres produces specialty amines used in a variety of industrial applications, including lubricants, oilfield chemicals, dyes, plastics and metal working. TosoHaas, a joint venture with Tosoh Corp. of Japan, produces media and preparative columns for a range of separations for such end uses as pharmaceutical manufacturing, environmental testing and biomedical research.

## BALANCED PORTFOLIO, INTERNATIONAL FOCUS

Sales by Business Group  
*Millions of dollars*



Sales by Customer Location  
*Millions of dollars*



# A Year of Major Change

**R**ohm and Haas entered 1998 with a successful record of profitable growth. In order to build upon our past strong performance, since the start of 1998 the company has announced

- a new generation of leaders
- a new corporate organization
- two important acquisitions
- two new initiatives to improve our cost structure, and
- the final stage of a major recapitalization.

In December, the Board of Directors elected Raj Gupta to the newly created office of Vice Chairman, effective January 1, 1999. Mr. Gupta will become Chairman and CEO of Rohm and Haas upon the retirement of Larry Wilson by the end of 1999. The Board also elected Mike Fitzpatrick the new President and Chief Operating Officer of Rohm and Haas. Messrs. Gupta and Fitzpatrick have each spent more than 20 years building markets and serving customers around the world for Rohm and Haas. Their com-

bined focus on clear long-term strategies and unwavering operational excellence will drive the company's profitable growth in the years to come.

Throughout 1998, Messrs. Gupta and Fitzpatrick worked with other Rohm and Haas executives to design a new organizational structure. The resulting new business groups will continue the company's excellent customer focus while yielding greater production effectiveness and administrative efficiency (*see page 2*).

On February 1, 1999, the company announced a merger agreement between Rohm and Haas and Morton International, Inc. On February 5, 1999, Rohm and Haas commenced the first step of the transaction,

*J. Lawrence Wilson  
Chairman and Chief Executive Officer*





## To the Shareholders of Rohm and Haas Company

a cash tender offer for two-thirds of the outstanding shares of Morton. We expect the acquisition of Morton to be completed within the second quarter of 1999. Upon completion, Rohm and Haas will be among the world's largest specialty chemical companies, with \$6.5 billion in annual revenues.

On January 26, 1999, the company completed the acquisition of LeaRonald, a New York-based specialty chemical company that designs, produces and markets a range of products used by the printed wiring board, semiconductor and metal finishing industries. LeaRonald has been combined with the existing printed wiring board business of Rohm and Haas's Shipley subsidiary. The resulting division of Shipley, called Shipley Ronald, supplies a full line of products to printed wiring board makers.

In the second quarter of 1998, Rohm and Haas completed the divestitures of the company's stakes in two joint ventures: AtoHaas, a joint venture with Elf Atochem for the production of acrylic sheet; and RohMax, a joint venture with Röhm GmbH for the production of additives to petroleum products and other lubricants. Both of these businesses had made significant contributions to Rohm and Haas's financial performance and technology base over



President and COO Mike Fitzpatrick, Chairman and CEO Larry Wilson (seated), and Vice Chairman Raj Gupta



Nosecones and windshields made from Rohm and Haas's acrylic sheet and resins helped the United States effort in World War II. For several decades, Plexiglas™ and other acrylic products also made major contributions to the company's profitable growth. In 1998, the company sold its stake in acrylic sheet producer AtoHaas in order to renew Rohm and Haas's specialty focus.

## JOHN P. MULRONEY



John P. Mulroney retired from Rohm and Haas on December 31, 1998. Mr. Mulroney, known as Jack to thousands of employees over the past four decades, was elected President and Chief Operating Officer in 1986. Since then, he served as an important partner to Chairman and Chief Executive Officer Larry Wilson in shaping and implementing many of the company's most important initiatives.

Mr. Mulroney joined the company as a process engineer in 1958, launching what was to become the first of three successful phases in his career with Rohm and Haas. As a researcher, he assisted in the company's adoption of the propylene oxidation process used to make acrylic acid and its derivatives. The success of that process led to the construction of the production

facility at Deer Park, Texas, the company's largest.

In 1971, Mr. Mulroney moved to Europe, beginning the second phase of his career. He held a number of positions in the region, and was named Director of European Operations in 1977. In 1978, the third phase began when he returned to the Home Office as Vice President responsible for several of the company's largest businesses. In 1983, he became Group Vice President and Corporate Business Director.

"I loved every job I ever had at Rohm and Haas," said Mr. Mulroney. "I certainly never set out to be president. I was perfectly happy in research. And I loved Europe. I was happy to come back to Philadelphia, since it is my home town. But I have always been focused on the job in front of me." ♦

a period of many years. Both had become commodity-oriented, however, and thus were no longer suited to Rohm and Haas's specialty portfolio.

Rohm and Haas began two important programs to improve the company's work processes in 1998. The first of these has already resulted in significant cost savings

in the Performance Polymers supply chain. This effort encompasses each element of Performance Polymers manufacturing, from receiving raw materials to shipping our specialty acrylic products to customers. The supply chain initiative has already greatly improved Performance Polymers' ability to deliver those prod-

ucts at low cost while providing world-class quality and service (*see page 8*). We expect additional progress on this front in 1999.

In November, the company began a similar process to enhance its corporate and administrative processes, and thus to better support profitable growth throughout Rohm and Haas. Many senior Rohm and Haas managers are involved in this project, along with an outside consultant. We expect significant and lasting improvements, beginning in 1999.

During the year, Rohm and Haas enacted the final stage of a major recapitalization program that included more than \$1 billion in share repurchases since 1995. In 1998, the company repurchased

## WORLDWIDE



## To the Shareholders of Rohm and Haas Company

17.5 million shares of common stock (on a split-adjusted basis), or nearly 10% of the total shares previously outstanding, for about \$562 million. In July, the Board of Directors authorized a three-for-one stock split. Also during the year, the company retired \$130 million of high-coupon long-term debt ahead of schedule.

These efforts together accomplished the recapitalization goals the company had previously announced: The resulting capital structure more appropriately suits the company's current and future business portfolio; the trading characteristics of the company's stock are significantly improved; and the company maintains the financial capacity for the acquisitions discussed above.

Several executives retired at the end of 1998 after long and distinguished careers: John P. Mulroney, President and Chief Operating Officer (*see box on page 5*); Basil A. Vassiliou, Senior Vice President and European Regional Director; and John E. Talucci, Vice President and Director of Agricultural Chemicals. Each of these executives devoted more than 35 years of

his life to Rohm and Haas, and the company has benefited immeasurably by their service. We wish them and their families long and happy retirements.

Daniel B. Burke, who has served on the Board of Directors since 1986, retires from the board following this year's Annual Meeting. Many thanks to Dan for 13 years of careful judgment on behalf of Rohm and Haas shareholders and management.

While 1998 was a year of major change for Rohm and Haas, we continued to concentrate on the safe, profitable and efficient operation of our businesses. The company's rate of occupational injuries and illnesses was 1.2 for the year—an outstanding performance that is evidence of the company's long-term improvements in worker protection (*see page 22*). Rohm and Haas will continue to devote the time, money and energy required to ensure that we continue to improve the company's safety, just as we continue to improve our profitability.

Rohm and Haas's 13% return on net asset in 1998 ranks as the company's best ever. That performance, along with our

25% return on common shareholders' equity for the year, made us perhaps the most profitable specialty chemical company. Much hard work in a number of areas has produced this impressive result. In 1993, we set out to create better processes, control internal costs and improve the specialty nature of our portfolio. Now that the world economy is slowing somewhat, and commodity deflation has begun, we are seeing the positive results of Rohm and Haas's efforts in many areas.

In 1998, the company's employees maintained these outstanding results during a year that made many demands on their time and considerable talents. Any look back on 1998 would be incomplete without an expression of heartfelt gratitude for the work that our employees have done throughout the year. As we face the challenges ahead, Rohm and Haas people will continue to be the company's greatest strength.

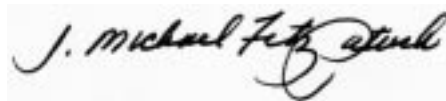
Global economic uncertainties continue into 1999. Rohm and Haas, however, has many reasons to look forward to another year of profitable growth. ♦



J. Lawrence Wilson  
Chairman  
and Chief Executive Officer



Rajiv L. Gupta  
Vice Chairman



J. Michael Fitzpatrick  
President  
and Chief Operating Officer



## Executive Council



**Patrick R. Colau**  
Senior Vice President,  
Performance Polymers



**Charles M. Tatum**  
Senior Vice President,  
Chief Technology Officer



**J. Lawrence Wilson**  
Chairman and  
Chief Executive Officer



**Marisa Guerín**  
Vice President,  
Human Resources



**Rajiv L. Gupta**  
Vice Chairman



**J. Michael Fitzpatrick**  
President and  
Chief Operating Officer



**Bradley J. Bell**  
Senior Vice President,  
Chief Financial Officer



**Nance K. Dicciani**  
Senior Vice President,  
Chemical Specialties

A great company needs a great leadership team. Larry Wilson, chairman and CEO of Rohm and Haas, has assembled a group of individuals with outstanding expertise in each of the company's most important strategic functions. Together the company's newly named Executive Council represents 144 years of experience with Rohm and Haas's operations around the world.

- Prior to his election as vice chairman effective January 1, 1999, Rajiv L. Gupta directed the Electronic Materials segment, as well as the company's Asia-Pacific operations.
- J. Michael Fitzpatrick became president and chief operating officer on January 1, 1999. Dr. Fitzpatrick had previously served

as chief technology officer of Rohm and Haas, European regional director of the company's former Polymers and Resins division, and general manager of Rohm and Haas Mexico.

- Senior Vice President Bradley J. Bell was elected chief financial officer of Rohm and Haas in 1997. For the previous 10 years, Mr. Bell was vice president and treasurer of Whirlpool Corp.
- Senior Vice President Patrick R. Colau became director of Performance Polymers on January 1, 1999. He previously served as director of the former Polymers and Resins business, as well as executive vice president of Rohm and Haas's Shipley subsidiary in Electronic Materials.

- On January 1, 1999, Senior Vice President Nance K. Dicciani became director of the company's European Region as well as director of the Chemical Specialties segment. Dr. Dicciani joined Rohm and Haas in 1991 following 14 years at Air Products and Chemicals, Inc.
- Prior to becoming the company's chief technology officer in July 1998, Senior Vice President Charles M. Tatum headed the Plastics Additives business, and previously served as the company's director of research.
- Vice President Marisa Guerín was named the company's human resources director in 1994. Dr. Guerín previously managed the company's corporate training and development operations. ♦

# High-Value Acrylic Technology

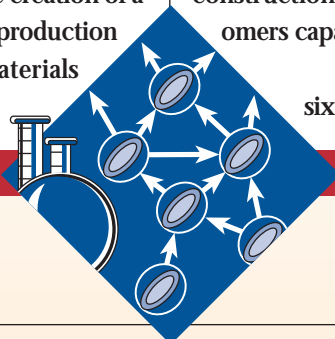
Performance Polymers includes all six of Rohm and Haas's acrylic-technology businesses, which accounted for 66% of the company's sales in 1998. Following the company's divestiture of its stakes in AtoHaas and RohMax early in 1998, the group emerged in this year's new organization (*see page 2*) strengthened by a more fully integrated strategy and operations. The result is a stronger focus on current and potential customers of the company's specialty polymer-based products for a wide range of end uses. The integration also streamlines Performance Polymers management and improves its cost structure.

Overall, the Performance Polymers group performed quite well given the highly uncertain economic environment that prevailed in Asia, Europe and Latin America during 1998. Sales for the year totaled \$2.4 billion, a decrease of 10% following the sale of AtoHaas. Volume was flat. Earnings, including several one-time items, increased 24%. Operating earnings increased slightly.

In 1998, the six Performance Polymers businesses began to benefit from a newly integrated supply chain. The creation of a single infrastructure for the production and distribution of raw materials leverages the combination

of all six of Rohm and Haas's acrylics businesses to significantly reduce costs and improve customer service. The Performance Polymers supply-chain initiative produced more than \$50 million in permanent cost reductions during the year. In addition, Performance Polymers' inventories at year-end were about 9% lower than at the end of 1997. Supply chain improvement yielded a platform for consistent volume growth, while allowing Performance Polymers to defer construction of significant new monomers capacity until at least 2002.

Coatings, the largest of the six Performance Polymers busi-



Performance Polymers	1998 Sales	Products/Markets	Competitors
Coatings	\$843 million	Binders and additives used in: <ul style="list-style-type: none"> <li>• Architectural coatings</li> <li>• Traffic paints</li> <li>• Maintenance coatings</li> </ul>	BASF Clariant Union Carbide
Specialty Polymers	\$469 million	High-performance polymers used in: <ul style="list-style-type: none"> <li>• Adhesives</li> <li>• High-quality paper</li> <li>• Leather</li> <li>• Textiles and non-woven fiber</li> </ul>	Dow Chemical BASF Rhodia Japan Synthetic Rubber
Plastics Additives	\$356 million	High-performance polymers used in: <ul style="list-style-type: none"> <li>• Vinyl siding</li> <li>• Window profiles</li> <li>• Pipe</li> <li>• Film</li> <li>• Bottles</li> <li>• Engineering plastics</li> </ul>	Kaneka Mitsubishi Rayon Elf Atochem
Building Products	\$300 million	High-performance polymers used in: <ul style="list-style-type: none"> <li>• Floor polishes</li> <li>• Roof coatings</li> <li>• Caulks and sealants</li> <li>• Cement modifiers</li> <li>• Roof tile and siding</li> <li>• Elastomeric coatings</li> <li>• Wood coatings</li> </ul>	BASF Union Carbide Clariant
Monomers	\$337 million	Feedstocks for the acrylic chain, including: <ul style="list-style-type: none"> <li>• Acrylic acid and derivatives</li> <li>• Methyl methacrylate and derivatives</li> <li>• Specialty monomers</li> </ul>	BASF ICI Elf Atochem
Formulation Chemicals	\$142 million	High-performance polymers used in: <ul style="list-style-type: none"> <li>• Detergents</li> <li>• Water treatment</li> <li>• Industrial cleaning</li> <li>• Personal care</li> </ul>	BASF National Starch (ICI) Rhodia

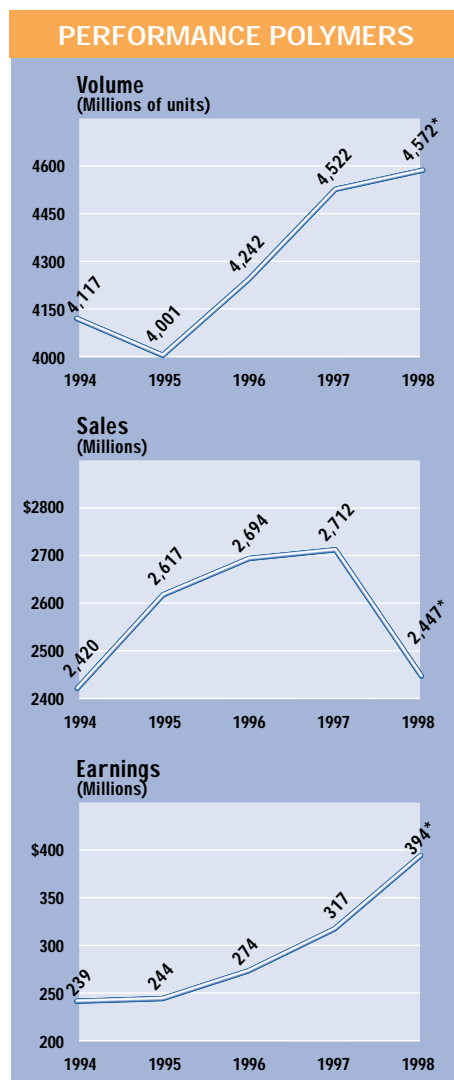
nesses, delivered volume increases of more than twice the rate of GDP growth in many markets around the world. Customers' continuing migration from solvent-based coatings to Rohm and Haas's environmentally friendly water-based systems contributed to this growth. Coatings' strong product line drove increases in its share of many key markets, notably in Germany. Important new products, including advancements in opaque polymers and rheology modifiers, aided both market share gains and continued healthy profitability. The business also benefited from geographic expansion into Eastern Europe and South Africa. In 1999, Coatings looks forward to continued gains in market share and geographic growth, as well as the development of new technologies that will continue to broaden its range of product offerings.

Specialty Polymers posted small declines in its volume and sales due to global overcapacity in adhesives, paper chemicals and leather resulting in part from Asia's economic turmoil. Its textiles and non-woven binding unit, however, made healthy gains in profitability. The business also made significant progress in the development of new, lower cost-in-use products for both coated paper and paperboard and pressure sensitive adhesives markets. These and other new products to be introduced in 1999 will offer Rohm and Haas customers the means to improve their competitive position. Specialty Polymers expects to return to its accustomed rates of sales and volume growth in the second half of 1999, driven by improved market conditions and the impact of its new product introductions.

Plastics Additives faced a very competitive environment in 1998, as a portion of its customer base faced weakened demand for polyvinyl chloride packaging. Profitability was solid in most regions,



Beijing's Tiananmen Gate is one of countless buildings around the world that are decorated and protected by paints made from Rohm and Haas's high-performance polymer products.



\*Results for 1998 reflect the sale of the company's stakes in two joint ventures, AtoHaas and RohMax, effective January 1, 1998.

driven by continued growth in building and construction markets, while Asian results failed to meet expectations due to the region's continuing macroeconomic crises. Plastics Additives made a number of advancements in new products, including the development of new and improved weatherable impact modifiers sought by customers. Capacity additions were announced in many geographic regions, as new technology yielded the prospect of greater volume at modest cost. During the year, Plastics Additives received several supplier achievement awards, including the respected Six Sigma Quality Award from General Electric Co. in recognition of a new product that has delivered significant process improvements, along with greatly reduced downtime and rejects, to one of GE Plastics' customers.

Building Products posted strong growth thanks to continued market penetration of its recently introduced products as well as renewed alignment with its strategic customers. Latin America, North America and Europe each contributed to the growth. The roof tile and siding business expanded its customer

*Continued on page 12*



# All Paints Are Not Created Equal

In its most basic form, paint is simply a layer of material that provides color and protection. The first paints, used to decorate cave walls in prehistoric times, consisted mostly of mashed fruit. Today, Rohm and Haas, the worldwide leader in water-based acrylic technology, designs specialized polymers used by paint producers for a wide variety of applications.

Each of Rohm and Haas's Coatings polymers is engineered to meet customers' needs. Paints must cover a surface well, for instance, and hide whatever's underneath. They must be easy and cost-effective to use. They must be durable and long-lasting in the face of myriad stress factors. And they must offer superior environmental safety.

Rohm and Haas develops and produces Coatings products that deliver each of these properties in forms that are suitable for a range of uses. To study the long-term performance of new paint products, the company maintains 15 research labs and outdoor testing facilities in a variety of climates on four continents. And because Rohm and Haas's Coatings systems are water-based, they offer far better environmental characteristics than solvent-based products.

## Opaque polymers

Rohm and Haas's Ropaque® opaque polymers are spherical particles that become hollow as the paint's water content evaporates. These microvoids, as they are called, refract light in a way that greatly improves a paint's color perfor-

mance. Think of snowflakes: they are made of clear water, yet their shape bends sunlight to make them a radiant white. In much the same way, Rohm and Haas's opaque polymers greatly increase a paint's color performance and its ability to cover the surface beneath. For these reasons, opaque polymers also allow paint producers to reduce the amount of pigments they use in their products. Customers receive high performance at attractive prices.

## Rheology modifiers

Paints present a number of challenges for chemists who study "rheology," a liquid's ability to flow well. A quality paint must be thick while it's in the can, yet thin when it's brushed onto a wall, and then thick again when it "sets up" on the surface to dry. It must also be able to flow well enough to eliminate the marks made by brushes and rollers. The first paint additives to address these specifications were natural substances like cellulose. But because they were subject to fluctuations in the seasons and the weather, and because they were vulnerable to the effects of enzymes and bacteria, they were terribly inconsistent.

Rohm and Haas invented rheology modifiers that use acrylic polymer technology to deliver consistently superior performance. The peculiar shape of these specialty molecules allows paints to be applied much more quickly and easily—without dripping or spattering, for instance. Their interlocking branches also help paints cover a surface much

more evenly. Rohm and Haas rheology modifiers are especially valuable in high-gloss paints, which use very small polymer particles to deliver high levels of sheen.

## Multilobe polymers

Rohm and Haas's Multilobe® polymers greatly improve a paint's transfer from the brush or roller to the wall. Other polymer particles are perfectly round and smooth, like a ball bearing—which means they offer very little "traction" when the paint is applied. Using complex manufacturing techniques, Rohm and Haas developed polymers with the unique Multilobe shape. These particles greatly increase the traction available to help a paint grab a wall's surface. With the right amount of Multilobe polymers in each paint formulation, customers receive faster, easier application and a thicker layer of paint.

Rohm and Haas's many acrylic products for Coatings and other applications are backed up by an unparalleled global infrastructure. The company's Deer Park, Texas, facility is the world's largest producer of acrylic monomers from commodity chemicals like propylene and acetone. And Rohm and Haas engineers have ensured that each of the company's polymer products is produced precisely the same way in each of its 31 acrylic emulsion sites around the world. The result is an unbeatable combination of specialty products and reliable delivery to customers. ♦

Rohm and Haas's rheology modifiers allow paints to flow better, so they can be applied much more quickly and easily. Their interlocking branches also help paints cover a surface much more evenly.

The unique shape of Rohm and Haas's Multilobe® polymers increase a paint's "traction," letting painters transfer a thicker, more even layer of paint from a brush or roller to the wall.

Rohm and Haas's opaque polymers refract light in a way that greatly improves a paint's color performance and its ability to cover the surface underneath.



# Performance Polymers

Continued from page 9

base in North America, Latin America, Southeast Asia and China. The strongest growth in the floor care business came in Latin America and North America. The exterior finishings and installation systems business increased its penetration of the European market, and continued to benefit from its relationships with strategic customers in North America. The caulks and sealants business, meanwhile, offset significant competitive pressures with improved positions among its major customers.

In 1999, Building Products expects continued growth in excess of GDP rates, driven by new product introductions and expanded geographic presence.

**Monomers:** Most of Rohm and Haas's monomer production is used internally in the manufacture of specialty products by the other Performance Polymers businesses. During 1998, external sales by the Monomers business totaled \$337 million, up 26% from 1997. The divestiture of the company's stake in AtoHaas resulted in new external sales to that business, which accounted for most of the overall sales increase. Monomers also saw significant growth in sales to producers of superabsorbent materials and other acrylic polymers. The company foresees continued expansion of its monomers production for both internal and external use in 1999.

Formulation Chemicals grew at double-digit rates in Asia and Latin America,

as its products continued to attract new customers around the world. In order to keep pace with geographic growth, the business will open a new polyacrylate production facility in Map Ta Phut, Thailand, in early 1999. Asian and Latin

from the worldwide expansion of our strategic customer's premium laundry detergent brands, which drives the demand for multi-benefit Acusol® polymers.

Together, Performance Polymers expects growth in 1999 from a number of sources. New technology development will expand the product offerings of each of the group's businesses. Geographic growth, meanwhile, will be enhanced by the addition of significant emulsion facilities in



American growth offset modest volume declines in North America and Europe, where some consumers switched from powder detergents. Formulation Chemicals commercially launched Optidose™ polymers and test kits for the water treatment industry. The business's alliance with International Specialty Products Inc., meanwhile, continues to extend the reach of Rohm and Haas's acrylic technology into a wide range of personal-care products, from hair sprays to skin lotions to

sunscreens. Formulation Chemicals expects future growth to come in part from the sale of Duramax™ ceramic additives, a key new product line, as well as

KwaZulu, South Africa, and Shanghai, China, as well as by the expansion of production capacity at Tudela, Spain. ♦



In 1998, Rohm and Haas employees put the finishing touches on new production facilities in Landskrona, Sweden (*bottom*), and Map Ta Phut, Thailand. Both plants produce acrylic products for Performance Polymers businesses.



# Opportunities in Adversity

Asia's financial crisis continued during 1998, greatly restricting the region's economy. By one estimate, the chemical industry's shipments in the region have been reduced by more than 25%. However, Rohm and Haas continued to operate profitably in Asia, and its businesses took a number of steps to ensure that the region will remain a platform for significant future growth.

Macroeconomic growth in many Asian countries reversed in 1998, in some cases by considerable margins. Several countries' economies shrank by more than 4%, and Indonesia's shrank by more than 15%. In addition, many of the region's currencies continued to experience enormous volatility. The Japanese yen traded between 113.6 and 147.3 to the U.S. dollar, a range of 30%. The value of the Indonesian rupiah, meanwhile, ranged between 5,400 and 16,650 to the U.S. dollar—a range of more than 200%. Together, the economic and financial uncertainty made it extremely difficult for companies of all kinds to plan their future operations. Many businesses in the region failed.

For Rohm and Haas, the most significant impact was on the Specialty Polymers, Electronic Materials and Ion Exchange Resins businesses. Asian overcapacity among producers of paper and adhesives weakened demand for Rohm and Haas's specialty products used in these markets around the world.



Electronic Materials, meanwhile, suffered the continued softness in Asia's electronics industry for much of the year. Ion Exchange Resins felt the impact most heavily in Japan, the largest Asian market for its water treatment products.

Despite the difficult economic environment, in 1998 Rohm and Haas main-

tained or expanded its market share in most businesses and countries throughout Asia. These successes came largely as the result of the company's region-wide effort to strengthen its long-term relationships with strategic customers. In many cases, Rohm and Haas provided important customer service and technical support to customers facing economic difficulties. The company also strengthened its supply chain management in Asia, often extending Rohm and Haas systems to include customers' inventory controls. Many Rohm and Haas production facilities in the region also implemented cycle-time improvements that will yield significant results when the region's economies recover.

Largely driven by this strong emphasis on operational excellence, Rohm and Haas expects to deliver improved results in the region during 1999. And when Asia's economies return to robust performance, Rohm and Haas expects to be in a very favorable position to deliver profitable growth across the region. ♦

# Focus on the Future

Technology was the key to Electronic Materials' resilient performance amid the macroeconomic adversity that prevailed among its customers during much of 1998. Rohm and Haas's businesses in this group adapted well to short-term market fragility, even as they took a number of decisive steps to improve their platforms for significant long-term growth.

Electronic Materials sales for the year totaled \$398 million, \$1 million less than in 1997; volume was also flat. Earnings for the group were \$45 million, down 13% from 1997.

The biggest single news item for Electronic Materials came at the end of the year, when Rohm and Haas announced an agreement to acquire LeaRonol, a New York-based specialty chemical company with sales of \$242 million in its 1998 fiscal year. Following the close of the acquisition in January 1999, Shipley Company began the process of combining LeaRonol with its

printed wiring board (PWB) business. The resulting division of Shipley, named Shipley Ronal, unites two very strong and highly complementary technologies for printed wiring boards, metal finishing and other specialty applications. Shipley Ronal expects its full range of specialty chemical products for the PWB industry to be a particularly strong driver of future growth.

In January 1999, Electronic Materials also increased its ownership stake in Rodel, Inc., to 48%. Rodel, a worldwide leader in chemical-mechanical planarization (*see page 16*), delivers specialty products based on this key enabling technology to makers of semiconductors around the world.



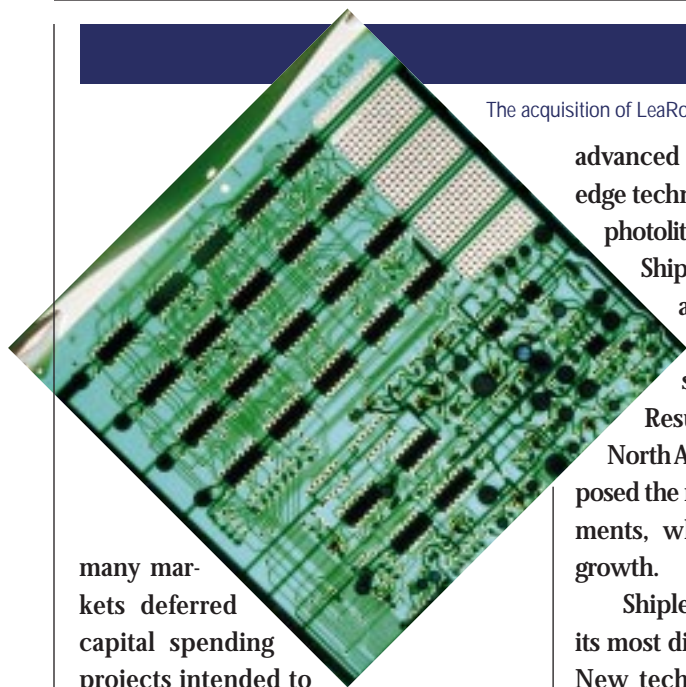
Engineers at Rohm and Haas's Shipley Company subsidiary perform high-tech R&D in a tightly controlled laboratory environment. Complex instruments known as "steppers" (above) etch microelectronic circuits on silicon wafers with new generations of Shipley's photoresists and ancillary products.

Rohm and Haas first bought part of Rodel in June 1997, and has long admired that company's technologies and entrepreneurial spirit.

The PWB and semiconductor industries that Shipley and Rodel serve suffered from significant macroeconomic weakness in 1998. Asian economic turmoil caused lower than expected activity in end-use markets (*see page 13*).

Industry prices, meanwhile, generally decreased in each region of the world. Electronics producers in

Electronic Materials	1998 Sales	Products/Markets	Competitors
Electronic Materials	\$398 million	<ul style="list-style-type: none"> <li>• Specialty chemical processes for printed wiring board manufacture</li> <li>• Photoresists and ancillaries for semiconductor fabrication</li> <li>• Slurries and pads for chemical-mechanical planarization, used by makers of semiconductors (Rodel, Inc.: 48% owned, effective January 15, 1999)</li> <li>• Specialty chemicals for connectors and semiconductor packaging</li> <li>• Plating technology for surface-finishing industry</li> </ul>	TOK Arch Chemicals AZ/Clariant JSR Sumitomo MacDermid Atotech



The acquisition of LeaRonol greatly expands Shipley's product offerings to makers of printed wiring board.

many markets deferred capital spending projects intended to increase capacity, in some cases by sizable margins.

Shipley Company's microelectronics business performed relatively well in this environment, and was able to maintain good sales and earnings. Throughout the year, the company strengthened its worldwide leadership position in deep-UV and

advanced I-line photoresists, the leading-edge technologies used in semiconductor photolithography (*see diagrams below*).

Shipley also improved its position in anti-reflective coatings, another important component of semiconductor fabrication.

Results were best in Europe and North America. In Asia, Japan and Korea posed the most difficult operating environments, while Taiwan delivered strong growth.

Shipley's PWB business faced one of its most difficult years around the world. New technology development did not fully offset the overall business situation in 1998, but is expected to contribute strongly to improved results in 1999. The addition of LeaRonol's complementary technologies and manufacturing capacity will drive future growth and profitability. In particular, as printed wiring board designs become increasingly com-

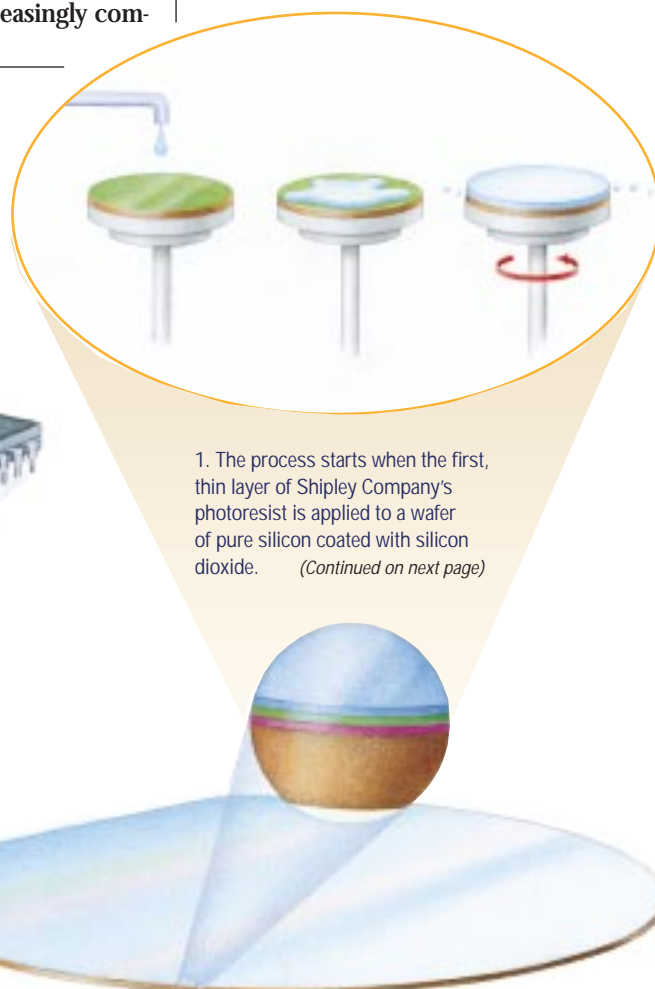
plex, Shipley Ronal foresees its photoresists for PWB imaging increasing their share of market.

Electronic Materials took a number of other steps to improve its operations during the year. Shipley fully integrated the commercial and manufacturing operations of Pratta, which was acquired in 1997. LG-Shipley, a joint venture with South Korea's LG Chemical Group, was implemented in the first half of 1998. Operational discipline and raw material costs were a high priority in 1998 and will remain a focus for continued improvements in 1999.

In late 1998, the worldwide electronics industry began to show initial signs of recovery. Barring further economic shocks, Electronic Materials expects its customers to return to their historical growth rates during the course of 1999. ♦

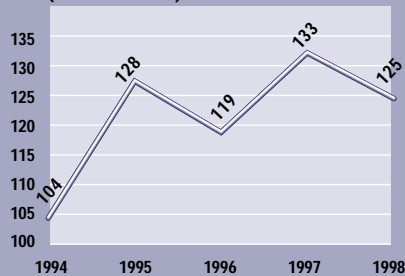
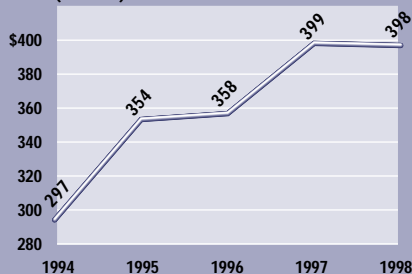
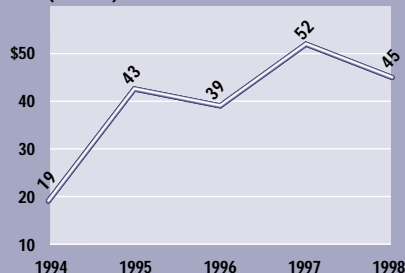
## Enabling Technology for Microelectronics

Personal computers, cellular telephones and other information appliances use silicon "chips" etched with many layers of interconnecting microelectronic circuits. Each chip's architecture calls for thousands of lines, which are drawn by a process called photolithography. These lines, often only 0.18 micron wide, enable the chip to perform thousands of instructions per second. Each chip must therefore be manufactured to exacting standards with precision instruments and carefully selected materials.





## ELECTRONIC MATERIALS

Volume  
(Millions of units)Sales  
(Millions)Earnings  
(Millions)

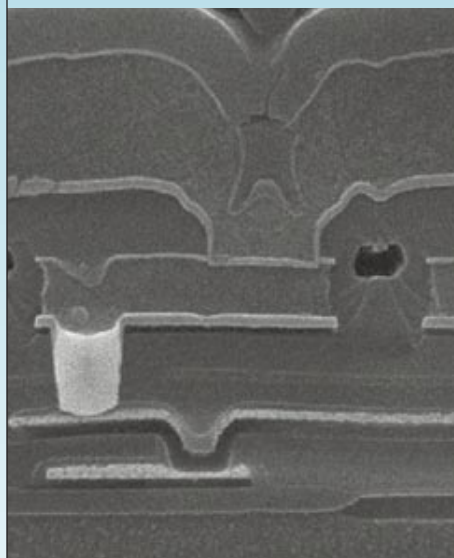
# Polishing to Perfection

Rohm and Haas's photoresists are not the only technology required in manufacturing semiconductors. In order for the photolithographic process to create precise patterns in the photoresist, each layer must be applied to an extremely flat clean surface. Rodel, Inc., supplies the materials and expertise essential for chemical-mechanical polishing, the process that ensures each layer is built upon a firm foundation.

Before a silicon wafer receives the first layer of photoresist (*see diagram below*), Rodel's chemically engineered slurries and polishing pads remove imperfections at and below the silicon surface. The polishing slurry is a reactive liquid that contains ultrafine particles. The slurry and the polishing pads work together to chemically alter the silicon

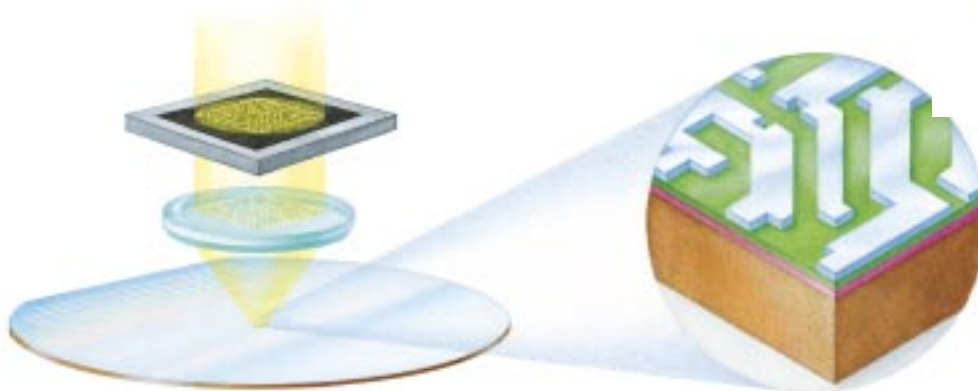
and mechanically remove atomic layers of the crystal structure until an extremely flat, flawless surface remains on the wafer.

After each layer of photoresist is applied, exposed and etched, insulating or conducting materials are deposited in the remaining patterns. These deposited materials must also be carefully polished



Without Rodel's chemical-mechanical planarization (CMP) technology, each successive semiconductor layer would be more and more uncertain—and thus its circuitry would be less and less efficient and reliable.

2. Ultraviolet light, shone through a carefully designed mask and photographic lens, exposes precisely defined portions of the photoresist layer. The photoresist is then developed, much like photographic film.



3. Chemical etching removes areas of the surface not protected by the developed photoresist. The photoresist is then removed to reveal the electrically conducting or insulating portions of the chip design left by the mask.

to eliminate height variations across the surface so that the next layer of photoresist can be laid precisely on top. The most sophisticated chips may have many layers in the final design (*see nearby photos*). CMP is the only known technique for producing the high degree of flatness required for sub-0.35 micron electronic circuitry devices. The value that Rodel's

products deliver is even greater in cutting-edge applications, which use circuits that have lines 0.18 micron wide.

Semiconductor manufacturers are only some of Rodel's customers. The company offers a comprehensive line of polishing pads, laps, sleeves, wheels, fixturing products and slurries for the surface finishing of metallurgical

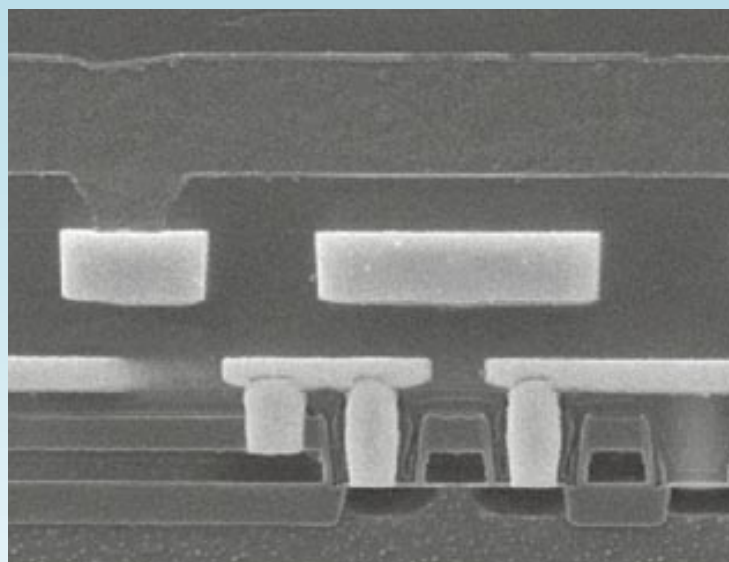
specimens, CRT screens, precision optical components, fiber-optic connectors, computer disk drives, television faceplates and liquid-crystal display panels. Its technology also enables the efficient, cost-effective production of hard, brittle

materials such as ceramics, sapphire and other crystals.

In January 1999, Rohm and Haas increased its ownership in Rodel, Inc., to

48%. Rohm and Haas has long admired the technological innovations and entrepreneurial spirit of Rodel founders William D. Budinger and Donald V. Budinger, who have built Rodel into an important force in the semiconductor industry. "We've made no secret about our intention to grow our Electronic Materials business group," said Raj Gupta, vice chairman of Rohm and Haas and head of Electronic Materials. "Our increased position in Rodel is the logical next step in our plan to grow the business quickly and profitably. We want to be the technology and market leader for the electronic materials market."

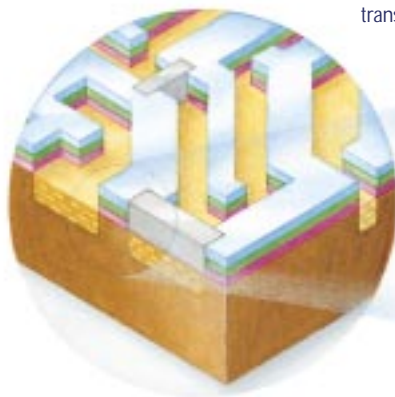
Rohm and Haas first bought a 25% stake in Rodel in June 1997. Since that time, the relationship between the two companies has strengthened and deepened, allowing Rodel and Rohm and Haas's Shipley subsidiary to coordinate their efforts in a number of strategic areas, including technology research. The result is one of Rohm and Haas's most important platforms for profitable growth in Electronic Materials. ♦



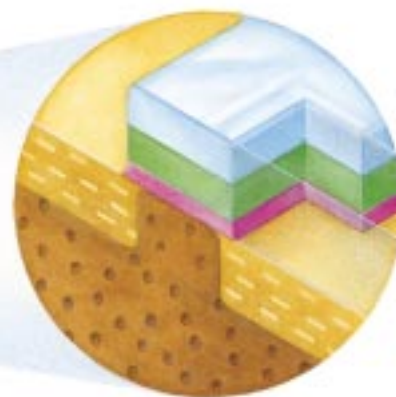
The layers of this semiconductor show how Rodel's CMP technology allows vast improvement in the precision of a chip's design and performance.



4. This process is repeated as many as 20 times to produce the most intricate, powerful chips used in personal computers and other high-tech devices. Rohm and Haas's highest-value photoresists support the industry's leading edge "l-line" and "deep-UV" manufacturing technologies. l-line photoresists are used today to manufacture circuits with lines as small as 0.3 micron wide. Deep-UV resists produce circuits with lines as small as 0.18 micron wide.



5. Ion streams directed at the exposed areas create the chip's transistors. Later, metals and insulators are added to connect the transistors into functioning circuits.



# Extensive Expertise

Chemical Specialties encompasses those Rohm and Haas businesses that independently serve the specialty chemical needs of their customers. The group has a broad range of chemistries and other expertise at its disposal, from gene-switching mechanisms useful in a range of biological applications to chromatography chemistries for the pharmaceutical industry. Chemical Specialties is also the segment of the Rohm and Haas portfolio in which the company plans to develop independent new businesses, whether they originate with the company's R&D efforts or through an acquisition of technologies from an external source.

Overall, the Chemical Specialties group performed well during 1998. Sales for the year totaled \$875 million, a 1%

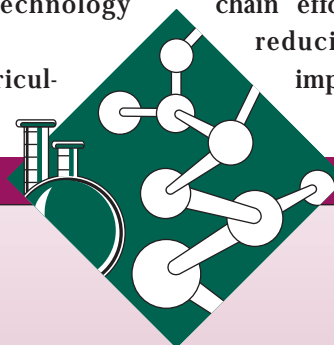
decrease from the sales posted in 1997 by the businesses that now comprise Chemical Specialties. Volume was flat. Earnings for the group were \$72 million, down 15% from 1997.

The largest of the Chemical Specialties businesses, Agricultural Chemicals, posted slightly higher sales over 1997; results were best in North America and Latin America. Dithane fungicide and the Mimic™, Confirm® and Intrepid™ molt accelerating compounds (*see page 20*) drove gains in both sales and profitability. The business's biotechnology group licensed its gene-switching technology to Invitrogen, a maker of materials used in biotechnology research.

During the year, Agricultural Chemicals increased

its focus on building relationships with distributors around the world. The business increased its ownership stake in AgLead, a key distributor in Japan, to 70%, and took a minority interest in Isagro Italia, a firm that commercializes and distributes crop protection products in Europe. Agricultural Chemicals also signed a joint venture agreement for the production of Dithane in China. In 1999, Agricultural Chemicals plans continued development of its product distributor network in Latin America, Europe and Asia-Pacific. The business also expects to benefit from its supply chain efforts around the world, reducing inventories while improving customer service.

Ion Exchange Resins



Chemical Specialties	1998 Sales	Products/Markets	Competitors
Agricultural Chemicals	\$505 million	<ul style="list-style-type: none"> <li>• Herbicides</li> <li>• Fungicides</li> <li>• Insecticides</li> </ul>	Atochem DuPont Monsanto Zeneca
Ion Exchange Resins	\$240 million	High-performance resins used to change characteristics of water and other fluids in: <ul style="list-style-type: none"> <li>• Pharmaceuticals</li> <li>• Biotechnology</li> <li>• Electronics</li> <li>• Food processing</li> </ul>	Dow Chemical Bayer Purolite Mitsubishi Kasei
Biocides	\$130 million	Isothiazolone biocides used to control algae, fungi and bacteria in: <ul style="list-style-type: none"> <li>• Coatings</li> <li>• Water treatment</li> <li>• Personal-care products</li> <li>• Latex preservation</li> <li>• Metalworking fluids</li> </ul>	Dow Chemical Union Carbide Zeneca Great Lakes
Primenex*		Specialty intermediates and bases used in: <ul style="list-style-type: none"> <li>• Lubricants</li> <li>• Dyes</li> <li>• Plastics</li> </ul>	BASF Akzo Huntsman Celanese
TosoHaas†		Separations used in: <ul style="list-style-type: none"> <li>• Pharmaceutical manufacturing</li> <li>• Biomedical research</li> <li>• Environmental testing</li> </ul>	Amersham Pharmacia Biotech BioSeptra

\* Sales included with Ion Exchange Resins.

† Sales are not consolidated.



capped its multi-year turnaround efforts with a good performance in 1998. Over the past few years, this business has focused on rationalizing its product portfolio, improving its cost structure and strengthening its operations. In 1998, this process had yielded sufficient progress to



Rohm and Haas's customers' products are found in nearly every aisle of your local pharmacy. Ion Exchange Resins allows drug companies to purify the water and other fluids used to make prescription and over-the-counter pharmaceuticals. Biocides provides specialty products used to ensure personal-care products stay fresh on store shelves and in bathroom cupboards.



allow Ion Exchange Resins to begin to target new markets and new applications of its specialty resins.

With the exception of the European and Asia-Pacific Regions (*see page 13*), Ion Exchange Resins turned in healthy sales and earnings around the world. The business's specialty focus drove performance of its products for makers of chemical warfare decontamination kits, a highly differentiated product with demanding performance standards. Electric utilities, particularly those that operate nuclear-powered generators, fueled growth of resins for industrial water purification, another application with exacting specifications. The business also posted particularly strong demand from producers of specialty filters for drinking water. While cost-consciousness will remain a priority, Ion Exchange Resins expects to continue its newly earned focus on profitable growth in 1999.

Rohm and Haas's Biocides business experienced reasonably good demand during 1998, yielding roughly flat sales for the year compared to 1997. The business's improved cost structure helped produce the business's first significant earnings gain in several years. Continued strength in Europe and North America were somewhat offset by weakness in the paper and pulp markets, in which

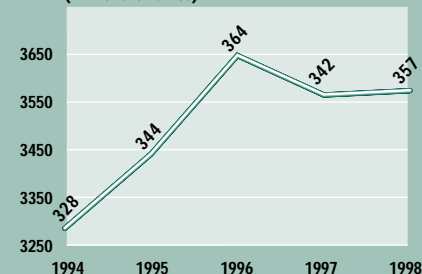
manufacturers worldwide faced overcapacity and resulting low-cost exports from Asia. Also during 1998, Biocides strengthened its commitment to its markets with increased focus on developing newer, safer processes that yield greater customer value. The SeaNine® biocide product, which offers shipbuilders an environmentally friendly means of protecting ship hulls from barnacle growth, benefited from broader awareness of the environmental concerns caused by tin-based anti-barnacle formulations of marine paints.

Primenex posted volume growth in 1998 in its fuel and plastics additives segments. In the business's annual customer satisfaction survey, respondents rated Primenes in the top quartile for product quality, order processing, delivery, responsibility and the quality of the business's partnerships. Primenes expects strong growth in 1999.

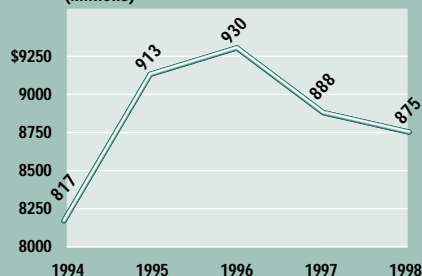
TosoHaas, a joint venture between Rohm and Haas and Tosoh Corp., realized good results driven by rapid growth in the pharmaceutical and biotechnology industries. The business expects growing demand in 1999 from established as well as newly developing areas requiring bioseparation tools.

## CHEMICAL SPECIALTIES

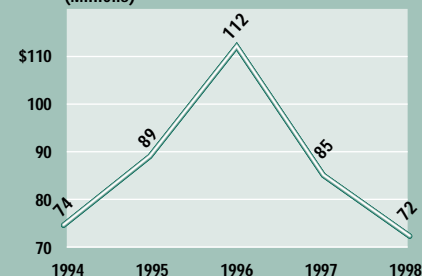
Volume  
(Millions of units)



Sales  
(Millions)



Earnings  
(Millions)





A farmer faces a series of trade-offs when selecting a pesticide. Harsh agricultural chemicals may control insects in his fields, but they often exact a steep price—in addition to increasing the farmer's production costs:

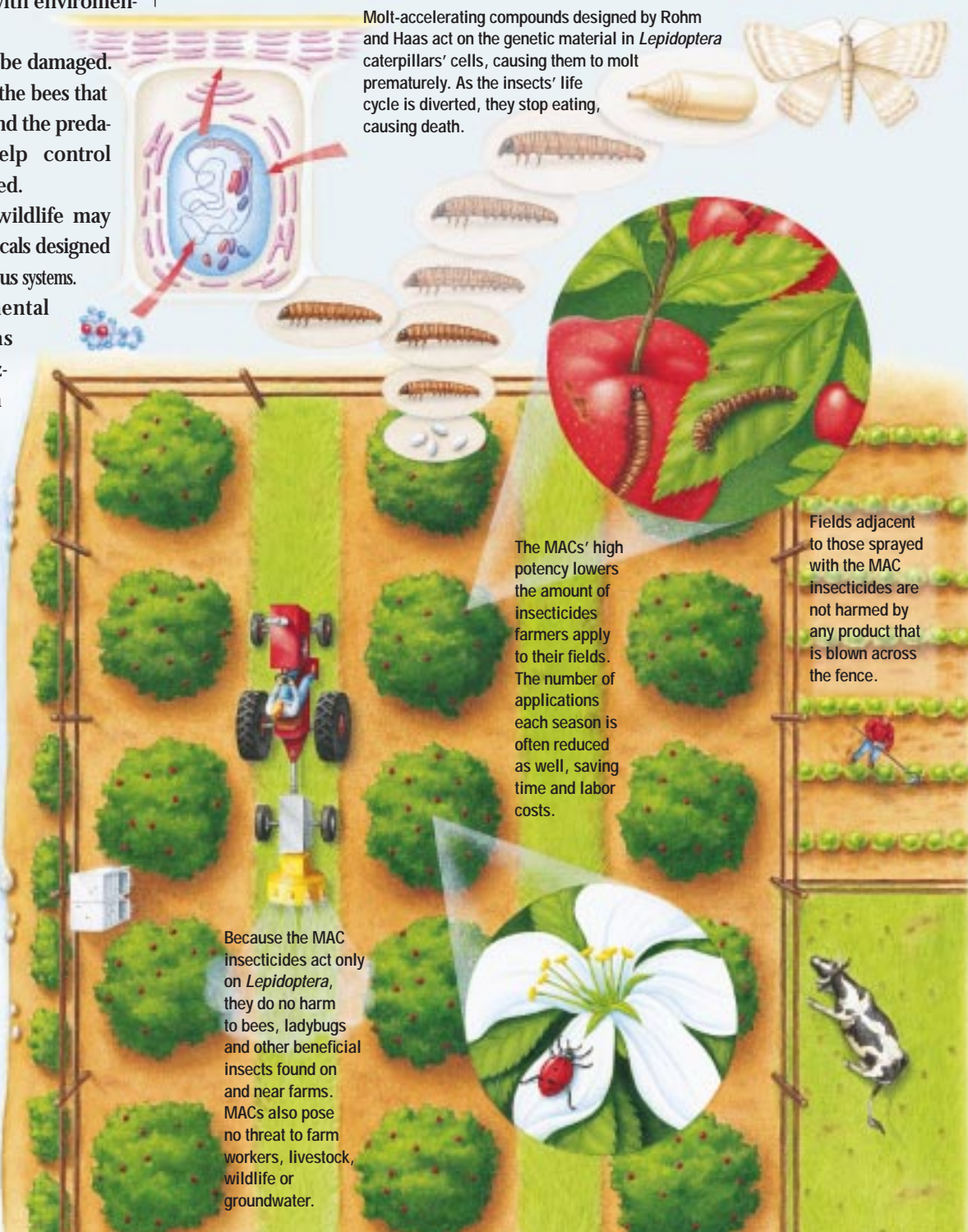
- Farmhands who apply the chemicals may face health risks.
- Local streams and ground water may be threatened with environmental degradation.
- Nearby crops may be damaged.
- Beneficial insects—the bees that assist in pollination and the predator insects that help control pests—may be harmed.
- Birds and other wildlife may be poisoned by chemicals designed to act on insects' nervous systems.

The U.S. Environmental Protection Agency has responded to these hazards by designating a new class of “reduced risk” pesticides. One of the first technologies to receive “reduced risk” status was Rohm and Haas's molt accelerating compounds (MACs), an innovative class of chemistry that allows farmers to avoid many of the problems associated with harsh chemical pesticides. In June 1998, the EPA awarded Rohm and Haas its Presidential Green Chemistry Challenge Award in recognition of the many environmental and other benefits the MACs offer farmers and their communities (see box on page 21).

Rohm and Haas's MAC insecticide products include Mimic™,

# High-Tech Crop Protection

Molt-accelerating compounds designed by Rohm and Haas act on the genetic material in *Lepidoptera* caterpillars' cells, causing them to molt prematurely. As the insects' life cycle is diverted, they stop eating, causing death.



Because the MAC insecticides act only on *Lepidoptera*, they do no harm to bees, ladybugs and other beneficial insects found on and near farms. MACs also pose no threat to farm workers, livestock, wildlife or groundwater.

The MACs' high potency lowers the amount of insecticides farmers apply to their fields. The number of applications each season is often reduced as well, saving time and labor costs.

Fields adjacent to those sprayed with the MAC insecticides are not harmed by any product that is blown across the fence.

Confirm<sup>®</sup>, Runner<sup>™</sup> and Intrepid<sup>™</sup>. Each is based on a new class of chemistry the company has developed called diacylhydrazines, which target the *Lepidoptera* class of caterpillars—by far the most destructive pests in agriculture and forestry. When a MAC pesticide is sprayed on a farmer's field, it acts only on the caterpillars' cells. Within hours, the pesticide mimics a hormone in the insects called 20-hydrozyecdysone. This naturally occurring substance regulates the caterpillar's development—and, most importantly, triggers its molting process (*see nearby illustration*). The MAC pesticide prompts the caterpillars to molt prematurely and thus to stop feeding, causing death.

Following the MACs' introduction in 1994, Rohm and Haas has received approvals for its use in 44 countries, and for use on a long list of crops including citrus fruits, apples, pears, grapes, strawberries and kiwifruit; beans, corn, cotton, rice, squash, onions, eggplants, tomatoes, wal-

nuts and oil palm; as well as tea and a wide range of forestry, ornamental and turf applications. As more countries continue to approve more uses of these products—and as newer, more potent formulations reach the market—the MACs' contribution to Rohm and Haas's financial performance is expected to grow at double-digit rates.

Given the molt-accelerating compounds' many advantages over harsh agricultural chemicals, their prospects for greater use around the world are bright. Because the MACs target only the hormones of *Lepidoptera*, the pesticides pose no environmental risk to farmers' ground water and the rich ecosystems that it often supports. Likewise, birds and other wildlife are not harmed by contact with the MACs.

Another benefit of the MAC technology is its benign impact on those insects that assist in farmers' efforts. In apple orchards, for instance, ladybird beetles

(often known as "ladybugs") and so-called predator aphids help to control another class of aphids that can do significant damage to a farmer's crop. While the MACs are highly effective in eliminating the threat of *Lepidoptera*, they pose no threat to the ladybugs, predator aphids and the many other beneficial insects that farmers depend upon. The MACs also do no harm to the bees that help to pollinate their crops.

As Rohm and Haas's MACs greatly lower the amount of harsh chemicals that farmers must use, they significantly reduce the health risks to the workers that apply pesticides in the fields. Also importantly, the MACs decrease the number of times workers must apply pesticides to their fields each year, helping reduce a farmer's production costs, and thus increase his profits. In all, Rohm and Haas's molt-accelerating compounds are very bad news for *Lepidoptera*, but great news for people and the environment. ♦

#### A RECOGNIZED LEADER IN ENVIRONMENTAL STEWARDSHIP



The 1998 Presidential Green Chemistry Award

In June 1998, Rohm and Haas's molt-accelerating compound (MAC) technology received the annual Presidential Green Chemistry Award from the U.S.

Environmental Protection Agency. Rohm and Haas is the only company to win this award twice since its inception in 1995. The company is also the first chemical manufacturer to receive the award for an agricultural product.

"Your receipt of this award identifies your company as one of the leaders of environmental innovation in this country," EPA Administrator Carol M. Browner told Rohm and Haas Chairman and CEO Larry Wilson. "You and your entire organization should take great pride in this achievement. Your commitment to developing chemical technologies that are scientifically and

economically sound as well as less hazardous to human health and the environment is very deserving of this prestigious Presidential award."

The EPA initiated the Green Chemistry Award to recognize "fundamental breakthroughs in cleaner, cheaper, smarter chemistry." An independent panel of technical experts convened by the American Chemical Society judges each year's entrants according to criteria that measure their health and environmental benefits, scientific innovation and industrial applicability. In 1996, Rohm and Haas won its first Presidential Green Chemistry Award for the development of Sea-Nine<sup>®</sup>, an anti-foulant that allows formulators of marine paints to meet increasingly stringent world-wide environmental specifications. ♦



Rohm and Haas has a long-standing tradition of concern for its people and its communities around the world. In 1998, the company's efforts to continue to improve upon its record of safe operations and environmental stewardship yielded important progress.

Rohm and Haas strives to ensure that its workplaces are among the safest in any industry. In 1998, the company delivered on this important commitment in several ways. Overall, the company's rate of occupational injuries and illnesses fell to 1.2 in 1998, a significant improvement over the company's OII rate of 1.8 for 1997. (The OII rate is an industry standard that calculates the number of injuries and illnesses per 200,000 employee hours worked.) As the nearby safety chart shows, Rohm and Haas's long-term effort to reduce employee injuries has produced wide gains.

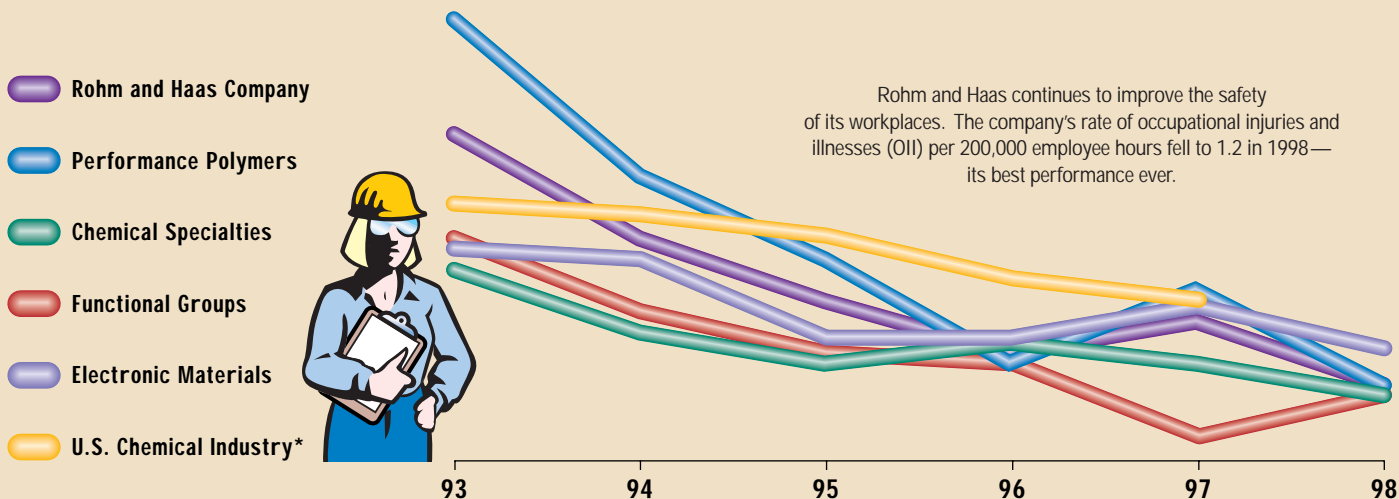
That improvement is evident at each of the 37 Rohm and Haas sites that operated without a single injury during the year. In 1998, in fact, 28 of the company's sites completed at least two consecutive years without an OII case. These records demonstrate that it is possible to sustain an injury-free workplace, a goal that Rohm and Haas seeks to attain throughout the company.

# Workplace Safety



Rohm and Haas's Safety Train travels among Rohm and Haas sites in the U.S., renewing workers' awareness of the latest issues in workplace safety.

## STEADY IMPROVEMENT

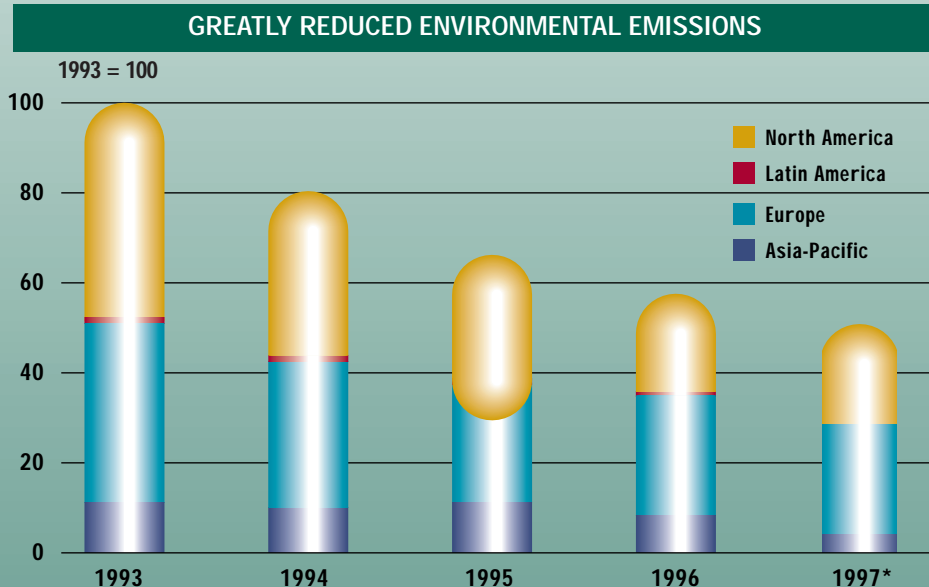


\*Most recent data available.

# Environmental Stewardship

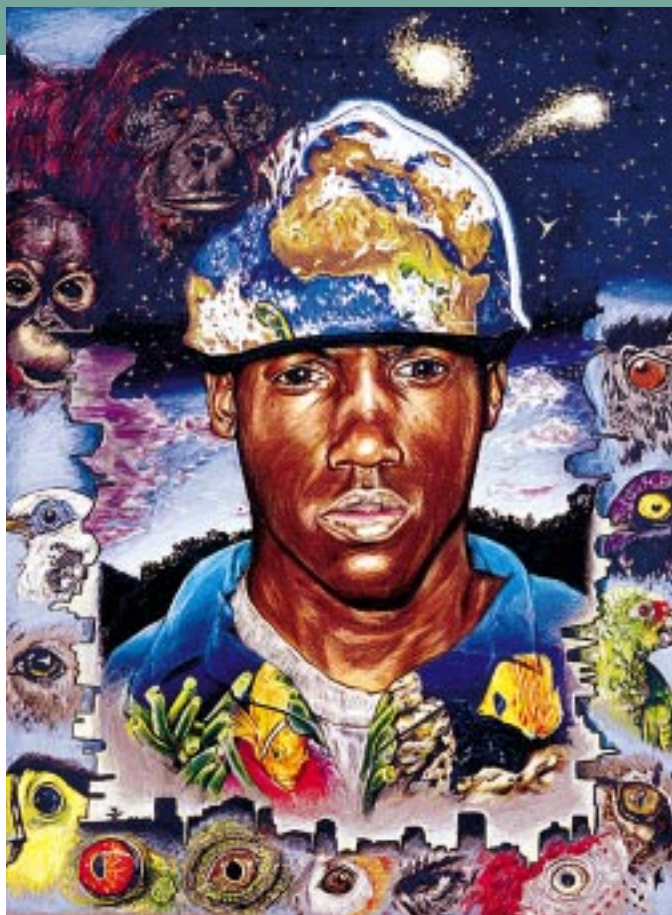


Environmental emissions at Rohm and Haas production facilities have fallen sharply in each of the most recent years. Emissions per pound of production have fallen by 51% since 1993, far exceeding government environmental regulations.



Despite Rohm and Haas's strong increases in production volume during recent years, the company has steadily reduced the amount of emissions and other waste generated by its manufacturing operations. Rohm and Haas meets government environmental restrictions in each of the dozens of countries in which it operates. In most cases, the company exceeds the official requirements by a significant margin.

The company's total environmental emissions have declined by 38% between 1993 to 1997, the most recent year for which data are available. Even more impressively, the amount of emissions per pound of product the company manufactured fell by 51%. As the nearby chart shows,



the company has achieved reductions in emissions in each region of the world. All of Rohm and Haas's businesses have contributed to this extremely favorable trend, which the company expects to continue well into the future. ♦

Each year, many Rohm and Haas sites around the world help their neighboring schools to educate children about the importance of caring for our environment. As part of this effort, the company's largest production facility, in Deer Park, Texas, sponsors an annual art contest for area students. In 1998, First Prize in the Senior High Division was awarded to Tavares Provost, a 12th-grader at J. Frank Dobie High School, in Pasadena, Texas, for the adjacent painting. "In today's world, chemical companies are abundant," Tavares said. "The wildlife and environment could easily fall victim to pollution. But through responsible care, we can live together in a clean atmosphere."

## DIRECTORS

### William J. Avery

Chairman, Chief Executive Officer  
and Director  
Crown, Cork & Seal Company, Inc.  
Mr. Avery, 58, has been a director  
since 1997. Committees: 2, 4, 6, 7

### Daniel B. Burke

Retired Chief Executive Officer, President  
and Director  
Capital Cities/ABC, Inc.  
Mr. Burke, 70, has been a director  
since 1986. Committees: 4 (chair), 6, 7

### J. Michael Fitzpatrick

President and Chief Operating Officer  
Rohm and Haas Company  
Dr. Fitzpatrick, 52, became a director  
January 1, 1999. Committees: 3, 5, 7

### Earl G. Graves

Chairman and Chief Executive Officer  
Earl G. Graves, Ltd.;  
Publisher and Editor  
Black Enterprise Magazine  
Mr. Graves, 64, has been a director  
since 1984. Committees: 1, 5 (chair), 6, 7

### Rajiv L. Gupta

Vice Chairman  
Rohm and Haas Company  
Mr. Gupta, 53, became a director  
January 1, 1999. Committees: 3, 7

### James A. Henderson

Chairman, Chief Executive Officer  
and Director  
Cummins Engine Company, Inc.  
Mr. Henderson, 64, has been a director  
since 1989. Committees: 1, 5, 6, 7

### John H. McArthur

Senior Advisor to the President,  
World Bank Group  
Retired Dean  
Harvard Business School  
Mr. McArthur, 64, has been a director  
since 1977. Committees: 1 (chair), 3, 5, 6, 7

### Jorge P. Montoya

President, Global Food & Beverage,  
The Procter & Gamble Company;  
President  
Procter & Gamble Latin America  
Mr. Montoya, 52, has been a director  
since 1996. Committees: 2, 4, 6, 7

### Sandra O. Moose

Senior Vice President and Director  
The Boston Consulting Group, Inc.  
Dr. Moose, 57, has been a director  
since 1981. Committees: 3, 4, 6 (chair), 7 (chair)

### Gilbert S. Omenn

Executive Vice President for Medical Affairs  
The University of Michigan  
CEO, The University of Michigan  
Health System  
Dr. Omenn, 57, has been a director  
since 1987. Committees: 2 (chair), 4, 6, 7

### Ronaldo H. Schmitz

Member of the Board of Managing  
Directors  
Deutsche Bank, AG  
Dr. Schmitz, 60, has been a director  
since 1992. Committees: 1, 5, 6, 7

### Alan Schriesheim

Director Emeritus  
Argonne National Laboratory  
Dr. Schriesheim, 69, has been a director  
since 1989. Committees: 2, 4, 6, 7

### Marna C. Whittington

Chief Operating Officer  
Morgan Stanley Institutional  
Investment Management  
Dr. Whittington, 51, has been a director  
since 1989. Committees: 1, 3, 5, 6, 7

### J. Lawrence Wilson

Chairman and Chief Executive Officer  
Rohm and Haas Company  
Mr. Wilson, 63, has been a director  
since 1977. Committees: 3 (chair), 7

#### COMMITTEES

1. Audit
2. Corporate Responsibility, Environment,  
Safety and Health
3. Executive
4. Executive Compensation
5. Finance
6. Nominating
7. Strategic Planning

## OFFICERS

### J. Lawrence Wilson

Chairman  
Chief Executive Officer

### Rajiv L. Gupta

Vice Chairman

### J. Michael Fitzpatrick

President  
Chief Operating Officer

### Bradley J. Bell

Senior Vice President  
Chief Financial Officer

### Patrick R. Colau

Senior Vice President  
Director,  
Performance Polymers

### Nance K. Dicciani

Senior Vice President  
Director, Chemical Specialties  
Director, European Region

### Charles M. Tatum

Senior Vice President  
Chief Technology Officer

### Robert P. Vogel

Vice President  
General Counsel

### Robert W. Andrew

Vice President  
Director, Building Products

### William C. Andrews

Vice President

### Thomas L. Archibald

Vice President  
Director, Engineering

### Paul J. Baduini

Vice President  
Director, Ion Exchange Resins

### Alan E. Barton

Vice President  
Director, Coatings

### Pierre R. Brondeau

Vice President  
President and COO,  
Shipley Company

### A. Wayne Carney

Vice President  
Director,  
Formulation Chemicals

### David T. Espenshade

Vice President  
Director, Purchasing

### Carlos A. Estevez

Vice President  
Director,  
Agricultural Chemicals

### Marisa Guerin

Vice President  
Director, Human Resources

### Nicholas A. Gutwein

Vice President  
Director, Specialty Polymers

### Philip G. Lewis

Vice President  
Director, Environmental  
Health and Safety

### Francis T. Maher

Vice President  
Director, Asia-Pacific Region

### Stephen J. Rauscher

Vice President  
Director, Performance  
Polymers Supply Chain

### Richard C. Shipley

Vice President  
Chairman and CEO,  
Shipley Company

### David A. Stitely

Vice President  
Chief Information Officer

### Gerard E. Tarzia

Vice President  
Director, Biocides

### David R. Underwood

Vice President  
Director, Plastics Additives

### Gail P. Granoff

Corporate Secretary

### Lewis H. Johnston

Controller

### Edward E. Liebert

Treasurer

### Marc S. Adler

Assistant Secretary

### Stanley J. Harmer

Assistant Secretary

### Macario A. Sarreal

Assistant Treasurer



## Contents

### Management Discussion and Analysis

Results of Operations (1998, 1997 and 1996)	26
Summary by Business Segment (1998, 1997 and 1996)	26
Summary of Consolidated Results	29
Liquidity, Capital Resources and Other Financial Data	31
Market Risk Discussion	37
Quarterly Results of Operations	38

### Consolidated Financial Statements

Summary of Significant Accounting Policies	41
Statements of Consolidated Earnings	42
Statements of Consolidated Cash Flows	43
Consolidated Balance Sheets	44
Statements of Consolidated Stockholders' Equity	45

### Notes to Consolidated Financial Statements

Note 1	Acquisitions and Dispositions of Assets	46
Note 2	Investments	46
Note 3	Other Income, Net	46
Note 4	Financial Instruments	46
Note 5	Income Taxes	48
Note 6	Segment Information	49
Note 7	Pension Plans	50
Note 8	Employee Benefits	51
Note 9	Accounts Receivable, Net	52
Note 10	Inventories	52
Note 11	Prepaid Expenses and Other Assets	52
Note 12	Land, Buildings and Equipment, Net	52
Note 13	Other Assets, Net	52
Note 14	Notes Payable	53
Note 15	Long-Term Debt	53
Note 16	Accounts Payable and Accrued Liabilities	53
Note 17	Other Liabilities	53
Note 18	Stockholders' Equity	53
Note 19	Stock Compensation Plans	54
Note 20	Leases	55
Note 21	Contingent Liabilities, Guarantees and Commitments	55

Report on Financial Statements	57
Report of Independent Accountants	57
Eleven-Year Summary of Selected Financial Data	58

## Results of Operations 1998, 1997 and 1996

In 1998, the board of directors declared a three-for-one split of the company's common stock. Amounts per share, numbers of common shares and capital accounts have been restated to give retroactive effect to the stock split.

Earnings for 1998 were \$440 million, an increase of 7% over last year's earnings of \$410 million. Diluted earnings per common share were \$2.45 compared to \$2.13 in 1997. Sales decreased 7% on a 1% volume increase. The company sold its interest in the AtoHaas joint venture in 1998, affecting the sales and volume comparison. In addition to the exclusion of AtoHaas' sales from 1998, the remaining 50% of NorsoHaas was acquired and operations in China were consolidated during the year. The unconsolidated RohMax joint venture was also sold in 1998 but did not affect the sales and volume comparisons. On a comparable-business basis, sales decreased 3% while volume was flat. The sales decrease on flat volume is largely a result of weaker currencies, primarily in Asia-Pacific, and lower selling prices. Volume increased in Europe and in Latin America while economic weakness hurt volume in the Asia-Pacific region. Volume in North America was flat. On a comparable basis, Asia-Pacific region sales declined 19% and volume decreased 12%. The company's earnings for the year were flat, excluding non-recurring items. Diluted earnings per common share excluding non-recurring items were \$2.20 in 1998, up 7% versus 1997. The increase in reported earnings per share reflects the impact of the company's stock repurchase program and earnings from non-recurring items discussed below.

Earnings in 1997 were \$410 million, 13% higher than the \$363 million reported in 1996. Diluted earnings per common share were \$2.13, up 19% from \$1.79 the previous year. Despite 6% volume growth, sales of \$3,999 million were essentially unchanged from 1996 due to weaker currencies in Europe and Asia-Pacific and the absence of Petroleum Chemicals sales, which were part of the unconsolidated RohMax joint venture during 1997. All business segments helped the volume increase, except Chemical Specialties, in part due to lower volume in Agricultural Chemicals. All regions also contributed, with the European and Latin American regions maintaining strong volume momentum throughout the year. In addition to volume growth within consolidated operations, earnings in affiliates benefited from strong volume in RohMax and Rodel, as well as reduced losses in AtoHaas Europe.

Included in 1998 results are a one-time net after-tax gain of \$45 million, or \$.25 per share. This net gain affected all segments and regions except Latin America, and was the net result of the sale of the company's interest in the AtoHaas and RohMax joint ventures, an early extinguishment of debt, the write-off of certain intangible assets in Europe and business realignment costs primarily in Asia. Earnings in 1997 include a gain of \$16 million after tax, or \$.09 per common share, the net result of remediation settlements with insurance carriers during the fourth quarter. Included in 1996 earnings was an after-tax gain of \$.02 per common share for the sale of land and retroactive tax credits, net of asset writedowns and restructuring charges. The repurchase of 17.5 million, 7.7 million and 13.2 million common shares during 1998, 1997 and 1996, respectively, contributed incrementally \$.13 per share to 1998, \$.12 to 1997 and \$.06 to 1996.

These and other factors affecting earnings are discussed below. They are summarized on a per-share basis on page 30.

## Summary by Business Segment

*(Refer to table on page 27)*

The company's operations are organized by worldwide business groups. A description of each business segment's operations is included in Item 1 "Business" of the 1998 Form 10-K.

**Change in Financial Reporting Structure** In 1998, the company changed its financial reporting structure and the related management structure to better reflect its technical strengths and focus on key markets. Rohm and Haas now reports by three business segments: Performance Polymers, consisting of Polymers and Resins (which includes Coatings, Specialty Polymers and Building Products), Monomers, Formulation Chemicals and Plastics Additives businesses; Chemical Specialties, consisting of the Agricultural Chemicals, Ion Exchange, Biocides and Primenes businesses; and Electronic Materials, consisting of Shipley and Rodel, Inc. (Rodel), a privately held affiliate and leader in precision polishing technology serving the semiconductor, memory disk and glass polishing industries. The 1997 and 1996 presentation and analysis of sales and earnings has been restated to reflect these changes. In the restatement, 1997 and 1996 results of AtoHaas and RohMax are reported under Performance Polymers.

**Recent Developments** On January 23, 1999, the company acquired all of the outstanding shares of LeaRonal, Inc. (LeaRonal), a maker of specialty chemicals for the electronics industry. The company added this business to its Electronic Materials segment in 1999. On January 31, 1999, the company

# Management Discussion and Analysis

## Net Sales by Business Segment and Customer Location

(Millions of dollars)	Performance Polymers			Chemical Specialties			Electronic Materials			Total		
	1998	1997	1996	1998	1997	1996	1998	1997	1996	1998	1997	1996
North America	\$1,540	\$1,722	\$1,676	\$316	\$287	\$289	\$180	\$178	\$157	\$2,036	\$2,187	\$2,122
Europe	590	591	620	262	278	305	93	90	81	945	959	1,006
Asia-Pacific	191	254	264	152	188	208	125	131	120	468	573	592
Latin America	126	145	134	145	135	128	0	0	0	271	280	262
Total	\$2,447	\$2,712	\$2,694	\$875	\$888	\$930	\$398	\$399	\$358	\$3,720	\$3,999	\$3,982

## Summary of 1994-1998 Results by Business Segment <sup>(1)</sup>

(Millions of dollars)	1998	1997	1996	1995	1994
<b>Net Sales</b>					
Performance Polymers	\$2,447	\$2,712	\$2,694	\$2,617	\$2,420
Chemical Specialties	875	888	930	913	817
Electronic Materials	398	399	358	354	297
Total	\$3,720	\$3,999	\$3,982	\$3,884	\$3,534

## Net Earnings

Performance Polymers	\$ 394	\$ 317	\$ 274	\$ 244	\$ 240
Chemical Specialties	72	85	112	89	74
Electronic Materials	45	52	39	43	19
Corporate <sup>(2)</sup>	(71)	(44)	(62)	(84)	(69)
Total	\$ 440	\$ 410	\$ 363	\$ 292	\$ 264

## RONA

Performance Polymers	20.4%	14.5%	12.5%	11.2%	11.9%
Chemical Specialties	9.1	11.0	13.7	10.7	9.0
Electronic Materials	8.9	11.4	10.9	12.5	5.5
Corporate <sup>(2)</sup>	(17.1)	(9.2)	(11.2)	(15.6)	(11.0)
Total	12.7%	11.2%	9.9%	8.1%	7.6%

## Summary of 1994-1998 Results by Customer Location

(Millions of dollars)	1998	1997	1996	1995	1994
<b>Net Sales</b>					
North America	\$2,036	\$2,187	\$2,122	\$2,074	\$1,967
Europe	945	959	1,006	976	826
Asia-Pacific	468	573	592	597	514
Latin America	271	280	262	237	227
Total	\$3,720	\$3,999	\$3,982	\$3,884	\$3,534

## Net Earnings

North America	\$ 365	\$ 286	\$ 235	\$ 199	\$ 198
Europe	97	77	96	102	75
Asia-Pacific	20	58	62	58	43
Latin America	29	33	32	17	17
Corporate <sup>(2)</sup>	(71)	(44)	(62)	(84)	(69)
Total	\$ 440	\$ 410	\$ 363	\$ 292	\$ 264

## RONA

North America	21.9%	16.5%	13.9%	12.2%	12.0%
Europe	12.4	9.0	11.2	11.9	9.7
Asia-Pacific	3.5	9.2	9.8	8.4	6.8
Latin America	14.2	15.9	15.9	8.7	9.8
Corporate <sup>(2)</sup>	(17.1)	(9.2)	(11.2)	(15.6)	(11.0)
Total	12.7%	11.2%	9.9%	8.1%	7.6%

The four geographic regions reflect the company's major marketing profit centers relative to customer location.

See page 35 for definition of RONA.

<sup>(1)</sup> 1994-1997 amounts have been restated to reflect the 1998 change in financial reporting structure.

<sup>(2)</sup> Corporate includes non-operating items such as interest income and expense, corporate governance costs, corporate exploratory research and, in 1998, loss on early extinguishment of debt. (See "Management Discussion and Analysis.")



and Morton International, Inc. (Morton) approved a merger agreement under which the company will acquire Morton in a cash and stock transaction valued at \$4.9 billion, including the assumption of \$268 million of debt. The transaction adds international leadership positions in adhesives, specialty coatings, electronic materials and salt. LeaRonald and Morton are not included in the company's 1998 results. *[See below discussion of "Acquisitions and Divestitures" for more information on these transactions.]*

**Performance Polymers** 1998 earnings, excluding non-recurring items, were \$320 million, up 1% from 1997. Sales were down 10% to \$2,447 million from \$2,712 million in 1997, largely as a result of the absence of 1997 AtoHaas sales of \$305 million. Volume was flat and sales decreased 4% on a comparable-business basis. The decrease in sales on flat volume was primarily a result of unfavorable currencies in Europe and Asia-Pacific and lower selling prices. Performance Polymers sales in the Asia-Pacific region were down more than 26% from the prior year while volume decreased 11%. Earnings increased slightly, excluding non-recurring items, largely as a result of lower raw material prices and higher volume in North America and Europe.

Performance Polymers reported 1997 earnings of \$317 million, up 16% from 1996. Excluding the effect of the former Petroleum Chemicals business, which was part of the unconsolidated RohMax joint venture in 1997, sales were up 3% on an 8% volume increase. Volume growth was evident in all regions and reflected strong performances in the paper, adhesives and coatings markets. Monomers and Formulation Chemicals also showed volume increases. Volume largely drove the segment's earnings increase. The positive effects, however, were held back by lower selling prices and weaker currencies, the dollar value of which declined an average of 9% in Europe and 10% in Japan during the year. Earnings in the Plastics business also contributed as a result of improvement in AtoHaas Europe, where modest earnings were reported compared with significant losses in 1996. Though Plastics' volume increased 4%, sales decreased 2%, reflecting decreased selling prices and weaker currencies in Europe. Continuing pricing pressure in most plastics sectors also dampened Plastics' earnings recovery. In 1997 AtoHaas Europe was hurt by a \$4 million after-tax write-off of start-up expenses for a plant in Italy.

**Chemical Specialties** earnings in 1998 were \$87 million, excluding non-recurring items, up 2% from \$85 million in 1997. Sales of \$875 million decreased 1% from 1997 sales of \$888 million, in part due to weaker currencies in Europe and Asia-Pacific and to lower selling prices. Volume was flat for the

segment despite strong mid-year demand in the Agricultural Chemicals business, which was partially offset by decreased comparative results for the Ion Exchange Resins business, particularly in Asia and Eastern Europe. The earnings increase was driven by strength in the Agricultural Chemicals and Biocides businesses particularly in North America. Asia volume-driven earnings decreases in the Ion Exchange Resins business offset most of these increases.

Chemical Specialties reported 1997 earnings of \$85 million, down 24% from 1996 earnings of \$112 million. Sales decreased 5% on a 2% volume decrease. The earnings decrease was primarily due to 1997 results in the Agricultural Chemicals business, where earnings were 33% lower than in 1996. Sales and volume in this business decreased 2% from 1996, primarily because of weather-related lower Dithane fungicide shipments in all regions except Latin America. Sales of other Agricultural Chemical product lines showed growth. It was this lower sales and volume and weaker currencies in Europe and Japan that largely drove the earnings decrease for the Chemical Specialties segment. Volume growth and operating improvements in the Ion Exchange Resins business helped improve earnings but the comparison to 1996 was hurt by the absence of a \$6 million after-tax gain from the sale of land in Japan in that year. Another factor affecting the comparison to the prior year was the discontinuation of the Biocides joint venture with Dead Sea Bromine in 1997, which decreased both net sales and earnings.

**Electronic Materials** earnings of \$46 million in 1998, excluding non-recurring items, decreased \$6 million, or 12%, from the 1997 period. Sales and volume were essentially flat. Shipley Company volume increased in all regions, except Asia-Pacific, which offset the other regions. The effects of solid growth in North America and the 1998 contribution of Rodel, a 33%-owned affiliate acquired in 1997, were mitigated by lower sales and earnings in Asia-Pacific.

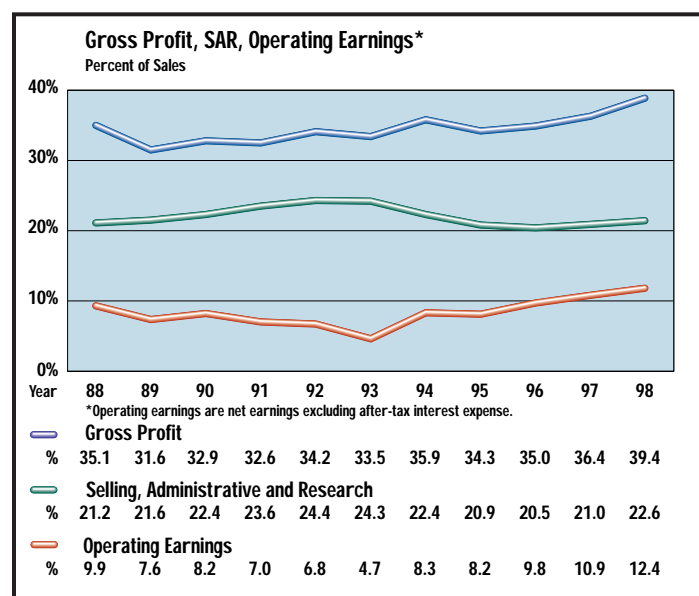
Nineteen ninety-seven earnings of \$52 million in Electronic Materials increased 33% compared with \$39 million in 1996. This earnings increase largely was a result of volume in Shipley Company. The company's share of earnings from Rodel, Inc., a 1997 investment, also contributed. Sales increased 11% to \$399 million from \$358 million reported in the 1996 period. Volume growth and earnings were strong in Asia-Pacific and North America, driven largely by positive results in the microelectronics and printed wiring board businesses. Demand was strong for both Shipley and Rodel products throughout 1997.

**Corporate** expenses totaled \$71 million in 1998, compared with \$44 million in 1997 and \$62 million in 1996. After-tax charges of \$13 million related to extraordinary losses on the early extinguishment of debt were included in 1998 results while 1997 reflects an after-tax gain of \$16 million, the result of remediation settlements with insurance carriers during the fourth quarter. Interest expense of \$34 million in 1998 was down 13% from 1997 interest expense because of 1998 debt retirements. The 1997 interest expense was flat compared to 1996.

**Physical Volume** of shipments increased by 1% in 1998 and 6% in 1997:

Business group	Percent change	
	1998 vs 1997	1997 vs 1996
Performance Polymers	1%	6%
Chemical Specialties	0	(2)
Electronic Materials	0	5
Worldwide	1%	6%

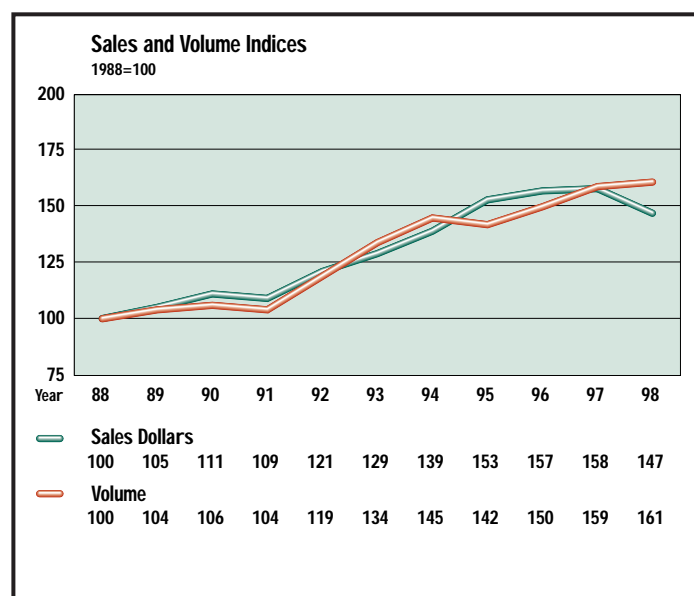
Customer location	Percent change	
	1998 vs 1997	1997 vs 1996
North America	0%	5%
Europe	10	8
Asia-Pacific	(5)	5
Latin America	2	12
Worldwide	1%	6%



## Summary of Consolidated Results

An analysis of gross profit changes is summarized on a basic per-share basis on page 30.

**Net Sales** decreased 7% on a 1% volume increase. On a comparable business basis, sales decreased 3% while volume was flat. In addition to the divestiture of two businesses, resulting in the exclusion of AtoHaas' sales from 1998, the remaining 50% of NorsoHaas was acquired and operations in China were consolidated during the year. The sales decrease on higher volume is largely a result of weaker currencies, primarily in Asia-Pacific, and 2% lower selling prices. Volume was strong in Europe and Latin America while the unfavorable business environment hurt volume in the Asia-Pacific region. Volume in North America was flat. On a comparable business basis, Asia-Pacific region sales declined 19% and volume decreased 12%. Sales of \$3,999 million in 1997 were essentially the same as in 1996, the net result of 6% volume gains, 1% lower selling prices, 9% weaker currencies in Europe, a 10% weaker Japanese yen and the absence of Petroleum Chemicals sales, which were part of the unconsolidated RohMax joint venture in 1997. Volume growth was strong in all regions, with all businesses contributing except Agricultural Chemicals.



# Management Discussion and Analysis

**Raw Material Prices** declined throughout 1998 largely as a result of lower prices in North America for acetone, methanol, propylene and other monomer related raw materials primarily benefiting the Performance Polymers segment. Raw material prices were stable in 1997. They declined throughout the first three quarters of 1996, until natural gas and oil prices increased in the fourth quarter of that year. Prices for raw materials, including methanol, propylene, acetone and butanol, were down 10%, net, in 1998 compared to decreases of 1% and 7% in 1997 and 1996, respectively, excluding currency impacts.

**Gross Profit** of \$1,464 million increased 1% from 1997, largely as a result of 10% lower raw material costs and efficient plant operations. Selling prices were 2% lower. Currency fluctuations in Europe and Asia-Pacific were unfavorable. Total gross profit increased to \$1,455 million in 1997, up 4% from 1996. The gross profit margin was 39%, 36% and 35% in 1998, 1997 and 1996, respectively. Gross profit in 1998 increased largely as a result of lower raw material costs. The gross profit margin increased in 1997 because of higher volume but was negatively affected by 1% lower selling prices and unfavorable currency impacts.

**Selling, Administrative and Research (SAR) Expenses** for 1998 were essentially unchanged compared to the 1997 period, reflecting the net effect of higher research expense and lower selling and administrative expense due to the absence of AtoHaas costs. SAR expenses in 1997 were up 3% over 1996 due to higher selling expenses, higher bonus expense, insurance costs and the cost of new product introductions.

**Interest Expense** of \$34 million in 1998 decreased 13% from 1997 due to 1998 debt retirements. Interest expense in 1997 was flat compared to 1996.

**Share of Affiliate Net Earnings** were \$2 million in 1998, compared to earnings of \$11 million in 1997 and losses of \$12 million in 1996. Affiliate earnings decreased in 1998 due to the absence of the affiliate earnings of RohMax. In 1997, share of affiliate net earnings were a result of the RohMax joint venture, the contribution of Rodel and improved results from AtoHaas Europe. During 1996, AtoHaas Europe experienced operating losses because of weak market conditions characterized by lower volume, falling selling prices and increasing raw material prices. The 1996 losses of the AtoHaas Europe business also included \$4 million of write-offs and costs related to the restructuring of its operations.

## Analysis of Change in Basic Per-Common-Share Earnings Current Year Relative to Year Earlier

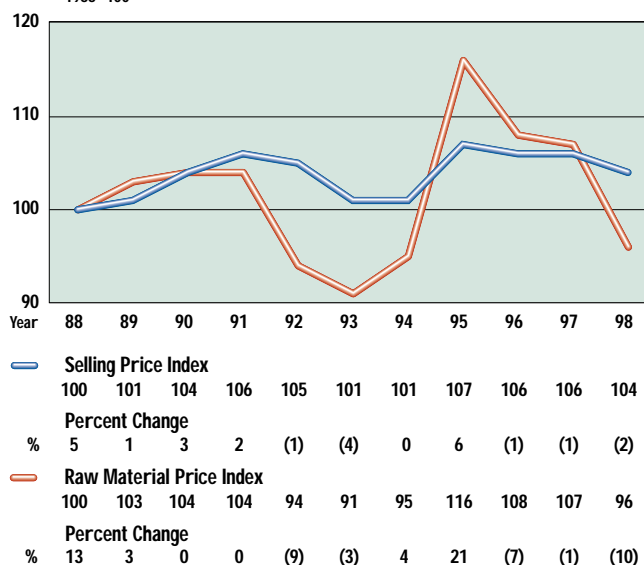
	\$/Common Share (after tax)	
	1998	1997 <sup>(1)</sup>
<b>Gross Profit</b>		
Selling prices	\$(.22)	\$(.09)
Raw material prices	.38	.03
Physical volume and product mix	(.04)	.19
Other manufacturing costs <sup>(2)</sup>	.08	.32
Currency effect on gross profit	(.17)	(.25)
Increase in gross profit	.03	.20
<b>Other Causes</b>		
Gain on sale of facilities and investments, net	.41	—
Selling, administrative and research expenses <sup>(3)</sup>	(.01)	(.07)
Share of affiliate earnings	(.05)	.12
Asset dispositions and write-downs	(.07)	—
Extraordinary loss on early extinguishment of debt	(.07)	—
Certain remediation settlements with insurance carriers	(.09)	.09
Retroactive tax credit on sales outside of the U.S.	—	(.05)
Reduction in outstanding shares of common stock	.13	.12
Other	.02	(.06)
Increase from other causes	.27	.15
Increase in basic per-common-share earnings	\$ .30	\$ .35

<sup>(1)</sup> Restated to reflect the 1998 three-for-one stock split.

<sup>(2)</sup> Includes the favorable impact of higher production rates on unit production costs.

<sup>(3)</sup> The amounts shown are on a U.S. dollar basis and include the impact of currency movements as compared to the prior period.

**Selling Price and Raw Materials Cost Indices**  
1988=100





**Other Income, Net** was \$110 million, compared to \$22 million in 1997 and \$4 million in 1996. Income in 1998 reflects the net before-tax gain on second quarter non-recurring items, including the divestiture of the AtoHaas and RohMax businesses. The 1997 amount includes \$26 million related to remediation settlements with insurance carriers during the fourth quarter. In 1996, other income included a gain of \$10 million on the sale of land in Japan and \$6 million of royalty income, offset by \$8 million of severance and early retirement costs and \$5 million of minority interest expense.

**The Effective Tax Rates** were 35% in 1998, 33% in 1997 and 32% in 1996. The 1998 increase was largely a result of the tax effect of 1998 non-recurring items. The 1996 period included a \$10 million retroactive tax credit on sales outside the United States.

## Liquidity, Capital Resources and Other Financial Data

**Cash Flow** Cash provided by operations for 1998 was \$682 million compared to \$791 in 1997. The resulting free cash flow of \$328 million in 1998 and \$416 million in 1997 was used to reduce debt, invest in joint ventures and to fund the company's stock repurchase program. Free cash flow is cash provided by operating activities less fixed asset spending and dividends.

**Financing** Total borrowings at year-end 1998 were \$581 million, down \$25 million from the prior year. At the end of 1998, the debt-to-equity ratio, calculated without the reduction to stockholders' equity for the ESOP transaction, was 34%, compared with 31% at the end of 1997 and 38% at the end of 1996. In 1998 the company retired \$130 million of high interest long-term debt through a tender offer. These debt retirements resulted in an after-tax extraordinary loss of \$13 million, or \$.07 per share.

**Environmental** There is a risk of environmental damage in chemical manufacturing operations. The company's environmental policies and practices are designed to ensure compliance with existing laws and regulations and to minimize the possibility of significant environmental damage. These laws and regulations require the company to make significant expenditures for remediation, capital improvements and the operation of environmental protection equipment. Future developments and even more stringent environmental regulations may require the company to make additional unforeseen environmental expenditures. The company's major competitors are confronted by substantially similar environmental risks and regulations.

The company is a party in various government enforcement and private actions associated with former waste disposal sites, many of which are on the U.S. Environmental Protection Agency's (EPA) Superfund priority list. The company is also involved in corrective actions at some of its manufacturing facilities. The company considers a broad range of information when determining the amount of its remediation accruals, including available facts about the waste site, existing and proposed remediation technology and the range of costs of applying those technologies, prior experience, government proposals for this or similar sites, the liability of other parties, the ability of other principally responsible parties to pay costs apportioned to them and current laws and regulations. These accruals are updated quarterly as additional technical and legal information becomes available. Major sites for which reserves have been provided are the non-company-owned Lipari, Woodland and Kramer sites in New Jersey, and Whitmoyer in Pennsylvania and company-owned sites in Bristol and Philadelphia, Pennsylvania, and in Houston, Texas. In addition, the company has provided for future costs at approximately 80 other sites where it has been identified as potentially responsible for cleanup costs and, in some cases, damages for alleged personal injury or property damage.

The amount charged to earnings before tax for environmental remediation, net of insurance recoveries, was \$9 million in 1998. In 1997, remediation related settlements with insurance carriers, a \$20 million charge resulting from an unfavorable arbitration decision relating to the Woodlands sites, and other waste remediation expenses resulted in a net gain of \$13 million. The 1996 charge, net of insurance recoveries, was \$27 million.

The reserves for remediation were \$131 million and \$147 million at December 31, 1998 and 1997, respectively, and are recorded as "other liabilities" (current and long-term). The company is in the midst of lawsuits over insurance coverage for environmental liabilities. It is the company's practice to reflect environmental insurance recoveries in results of operations for the quarter in which the litigation is resolved through settlement or other appropriate legal process. Resolutions typically resolve coverage for both past and future environmental spending. Insurance recoveries receivable, included in accounts receivable, net, were \$2 million at December 31, 1998 and \$19 million at December 31, 1997. The company settled with several of its insurance carriers in January 1999 for approximately \$17 million. These settlements will be recognized in income in 1999.

## Management Discussion and Analysis

In addition to accrued environmental liabilities, the company has reasonably possible loss contingencies related to environmental matters of approximately \$65 million at December 31, 1998 and 1997. Further, the company has identified other sites, including its larger manufacturing facilities in the United States, where additional future environmental remediation may be required, but these loss contingencies are not reasonably estimable at this time. These matters involve significant unresolved issues, including the number of parties found liable at each site and their ability to pay, the outcome of negotiations with regulatory authorities, the alternative methods of remediation and the range of costs associated with those alternatives. The company believes that these matters, when ultimately resolved, which may be over an extended period of time, will not have a material adverse effect on the consolidated financial position or consolidated cash flows of the company, but could have a material adverse effect on consolidated results of operations in any given year because of the company's obligation to record the full projected cost of a project when such costs are probable and reasonably estimable.

Capital spending for new environmental protection equipment was \$17 million in 1998. Spending for 1999 and 2000 is expected to be approximately \$22 million and \$15 million, respectively. Capital expenditures in this category include projects whose primary purposes are pollution control and safety, as well as environmental aspects of projects in other categories on page 33 that are intended primarily to improve opera-

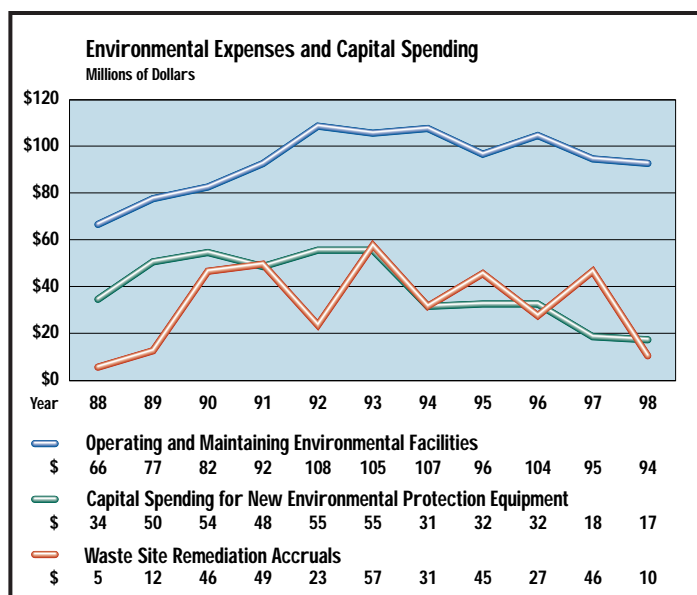
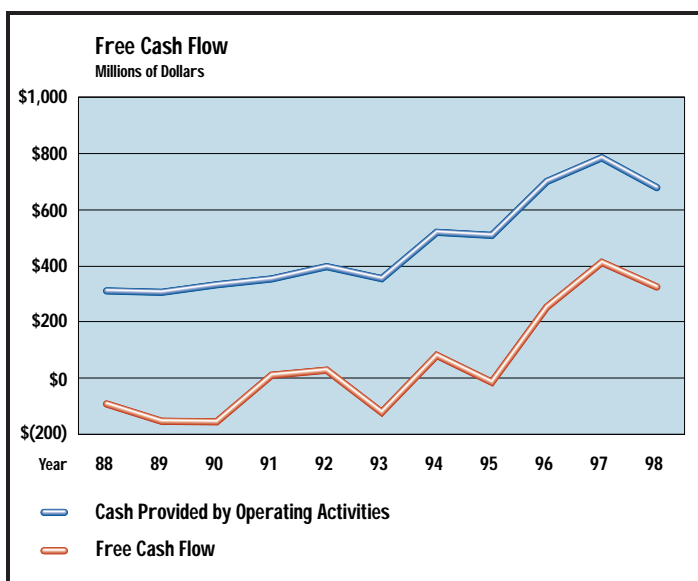
tions or increase plant efficiency. The company expects future capital spending for environmental protection equipment to be consistent with prior-year spending patterns. Capital spending does not include the cost of environmental remediation of waste disposal sites.

Cash expenditures for waste disposal site remediation were \$26 million in 1998, \$37 million in 1997 and \$58 million in 1996. The expenditures for remediation are charged against accrued remediation reserves. The cost of operating and maintaining environmental facilities was \$94 million, \$95 million and \$104 million in 1998, 1997 and 1996, respectively, and was charged against current-year earnings.

**Dividends** Total common stock dividends paid in 1998 were \$.70 per share, compared to \$.63 per share in 1997 and \$.57 per share in 1996. The company's common stock dividend payout is targeted at approximately 35% of trend-line earnings. Common stock dividends have been paid each year since 1927. The common stock dividend payout has increased annually every year since 1977. Total preferred dividends paid were \$2.75 per share in 1998, 1997 and 1996.

### Additions to Land, Buildings and Equipment

Fixed asset additions in 1998 were \$229 million, down \$25 million from the prior year's spending of \$254 million. The decrease reflects the absence of significant projects in process during 1997, such as the completion of capacity expansion in Texas. Improved asset utilization also contributed to the lower



## Management Discussion and Analysis

spending. Nineteen ninety-eight spending focused on emulsions capacity in Europe, ion exchange resin and emulsions capacity in Asia-Pacific and further investment in the Electronic Materials businesses. The company has budgeted capital expenditures in 1999 of approximately \$225 million. Spending for environmental protection equipment, which is included in several of the categories in the table shown below, was \$17 million in 1998, \$18 million in 1997 and \$32 million in 1996.

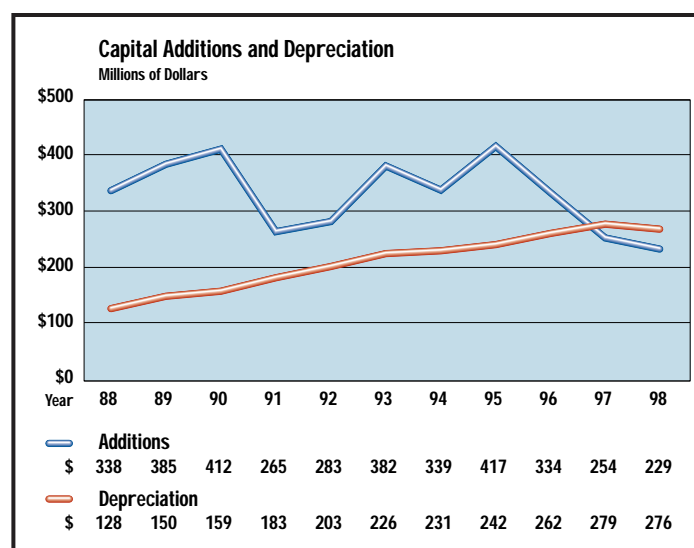
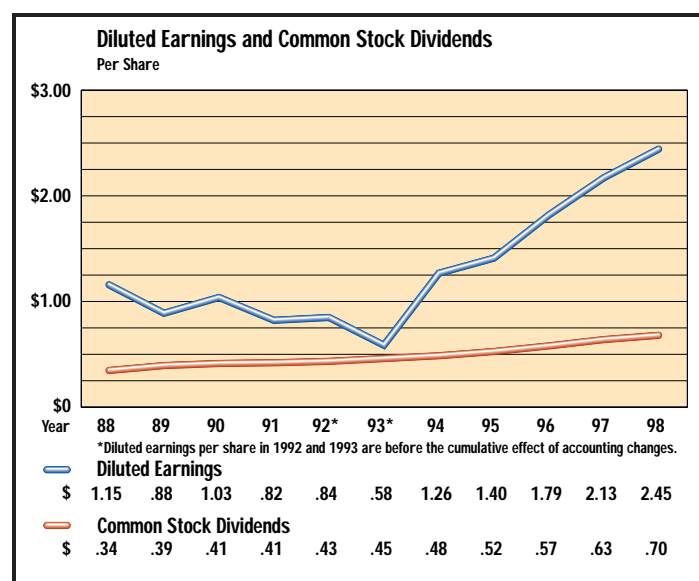
Expenditures for the past three years, categorized by primary purpose of project, were:

(Millions of dollars)	1998	1997	1996
Environmental, cost savings and infrastructure	\$133	\$137	\$167
Capacity additions and new products	60	87	134
Research facilities and equipment	27	18	18
Capitalized interest cost	9	12	15
Total	\$229	\$254	\$334

**Acquisitions and Divestitures** On January 31, 1999, the company and Morton approved a merger agreement under which the company will acquire Morton in a cash and stock transaction valued at \$4.9 billion, including the assumption of \$268 million of debt. The transaction creates a global specialty chemical company with combined annual revenues of \$6.5 billion and will provide the company with international leadership positions in adhesives, specialty coatings, electronic materials and salt. On February 5, 1999 the company com-

menced a cash tender offer to purchase up to 80,916,766 shares of Morton common stock for \$37.125 per share, representing 67% of the outstanding Morton shares on January 31, 1999. The tender offer is subject to certain conditions including, among other things, the tender of at least a majority of the outstanding shares of Morton on a fully diluted basis, the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Act, and the receipt of European Union approval. The offer is scheduled to expire on Friday, March 5, 1999, unless extended. The tender offer is not conditioned upon obtaining financing. Following the successful completion of the tender offer, the company intends to acquire the remaining Morton shares in a second-step merger. In this step, subject to shareholder approval, each share of Morton will be exchanged for between 1.0887 and 1.3306 of company shares based on the company's stock price for a period of twenty days prior to closing, or, if fewer than 80,916,766 shares are purchased in the tender, for a combination of cash and company stock.

On January 23, 1999 the company acquired all of the outstanding shares of LeaRonol for approximately \$460 million. LeaRonol develops and manufactures specialty chemical processes used in the manufacture of printed circuit boards, semiconductor packaging and electronic connector plating, and also provides processes for metal-finishing applications. LeaRonol reported \$242 million in sales and \$21 million in net income for its fiscal year ended February 28, 1998.





## Management Discussion and Analysis

The LeaRonal and Morton acquisitions will be financed through a combination of commercial paper, bank loans and long-term debt and will be accounted for using the purchase method. Their results are not included in the company's 1998 results.

The company sold its interest in the AtoHaas and RohMax businesses in June 1998 for cash proceeds of \$287 million, resulting in a net after-tax gain of \$76 million, or \$.41 per share. Subsequent to the sale of the AtoHaas joint venture, the buyer asserted a claim against the company in late 1998 related to the value of certain joint venture assets. Because the investigation and assessment of this claim is not expected to be completed until the latter part of the first quarter of 1999, the potential amount of the claim and its impact on results of operations and financial position, if any, cannot be reasonably estimated at this time.

During 1998 and 1997, the company purchased a 33% interest in Rodel and in early 1999 purchased an additional 15% interest. The total cost for these investments was approximately \$149 million. Rodel is a privately held, Delaware-based leader in precision polishing technology serving the semiconductor, memory disk and glass polishing industries. The investment is accounted for on the equity method with the company's share of earnings reported as equity in affiliates. Also in 1998, the company acquired the remaining 50% interest in NorsoHaas, which was an affiliate in 1997.

**Stock Repurchases** For the three years ended December 31, 1998, the company repurchased more than 38 million shares, or approximately 19% of common shares outstanding, at a cost of approximately \$1 billion. During 1998, the company repurchased 17,459,435 shares of its common stock at a total cost of \$567 million. Most of the shares were obtained in August 1998 through an accelerated stock repurchase program with a third party. Under the terms of this purchase, the final cost to the company will reflect the average share price paid by the third party in the market over an extended trading period. Through December 31, 1998, the company had repurchased two-thirds of the 12 million shares of common stock authorized under the current buyback program and received board approval in October 1998 for another buyback program of an additional 9 million shares. The company does not intend to buy back a significant number of shares in the near future. The company purchased 7,653,453 shares in 1997 at a cost of \$216 million. There were 167,587,287 and 182,626,947 common shares outstanding at December 31, 1998 and 1997, respectively.

**Stock Split and Retirements** In 1998, the board of directors declared a three-for-one split of the company's common stock. The stock split was effected in the form of a 200% common stock dividend. The par value of the common stock remained unchanged at \$2.50 per share. Also in 1998, the company retired 39 million treasury shares. As a result of these transactions, the company reclassified \$296 million from retained earnings to common stock. This amount represents the total par value of new shares issued, net of retirements of treasury shares. Amounts per share, numbers of common shares and capital accounts have been restated to give retroactive effect to the stock split.

**Working Capital** (the excess of current assets over current liabilities) was \$412 million at year-end 1998, down from \$547 million in 1997. Accounts receivable from customers decreased \$30 million, while inventory decreased \$32 million and notes payable increased \$75 million. Days sales outstanding were 63 days, up from 61 days at the end of 1997. Days cost of sales in ending inventory was 69 days, up from 66 days at the end of 1997. Details about two major components of working capital at the end of 1998 and 1997 follow:

(Millions of dollars)	1998	1997
<b>Inventories</b>		
Year-end balance	\$427	\$459
Annual turnover	5.3x	5.5x
<b>Customer receivables</b>		
Year-end balance	\$642	\$672
Annual turnover	5.8x	5.9x

**Land, Buildings and Equipment, Net** Investment in land, buildings and equipment, net is summarized below.

(Millions of dollars)	1998	1997
Year-end balance	\$1,908	\$2,008
Annual turnover	2.0x	2.0x

Annual turnover figures are calculated by dividing annual sales (for customer receivables and land, buildings and equipment, net) or cost of goods sold (for inventories) by the year-end balance. Days sales outstanding was calculated by dividing ending customer receivables by daily sales, and days cost of sales in ending inventory was calculated by dividing ending inventory by daily cost of sales.

**Asset Turnover** equals sales divided by year-end total assets. Asset turnover has shown steady improvement, increasing from a low of .87 times in 1992 to 1.0 in 1998 and 1997.

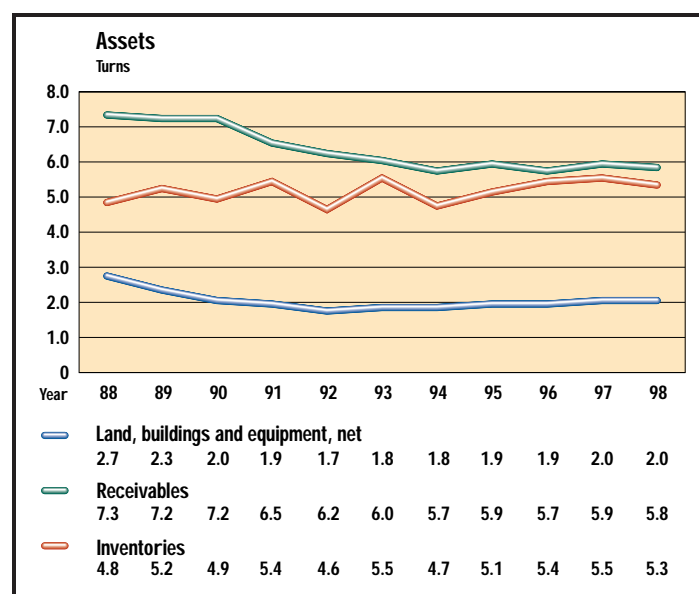
**Return on Net Assets (RONA)** equals net earnings plus after-tax interest expense, divided by year-end total assets. RONA was 12.7% in 1998, 11.2% in 1997 and 9.9% in 1996. The 1998 amount rounds to 11.4% when calculated without the effects of the year's non-recurring items. The 1997 amount rounds to 10.8% when calculated without fourth quarter 1997 environmental insurance recoveries.

**Return on Common Stockholders' Equity (ROE)** is obtained by dividing net earnings less preferred stock dividends by average year-end common stockholders' equity. Average year-end common stockholders' equity is calculated without the reduction for the ESOP transaction. ROE was 25% in 1998, 23% in 1997 and 20% in 1996.

**Euro** Beginning in 1999 eleven of the fifteen member countries of the European Union adopted the euro as their common currency after establishing fixed conversion rates from their existing currencies. The company formed a multifunctional steering team to evaluate the potential effect of the euro in key impact areas such as information technology, treasury, supply chain and accounting. The company's view is that the relevant systems and processes related to these functions are generally capable of accommodating a conversion to the euro; therefore, the company does not expect that the conversion will have a material effect on its financial position or results of operations.

**Year 2000** During 1996 management initiated an enterprise-wide program to prepare the company's computer systems and applications for the year 2000, and, in 1997, began assessing supply chain and customer implications. All of the company's centralized computer systems have been inventoried and assessed to determine their year 2000 readiness. Remediation of all systems was originally scheduled for completion by year end 1998. Remediation of most computer applications supporting manufacturing is complete while remediation of sales and marketing, order processing and financial systems is expected to be completed by the end of April 1999. The company is closely tracking the remediation of systems that are not yet complete and will devote resources, as necessary, to bring them back on schedule. Testing of all remediated systems is expected to be completed by June 1999 as originally planned. Assessment and most remediation of key process control and other plant floor systems at each facility is complete. Some remaining remediation is scheduled for early 1999. In addition to these internal systems and processes, the company has placed a high priority on assessing the status of its critical suppliers and business partners, such as warehouses, toll manufacturers, distributors and transportation services.

The company expects all of its internal remediation and testing to be completed by June 1999; however, despite its best efforts, business may be interrupted with potentially material impact on its financial position or results of operations if any of the following occur: external supply of raw materials or utilities is delayed or unavailable for an extended period; manufacturing systems fail; or, central corporate computer systems fail. To limit the effects of these potential failures, the company has completed corporate contingency planning guidelines and will prepare contingency plans for potential disruptions of critical systems or processes. Examples of contingency plans include a "freezing" of modifications to computer systems, ensuring availability of additional information technology personnel during the critical time period, backing-up systems at off-site facilities, making alternate raw material supply arrangements, and preparing for temporary shut-downs of certain plants and facilities. In addition, the company has standard operating procedures in place for a safe and orderly shut-down of systems and facilities should this be necessary.



# Management Discussion and Analysis

A significant proportion of the costs associated with the year 2000 effort represent the redeployment of existing information technology resources. In addition, consulting and other expenses related to software application and facilities enhancements necessary to prepare the systems for the year 2000 will be incurred. Approximately half of these costs, which are expected to total \$17 million, have been incurred and charged to expense through December 31, 1998.

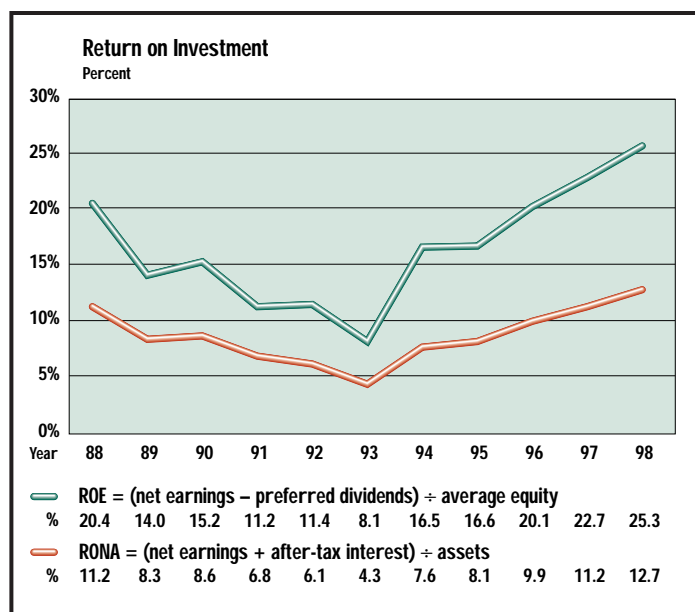
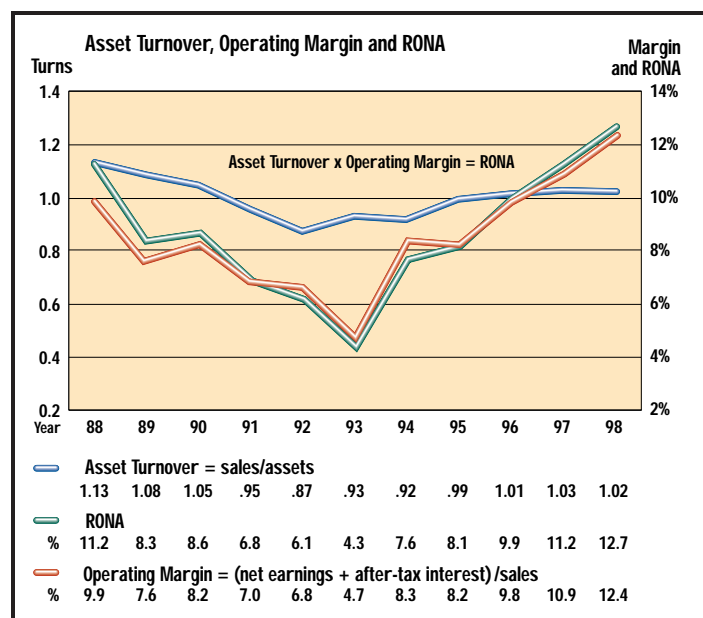
This discussion contains forward-looking statements based, in part, on assumptions such as the following: that the manufacturers of the company's computer systems and software have correctly represented the year 2000 status of their products; that the company's suppliers and customers will meet their stated year 2000 and euro compliance obligations; and that the company's own investigation, remediation, testing and systems implementations are successful. The year 2000 and euro discussions and other forward-looking statements made in this report are based on current expectations and are subject to the risks and uncertainties discussed here as well as those detailed in the "Cautionary Statements" section of the 1998 Form 10-K, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations." Actual results in the future may differ from those projected.

**Recent Accounting Standards** In 1996, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 96-1 (SOP 96-1), "Environmental Remediation Liabilities," which became effective in 1997. The statement provides authoritative guidance regarding the

recognition, measurement, display and disclosure of environmental remediation liabilities. The company's adoption of this accounting guidance in 1997 did not have a material impact on the company's financial position or results of operations.

In 1997, the company adopted Statement of Financial Accounting Standards No. 128 (SFAS No. 128), "Earnings Per Share," which requires computation and presentation of basic and dilutive earnings per share. Basic earnings per share (EPS) is computed by dividing net income available for common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted. For the years presented, the company's basic earnings per share are equal to earnings per share reported under the previous accounting standards. Dilutive earnings per share is slightly lower than basic earnings per share, primarily due to the impact of convertible preferred stock.

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and display of comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income includes all changes in equity during a period from all transactions other than those with shareholders, including net income, foreign currency related items and unrealized gain/loss on certain securities. The disclosures prescribed by this standard were adopted in 1998 and are presented in the Statement of Consolidated Stockholders' Equity.





Also in 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" and, in 1998, SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." Both standards establish guidance for disclosure in annual financial statements. The company's business segment reporting under SFAS No. 131 are consistent with the changes in its financial reporting structure incorporated in the company's reporting since the first quarter of 1998. As required, the company adopted the disclosures prescribed by both statements in its 1998 year-end reporting.

In 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes a new model for the accounting and reporting of derivative and hedging transactions. The statement amends a number of existing standards and is effective for fiscal years beginning after June 15, 1999. The company expects to adopt this standard as required in fiscal year 2000 and, because of continual business-driven changes to its derivatives and hedging programs, has not fully assessed its potential impact on its financial position or results of operations.

Also in 1998, the AICPA issued SOP 98-1, "Accounting for Internally Developed Software," with required adoption for most companies beginning in 1999. This SOP provides guidelines for the capitalization of certain internal software development costs. The company adopted this standard in 1998, which resulted in an increase in 1998 before-tax earnings of approximately \$5 million.

### Market Risk Discussion

The company is exposed to market risk from changes in foreign currency exchange rates, interest rates and commodity prices since it denominates its business transactions in a variety of foreign currencies, funds its operations through long- and short-term borrowings, and purchases raw materials at market prices. As a result, future earnings, cash flows and fair values of assets and liabilities are subject to uncertainty. The company's operating and financing plans include actions to reduce this uncertainty including, but not limited to, the use of derivative instruments.

The company has established policies governing its use of derivative instruments and does not use derivative instruments for trading purposes. The company only enters into derivative contracts based on economic analysis of underlying exposures,

anticipating that adverse impacts on future earnings, cash flows and fair values due to fluctuations in foreign currency exchange rates, interest rates and commodity prices will be offset by the proceeds from and changes in fair value of the derivative instruments. The company does not hedge its exposure to market risk in a manner that completely eliminates the effects of changing market conditions on earnings, cash flows and fair values.

In evaluating the effects of changes in foreign currency exchange rates, interest rates and commodity prices on the company's business operations, the risk management system uses sensitivity analysis as a primary analytical technique. The analysis assumes simultaneous shifts in those rates and quantifies the impact of such shifts on the company's earnings, cash flows, and fair values of assets and liabilities during a one-year period. The range of changes used for the purpose of this analysis reflects the company's view of changes that are reasonably possible over a one-year period. Fair values are the present value of projected future cash flows based on market rates and prices chosen.

**Foreign Exchange Rate Risk** Short-term exposures to changing foreign currency exchange rates are primarily due to operating cash flows denominated in foreign currencies. The company covers known and anticipated operating exposures by using foreign currency exchange option, forward and swap contracts. The company's most significant foreign currency exposures relate to Western European countries (primarily Germany, France, Italy, the United Kingdom, Sweden and Spain), as well as Brazil, Mexico, Canada, Japan, and Australia. The company has evaluated the effects of the introduction of the euro on its business operations and has included the euro in its operating plans and foreign currency risk management process to minimize any adverse impact.

The company conducted a sensitivity analysis on the fair value of its foreign currency hedge portfolio assuming an instantaneous 10% change in foreign currency exchange rates from their levels as of December 31, 1998, with all other variables held constant. A 10% appreciation and depreciation of the U.S. dollar against foreign currencies would result in an increase of \$15 million and a decrease of \$5 million, respectively, in the fair value of foreign currency exchange hedging contracts. The sensitivity in fair value of the foreign currency hedge portfolio represents changes in fair values estimated based on market conditions as of December 31, 1998, without reflecting the effects of underlying anticipated transactions. When those anticipated transactions are realized, actual effects of changing foreign currency exchange rates could have a material impact on earnings and cash flows in future periods.

Long-term exposures to foreign currency exchange rate risk are managed primarily through operational activities. The company manufactures its products in a number of locations around the world; hence, has a cost base in a variety of European, Asian and Latin American currencies. This diverse base of local currency costs serves to partially counterbalance the impact of changing foreign currency exchange rates on earnings, cash flows and fair values of assets and liabilities.

**Interest Rate Risk** The company is exposed to changes in interest rates primarily due to its financing, investing and cash management activities, which include long- and short-term debt to maintain liquidity and fund its business operations. The company's current strategic policy is to maintain from 20% to 40% of floating rate debt, with a long-term average of 30%. An 80 basis point move in interest rates would affect the value of the company's floating and fixed rate instruments, including short- and long-term debt and derivative instruments, but would not have a material impact on earnings per share or the company's financial position. Eighty basis points approximate 10% of the company's weighted average rate on its worldwide debt.

**Commodity Price Risk** The company purchases certain raw materials such as natural gas, propylene, acetone, and butanol under short- and long-term supply contracts. The purchase prices are generally determined based on prevailing market conditions. Changing raw material prices have historically had material impacts on the company's earnings and cash flows, and will likely continue to have significant impacts on earnings and cash flows in future periods. The company uses commodity derivative instruments to modify some of the commodity price risks. Assuming a 10% change in the underlying commodity price, the potential change in the fair value of commodity derivative contracts held at December 31, 1998, would not be material when compared with the company's earnings and financial position.

**Forward-Looking Statements** This market risk discussion and the estimated amounts presented are forward-looking statements that assume certain market conditions. This assessment does not include the potential effects on interest rates or debt policy that may be adopted following the 1999 business acquisitions discussed above under "Acquisitions and Divestitures." Actual results in the future may differ materially from these projected results due to such acquisitions and any unforeseen developments in relevant financial markets, including Asia and Latin America. The methods used above to assess risk should not be considered projections of expected future events or results.

## Quarterly Results of Operations

Earnings increased 5% in the first quarter of 1998 to \$109 million from \$104 million in the first quarter of 1997. Diluted earnings per common share were \$.58 compared to \$.53 in the 1997 period. AtoHaas sales were excluded from first quarter 1998 results of operations while NorsoHaas and China results were consolidated. The sale of the interest in AtoHaas, the purchase of the remaining 50% of NorsoHaas, already 50%-owned, and the consolidation of China were effective January 1, 1998. On a comparable basis, volume increased 2%, sales decreased 1% and earnings increased 11%. The sales decrease on higher volume is primarily a result of weaker European and Asia-Pacific currencies. Strong European volume and a good performance in North America helped the company overcome poor business conditions in the Asia-Pacific region, where volume and sales decreased 4% and 18%, respectively. Earnings increased as a result of higher overall volume, lower raw material costs and smooth plant operations. In addition to higher earnings, the per share increase in the first, and all subsequent quarters in 1998, reflects the impact of the company's common share repurchase program.

Earnings increased 45% in the second quarter of 1998 to \$170 million from \$117 million in the second quarter of 1997. Diluted earnings per common share for the quarter were \$.91 compared to \$.61 in 1997. Included in the 1998 results is a one-time gain of \$48 million, or \$.26 per share, net of non-recurring items. This net gain affected all segments and regions, except Latin America, and was the net result of the sale of the company's interest in the AtoHaas and RohMax joint ventures, an early extinguishment of debt, the write-off of certain intangible assets in Europe and business realignment costs primarily in Asia. Volume decreased 2% for the quarter and sales decreased 9%. On a comparable-business basis, volume was flat and sales decreased 4%. In addition to the divestiture of two businesses, resulting in the exclusion of AtoHaas' sales from 1998 results, the remaining 50% of NorsoHaas was acquired and operations in China were consolidated in 1998. The sales decrease on flat volume was primarily a result of weaker European and Asia-Pacific currencies and slightly lower selling prices. Volume gains in Europe and Latin America, on a comparable basis, were overcome by volume losses due to poor business conditions in the Asia-Pacific region and flat volume in North America. In the Asia-Pacific region sales declined 16% on a 10% volume decrease. The company's earnings increased 4%, excluding non-recurring items, primarily as a result of lower raw material costs and efficient plant operations. Diluted earnings per common share excluding non-recurring items were \$.65 for the second quarter, up 7% versus 1997.

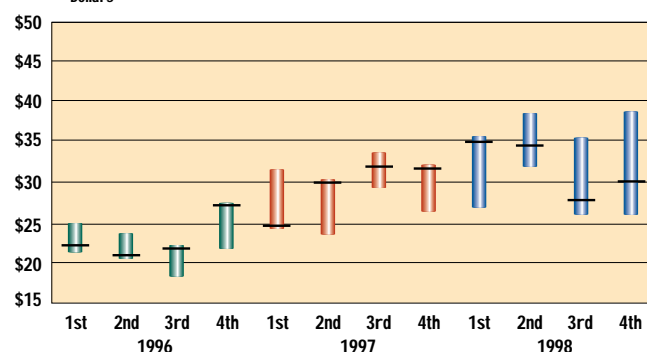
## Management Discussion and Analysis

Earnings for the third quarter of 1998 decreased 5% to \$86 million from \$91 million in the third quarter of 1997. Diluted earnings per common share for the quarter were \$.48 unchanged from the 1997 quarter. Included in the 1998 results is an extraordinary after-tax charge of \$3 million, or \$.02 per share, related to an early extinguishment of debt. Volume increased 3% for the quarter and sales decreased 7%. On a comparable-business basis, volume increased 1% and sales decreased 3%, primarily as a result of lower selling prices and currency impacts. *[See above paragraph for changes impacting the comparable-business basis results.]* Volume gains in North America and in Latin America, on a comparable basis, carried the quarter to a 1% increase, despite volume losses due to poor business conditions in the Asia-Pacific region and flat volume in Europe. Asia-Pacific region sales declined 24% on a 14% volume decrease. The company's earnings decreased 2%, excluding the extraordinary item, as a result of lower selling prices, currency impacts and the absence of affiliate earnings from businesses divested in 1998, some of which was mitigated by lower raw material costs. Diluted earnings per common share excluding the non-recurring extraordinary item were \$.50 for the third quarter, up 4% versus 1997.

Earnings in the fourth quarter of 1998 were \$75 million, 23% lower than last year's results. Diluted earnings per common share were \$.44, compared to \$.52 in 1997. Fourth quarter 1997 earnings included a gain of \$16 million after tax, or \$.09 per common share, the result of remediation settlements with insurance carriers. Volume for the quarter was up 1% compared to the 1997 period. Sales decreased 7% to \$884 million, due largely to the absence of AtoHaas sales in the 1998 period. On a comparable-business basis, volume decreased 1% while sales decreased almost 4%. The volume decline affected all businesses. The earnings impact of lower raw material costs and smooth plant operations were offset by slightly lower selling prices in the quarter and by the unfavorable Asian business environment.

Quarterly Stock Prices

Dollars



	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th
	1996				1997				1998			
1996	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	24 <sup>15</sup> / <sub>16</sub>	23 <sup>11</sup> / <sub>16</sub>	22 <sup>1</sup> / <sub>4</sub>	27 <sup>1</sup> / <sub>2</sub>	31 <sup>5</sup> / <sub>8</sub>	30 <sup>7</sup> / <sub>16</sub>	33 <sup>3</sup> / <sub>4</sub>	32 <sup>1</sup> / <sub>8</sub>	35 <sup>1</sup> / <sub>16</sub>	38 <sup>11</sup> / <sub>16</sub>	35 <sup>5</sup> / <sub>8</sub>	38 <sup>7</sup> / <sub>8</sub>
Low	21 <sup>5</sup> / <sub>16</sub>	20 <sup>9</sup> / <sub>16</sub>	18 <sup>5</sup> / <sub>16</sub>	21 <sup>13</sup> / <sub>16</sub>	24 <sup>3</sup> / <sub>4</sub>	23 <sup>9</sup> / <sub>16</sub>	29 <sup>3</sup> / <sub>8</sub>	26 <sup>7</sup> / <sub>16</sub>	26 <sup>15</sup> / <sub>16</sub>	32 <sup>7</sup> / <sub>16</sub>	26	26
Close	22 <sup>3</sup> / <sub>16</sub>	20 <sup>15</sup> / <sub>16</sub>	21 <sup>13</sup> / <sub>16</sub>	27 <sup>3</sup> / <sub>16</sub>	24 <sup>15</sup> / <sub>16</sub>	30	32	31 <sup>15</sup> / <sub>16</sub>	34 <sup>7</sup> / <sub>16</sub>	34 <sup>5</sup> / <sub>8</sub>	27 <sup>13</sup> / <sub>16</sub>	30 <sup>1</sup> / <sub>8</sub>
1997	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	31 <sup>5</sup> / <sub>8</sub>	30 <sup>7</sup> / <sub>16</sub>	33 <sup>3</sup> / <sub>4</sub>	32 <sup>1</sup> / <sub>8</sub>	35 <sup>1</sup> / <sub>16</sub>	38 <sup>11</sup> / <sub>16</sub>	35 <sup>5</sup> / <sub>8</sub>	38 <sup>7</sup> / <sub>8</sub>	35 <sup>1</sup> / <sub>16</sub>	38 <sup>11</sup> / <sub>16</sub>	35 <sup>5</sup> / <sub>8</sub>	38 <sup>7</sup> / <sub>8</sub>
Low	24 <sup>3</sup> / <sub>4</sub>	23 <sup>9</sup> / <sub>16</sub>	29 <sup>3</sup> / <sub>8</sub>	26 <sup>7</sup> / <sub>16</sub>	26 <sup>15</sup> / <sub>16</sub>	32 <sup>7</sup> / <sub>16</sub>	26	26	26 <sup>15</sup> / <sub>16</sub>	32 <sup>7</sup> / <sub>16</sub>	26	26
Close	24 <sup>15</sup> / <sub>16</sub>	30	32	31 <sup>15</sup> / <sub>16</sub>	34 <sup>7</sup> / <sub>16</sub>	34 <sup>5</sup> / <sub>8</sub>	27 <sup>13</sup> / <sub>16</sub>	30 <sup>1</sup> / <sub>8</sub>	34 <sup>7</sup> / <sub>16</sub>	34 <sup>5</sup> / <sub>8</sub>	27 <sup>13</sup> / <sub>16</sub>	30 <sup>1</sup> / <sub>8</sub>
1998	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	35 <sup>1</sup> / <sub>16</sub>	38 <sup>11</sup> / <sub>16</sub>	35 <sup>5</sup> / <sub>8</sub>	38 <sup>7</sup> / <sub>8</sub>	35 <sup>1</sup> / <sub>16</sub>	38 <sup>11</sup> / <sub>16</sub>	35 <sup>5</sup> / <sub>8</sub>	38 <sup>7</sup> / <sub>8</sub>	35 <sup>1</sup> / <sub>16</sub>	38 <sup>11</sup> / <sub>16</sub>	35 <sup>5</sup> / <sub>8</sub>	38 <sup>7</sup> / <sub>8</sub>
Low	26 <sup>15</sup> / <sub>16</sub>	32 <sup>7</sup> / <sub>16</sub>	26	26	26 <sup>15</sup> / <sub>16</sub>	32 <sup>7</sup> / <sub>16</sub>	26	26	26 <sup>15</sup> / <sub>16</sub>	32 <sup>7</sup> / <sub>16</sub>	26	26
Close	34 <sup>7</sup> / <sub>16</sub>	34 <sup>5</sup> / <sub>8</sub>	27 <sup>13</sup> / <sub>16</sub>	30 <sup>1</sup> / <sub>8</sub>	34 <sup>7</sup> / <sub>16</sub>	34 <sup>5</sup> / <sub>8</sub>	27 <sup>13</sup> / <sub>16</sub>	30 <sup>1</sup> / <sub>8</sub>	34 <sup>7</sup> / <sub>16</sub>	34 <sup>5</sup> / <sub>8</sub>	27 <sup>13</sup> / <sub>16</sub>	30 <sup>1</sup> / <sub>8</sub>



## Quarterly Results of Operations (Unaudited)

1998 Quarterly Results					
(Millions of dollars)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year 1998
Net sales	\$937	\$ 990	\$909	\$884	<b>\$3,720</b>
Gross profit	373	406	345	340	<b>1,464</b>
Earnings before extraordinary item	109	180	89	75	<b>453</b>
Net earnings	109	170	86	75	<b>440</b>
Earnings per common share before extraordinary item, <i>in dollars</i>					
– Basic	\$ .59	\$ .98	\$ .51	\$ .44	<b>\$ 2.55</b>
– Diluted	.58	.96	.50	.44	<b>2.52</b>
Net earnings per common share, <i>in dollars</i>					
– Basic	\$ .59	\$ .93	\$ .49	\$ .44	<b>\$ 2.47</b>
– Diluted	.58	.91	.48	.44	<b>2.45</b>
Cash dividends per common share, <i>in dollars</i>	\$ .17	\$ .17	\$ .18	\$ .18	<b>\$ .70</b>
Percentage change from prior year					
Net sales	(5)%	(9)%	(7)%	(7)%	<b>(7)%</b>
Physical volume	3	(2)	3	1	<b>1</b>
Earnings before extraordinary item	5%	54%	(2)%	(23)%	<b>10%</b>
Diluted net earnings per common share	9%	49%	0%	(15)%	<b>15%</b>

1997 Quarterly Results					
(Millions of dollars)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year 1997
Net sales	\$986	\$1,089	\$974	\$950	\$3,999
Gross profit	361	401	342	351	1,455
Net earnings	104	117	91	98	410
Net earnings per common share,* <i>in dollars</i>					
– Basic	\$ .54	\$ .62	\$ .48	\$ .53	\$ 2.17
– Diluted	.53	.61	.48	.52	2.13
Cash dividends per common share,* <i>in dollars</i>	\$ .15	\$ .15	\$ .16	\$ .17	\$ .63
Percentage change from prior year					
Net sales	(1)%	3%	1%	(2)%	0%
Physical volume	7	10	5	0	6
Net earnings	4%	16%	5%	31%	13%
Diluted net earnings per common share	10%	24%	12%	37%	19%

1996 Quarterly Results					
(Millions of dollars)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year 1996
Net sales	\$994	\$1,054	\$969	\$965	\$3,982
Gross profit	363	363	347	322	1,395
Net earnings	100	101	87	75	363
Net earnings per common share,* <i>in dollars</i>					
– Basic	\$ .49	\$ .50	\$ .44	\$ .39	\$ 1.82
– Diluted	.48	.49	.43	.38	1.79
Cash dividends per common share,* <i>in dollars</i>	\$ .14	\$ .14	\$ .14	\$ .15	\$ .57
Percentage change from prior year					
Net sales	1%	1%	3%	5%	3%
Physical volume	(3)	5	8	14	6
Net earnings	27%	16%	47%	12%	24%
Diluted net earnings per common share	26%	17%	54%	19%	28%

\*Restated to reflect the 1998 three-for-one stock split.

## Summary of Significant Accounting Policies

**Principles of Consolidation** The consolidated financial statements include the accounts of the company and its subsidiaries. Investments in unconsolidated subsidiaries, which are involved mainly in selling operations outside of the United States, are carried at cost and are insignificant in total. Investments in affiliates (20-50%-owned) are recorded at cost plus equity in their undistributed earnings, less dividends. Intercompany accounts, transactions and unrealized profits and losses on transactions within the consolidated group and with significant affiliates are eliminated in consolidation, as appropriate.

**Use of Estimates** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Translation Procedures** Foreign currency accounts are translated into U.S. dollars under the provisions of SFAS No. 52, with the U.S. dollar as the functional currency for the majority of international operations. Under this standard: (1) land, buildings and equipment and related depreciation, inventories, goodwill and intangibles and related amortization and minority interest are translated at historical rates of exchange; (2) all other assets and liabilities are translated at current rates of exchange, and (3) monthly revenues, costs and expenses other than depreciation, amortization of goodwill and intangibles and cost of goods sold are translated at current rates of exchange. Translation gains and losses of those operations that use local currencies as the functional currency are included as a separate component of other comprehensive income. Foreign exchange adjustments, including recognition of open foreign exchange contracts that are not intended to hedge an identifiable foreign currency commitment, are charged or credited to income based on current exchange rates.

**Environmental Accounting** Accruals for environmental remediation are recorded when it is probable a liability has been incurred and costs are reasonably estimable. The estimated liabilities are recorded at undiscounted amounts. The cost of operating and maintaining environmental control facilities are charged to expense. Expenditures that mitigate or prevent contamination from future operations are capitalized and depreciated under normal depreciation policies. It is the company's practice to reflect environmental insurance recoveries in the results of operations for the quarter in which litigation is resolved through settlement or other appropriate legal process.

**Earnings Per Share** Basic earnings per share is calculated by dividing net earnings applicable to common shareholders by the average number of shares outstanding for the period. Diluted earnings per share is calculated by adding the earnings impact of the conversion of preferred stock to net earnings applicable to common shareholders and dividing this amount by the average number of shares outstanding for the period adjusted for the assumed preferred stock conversion, and for the dilutive effect of an assumed exercise of all options outstanding at the end of the period.

**Cash and Cash Equivalents** Cash and cash equivalents include cash, time deposits and readily marketable securities with original maturities of three months or less.

**Inventories** Inventories are stated at the lower of cost or market. Cost is primarily determined under the last-in, first-out (LIFO) method.

**Land, Buildings and Equipment and Related Depreciation** Land, buildings and equipment are carried at cost. Assets are depreciated over their estimated useful lives on the straight-line and accelerated methods. Maintenance and repairs are charged to earnings; replacements and betterments are capitalized. The cost and related accumulated depreciation of buildings and equipment are removed from the accounts upon retirement or other disposition; any resulting gain or loss is reflected in earnings.

**Intangible Assets** The company amortizes identifiable intangible assets such as patents and trademarks on the straight-line basis over their estimated useful lives. Goodwill is amortized on the straight-line basis over periods not greater than 40 years. Intangible assets are classified in the accompanying consolidated balance sheets as "Other Assets, Net."

**Revenue Recognition** Revenues from product sales, net of applicable allowances, are generally recognized upon shipment of product. Payments received in advance of revenue recognition are recorded as deferred revenue.

**Income Taxes** The company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future consequences of temporary differences between the financial statement carrying value of assets and liabilities and their values as measured by tax laws.

**Stock Compensation** The company applies the intrinsic value method in accordance with APB Opinion No. 25 and related Interpretations in accounting for stock compensation plans. Under this method, no compensation expense is recognized for fixed stock option plans.

# Consolidated Financial Statements

Rohm and Haas Company and Subsidiaries

## Statements of Consolidated Earnings

Years ended December 31, 1998, 1997 and 1996

(Millions of dollars, except per-share amounts)

	1998	1997	1996
<b>Current Earnings</b>			
Net sales	\$3,720	\$3,999	\$3,982
Cost of goods sold	2,256	2,544	2,587
Gross profit	1,464	1,455	1,395
Selling and administrative expense	635	637	631
Research and development expense	207	201	187
Interest expense	34	39	39
Share of affiliate net earnings (losses)	2	11	(12)
)			
<b>Note 3</b> Other income, net	(110)	(22)	(4)
)			
Earnings before income taxes and extraordinary item	700	611	530
<b>Note 5</b> Income taxes	247	201	167
Earnings before extraordinary item	\$ 453	\$ 410	\$ 363
<b>Note 15</b> Extraordinary loss on early extinguishment of debt (net of income tax benefit of \$6)	13	—	—
Net earnings	\$ 440	\$ 410	\$ 363
<b>Note 18</b> Less preferred stock dividends	6	7	7
Net earnings applicable to common shareholders	\$ 434	\$ 403	\$ 356
Earnings per common share before extraordinary item:			
— Basic	\$ 2.55	\$ 2.17	\$ 1.82
— Diluted	2.52	2.13	1.79
Earnings per common share:			
— Basic	\$ 2.47	\$ 2.17	\$ 1.82
— Diluted	2.45	2.13	1.79
Weighted average common shares outstanding (in millions)			
— Basic	175.6	185.8	196.1
— Diluted	179.7	192.4	202.8

See accompanying summary of significant accounting policies (page 41) and notes to consolidated financial statements (pages 46-56).



# Consolidated Financial Statements

Rohm and Haas Company and Subsidiaries

## Statements of Consolidated Cash Flows

Years ended December 31, 1998, 1997 and 1996

(Millions of dollars)	1998	1997*	1996*
<b>Cash Flows from Operating Activities</b>			
Net earnings	\$ 440	\$ 410	\$ 363
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	276	279	262
Gain on sale of facilities and investments	(76)	(4)	(10)
Extraordinary loss on early extinguishment of debt, net of tax	13	—	—
Deferred income taxes	36	(11)	37
Accounts receivable	(1)	88	(37)
Inventories	1	24	11
Accounts payable and accrued liabilities	(15)	—	(7)
Federal, foreign and other income taxes payable	(85)	12	(1)
Other, net	93	(7)	88
Net cash provided by operating activities	682	791	706
<b>Cash Flows from Investing Activities</b>			
Proceeds from the sale of facilities and investments, net of cash sold	287	10	11
Additions to land, buildings and equipment	(229)	(254)	(334)
Investments in joint ventures, affiliates and subsidiaries, net of cash acquired	(21)	(80)	(7)
Net cash provided (used) by investing activities	37	(324)	(330)
<b>Cash Flows from Financing Activities</b>			
Purchases of treasury shares	(567)	(216)	(302)
Proceeds from issuance of long-term debt	44	16	2
Repayments of long-term debt	(205)	(44)	(52)
Net change in short-term borrowings	108	(73)	68
Payment of dividends	(125)	(121)	(116)
Other, net	2	—	(8)
Net cash used by financing activities	(743)	(438)	(408)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ (24)</b>	<b>\$ 29</b>	<b>\$ (32)</b>

See accompanying summary of significant accounting policies (page 41) and notes to consolidated financial statements (pages 46-56).

\*Restated to conform to current year presentation.

# Consolidated Financial Statements

Rohm and Haas Company and Subsidiaries

## Consolidated Balance Sheets

December 31, 1998 and 1997

(Millions of dollars)		1998	1997
<b>Assets</b>			
<i>Current assets</i>			
	Cash and cash equivalents	\$ 16	\$ 40
<b>Note 9</b>	Accounts receivable, net	711	755
<b>Note 10</b>	Inventories	427	459
<b>Note 11</b>	Prepaid expenses and other assets	133	143
	Total current assets	1,287	1,397
<b>Note 2</b>	Investments in and advances to unconsolidated subsidiaries and affiliates	142	197
<b>Note 12</b>	Land, buildings and equipment, net	1,908	2,008
<b>Note 13</b>	Other assets, net	311	298
		<b>\$3,648</b>	<b>\$3,900</b>
<b>Liabilities and Stockholders' Equity</b>			
<i>Current liabilities</i>			
<b>Note 14</b>	Notes payable	\$ 172	\$ 97
<b>Note 16</b>	Accounts payable and accrued liabilities	653	669
	Federal, foreign and other income taxes payable	50	84
	Total current liabilities	875	850
<b>Note 15</b>	Long-term debt	409	509
<b>Note 5</b>	Deferred income taxes	168	126
<b>Note 8</b>	Employee benefits payable	432	410
<b>Note 17</b>	Other liabilities	184	130
	Minority interest	19	78
<b>Note 21</b>	Commitments and contingencies		
<b>Note 18</b>	Stockholders' equity		
	\$2.75 cumulative convertible preferred stock; authorized—2,846,061 shares; issued—1998: 1,457,956 shares; 1997: 2,522,926 shares	73	126
	Common stock; par value—\$2.50; authorized—200,000,000 shares; issued—196,957,140 shares	492	590
	Additional paid-in capital	139	135
	Retained earnings	1,284	1,932
		<b>1,988</b>	<b>2,783</b>
	Less: Treasury stock (1998—29,369,853 shares; 1997—53,330,193 shares)	286	820
	Less: ESOP shares (1998—13,545,000; 1997—14,175,000)	132	138
	Accumulated other comprehensive income	(9)	(28)
	Total stockholders' equity	<b>1,561</b>	<b>1,797</b>
		<b>\$3,648</b>	<b>\$3,900</b>

See accompanying summary of significant accounting policies (page 41) and notes to consolidated financial statements (pages 46-56).

# Consolidated Financial Statements

Rohm and Haas Company and Subsidiaries

## Statements of Consolidated Stockholders' Equity

Years ended December 31, 1998, 1997 and 1996

(Millions of dollars)	1998	1997	1996
<b>Note 18 Preferred Stock</b>			
Balance, beginning of year	\$ 126	\$ 131	\$ 133
Redemptions and conversion of shares to common stock	(53)	(5)	(2)
Balance, end of year	\$ 73	\$ 126	\$ 131
<b>Common Stock</b>			
Balance, beginning of year	\$ 590	\$ 590	\$ 590
Retirements of treasury stock	(98)	—	—
Balance, end of year	\$ 492	\$ 590	\$ 590
<b>Additional Paid-in Capital</b>			
Balance, beginning of year	\$ 135	\$ 143	\$ 150
Shares issued to employees under bonus plan, net of preferred conversions	4	(8)	(7)
Balance, end of year	\$ 139	\$ 135	\$ 143
<b>Retained Earnings</b>			
Balance, beginning of year	\$1,932	\$1,643	\$1,396
Net earnings	440	410	363
Common stock dividends paid (\$.70, \$.63 and \$.57 per share in 1998, 1997 and 1996, respectively), net of tax benefit of \$4 million in 1998, 1997 and 1996 related to the ESOP	(119)	(114)	(109)
Retirements of treasury stock	(963)	—	—
Preferred stock dividends (\$2.75 per share in 1998, 1997 and 1996)	(6)	(7)	(7)
Balance, end of year	\$1,284	\$1,932	\$1,643
<b>Note 18 Treasury Stock, at cost</b>			
Balance, beginning of year	\$ 820	\$ 629	\$ 344
Shares issued to employees under bonus plan	(17)	(15)	(16)
Purchases	567	216	302
Retirements	(1,061)	—	—
Shares issued for conversion of preferred stock	(23)	(10)	(1)
Balance, end of year	\$ 286	\$ 820	\$ 629
<b>Accumulated Other Comprehensive Income, net of tax</b>			
Balance, beginning of year	\$ (28)	\$ (5)	\$ 7
Foreign currency translation adjustments	27	(26)	(12)
Minimum pension liability adjustment	(8)	3	—
Balance, end of year	\$ (9)	\$ (28)	\$ (5)

See accompanying summary of significant accounting policies (page 41) and notes to consolidated financial statements (pages 46-56).



## Note 1: Acquisitions and Dispositions of Assets

On January 31, 1999, the company and Morton approved a merger agreement under which the company will acquire Morton in a cash and stock transaction valued at \$4.9 billion, including the assumption of \$268 million of debt. On February 5, 1999, the company commenced a cash tender offer to purchase up to 80,916,766 shares of Morton common stock for \$37.125 per share, representing 67% of the outstanding Morton shares on January 31, 1999. The tender offer is subject to certain conditions including, among other things, the tender of at least a majority of the outstanding shares of Morton on a fully diluted basis, the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Act, and the receipt of European Union approval. The offer is scheduled to expire on Friday, March 5, 1999, unless extended. The tender offer is not conditioned upon obtaining financing. Following the successful completion of the tender offer, the company intends to acquire the remaining Morton shares in a second-step merger. In this step, subject to shareholder approval, each share of Morton will be exchanged for between 1.0887 and 1.3306 of company shares based on the company's stock price for a period of twenty days prior to closing, or, if fewer than 80,916,766 shares are purchased in the tender, for a combination of cash and company stock.

On January 23, 1999, the company acquired all of the outstanding shares of LeaRonal for approximately \$460 million. LeaRonal develops and manufactures specialty chemical processes used in the manufacture of printed circuit boards, semiconductor packaging and electronic connector plating, and also provides processes for metal-finishing applications. LeaRonal reported \$242 million in sales and \$21 million in net income for its fiscal year ended February 28, 1998.

The LeaRonal and Morton acquisitions will be financed through a combination of commercial paper, bank loans and long-term debt and will be accounted for using the purchase method. Their results are not included in the company's 1998 results.

The company sold its interest in the AtoHaas and RohMax businesses in June 1998 for cash proceeds of \$287 million, resulting in a net after-tax gain of \$76 million, or \$.41 per share. Subsequent to the sale of the AtoHaas joint venture, the buyer asserted a claim against the company in late 1998 related to the value of certain joint venture assets. Because the investigation and assessment of this claim is not expected to be completed until the latter part of the first quarter of 1999, the potential amount of the claim and its impact on results of operations and financial position, if any, cannot be reasonably estimated at this time.

During 1998 and 1997, the company purchased a 33% interest in Rodel and in early 1999 purchased an additional 15% interest. The total cost for these investments was approximately \$149 million. Rodel is a privately held, Delaware-based leader in precision polishing technology serving the semiconductor, memory disk and glass polishing industries. The investment is accounted for on the equity method with the company's share of earnings reported as equity in affiliates. Also in 1998, the company acquired the remaining 50% interest in NorsoHaas, an affiliate during 1997.

## Note 2: Investments

The company's investments in its affiliates (20-50%-owned) totaled \$118 million and \$150 million at December 31, 1998, and 1997, respectively. The decrease from 1997 relates primarily to the divestiture of the AtoHaas and RohMax joint ventures offset by the company's additional 7% investment in Rodel. Primarily as a result of the investment in Rodel the company's total investments in affiliates exceed the equity in the underlying net assets by approximately \$64 million and \$41 million at December 31, 1998 and 1997, respectively.

## Note 3: Other Income, Net

(Millions of dollars)	1998	1997	1996
Gain on sale of facilities and investments	\$(131)	\$ —	\$ —
Interest income	(13)	(6)	(7)
Royalty income, net	(6)	(9)	(6)
Foreign exchange losses (gains), net	13	(3)	(4)
Minority interest	2	5	5
Provision for write-down of assets and restructuring charges net of gains on asset dispositions	11	(2)	(10)
Amortization of intangibles and purchased option premiums	5	6	10
Voluntary early retirement incentives, severance, litigation settlements and certain waste disposal site cleanup costs	8	9	8
Environmental insurance recoveries	—	(26)	—
Other, net	1	4	—
Total	\$(110)	\$(22)	\$ (4)

## Note 4: Financial Instruments

The company uses derivative financial instruments to reduce the impact of changes in foreign exchange rates, interest rates and commodity raw material prices on its earnings, cash flows and fair values of assets and liabilities. The company enters into derivative financial contracts based on analysis of specific and known economic exposures and by policy prohibits holding or issuing derivative financial instruments for trading purposes.

## Notes to Consolidated Financial Statements

Credit risk associated with non-performance by counterparties is mitigated by using major financial institutions with high credit ratings. The company also limits the amount of derivative contracts it enters into with each counterparty.

The company uses primarily purchased foreign exchange option contracts to hedge anticipated sales in foreign currencies by foreign subsidiaries. The option premiums paid are recorded as assets and amortized over the life of the option. Gains and losses on purchased option contracts are deferred and recorded in the period in which the underlying sales transactions are recognized, except for the contracts to hedge anticipated sales by subsidiaries that use local currency as their functional currency. These contracts, which amounted to approximately 5% and 32% of the total notional amount outstanding at December 31, 1998 and 1997, respectively, are marked to market at each balance sheet date.

The notional amounts of foreign exchange option contracts totaled \$326 and \$118 million at December 31, 1998, and 1997, respectively. The table below summarizes by currency the notional value of foreign exchange option contracts in U.S. dollars:

<i>(Millions of dollars)</i>	1998	1997
German mark	\$97	\$40
Italian lira	49	23
British pound	38	—
Swedish krona	36	2
Canadian dollar	33	—
Australian dollar	31	10
Japanese yen	16	38
Spanish peseta	15	—
New Zealand dollar	11	5

The contracts outstanding at each balance sheet date have maturities of less than eighteen months. At December 31, 1998 and 1997, net deferred unrealized gains were \$2 million and \$4 million, respectively.

The company also uses forward exchange contracts to reduce the exchange rate risk of specific foreign currency transactions. These contracts require the exchange of a foreign currency for U.S. dollars at a fixed rate at a future date. The maturities are generally less than fifteen months. The carrying amounts of these contracts are adjusted to their market value at each balance sheet date and recorded in other income and expenses. At December 31, 1998, the open foreign exchange forward contracts totaled \$70 million in notional amounts, of which \$55 million is to hedge the intercompany loans denominated in German marks of \$14 million and Italian lira of \$41 million.

Fifteen million dollars are to reduce operating exposures in Japanese yen. At December 31, 1997, one Japanese yen forward contract, which matured in February 1998, was outstanding with a notional value of \$5 million. Net unrealized losses at December 31, 1998 were \$1 million and gains at December 31, 1997 were not material.

Currency swap agreements are used to manage short-term exposure positions with various foreign currencies. Maturities generally do not exceed thirty days. The carrying amounts of these swap agreements are adjusted to their market value at each balance sheet date and recorded in other income and expense. At December 31, 1998, the open swap agreements totaled \$26 million in notional amounts, of which \$20 million is to exchange the U.S. dollar for British pounds while \$6 million is to exchange the U.S. dollar for German marks. The unrealized losses on the currency swap agreements were not material at December 31, 1998.

At both December 31, 1998 and 1997, the company was party to a written interest rate option contract with a notional amount of \$25 million to monetize the call provision on the company's 9.375% debentures due 2019. The counterparty paid the company a premium of \$5 million for the right to receive 9.375% fixed rate payments beginning 1999 through 2002. In return, the counterparty will pay the company variable interest payments based on the six-month LIBOR. The written option has been marked to market at each balance sheet date.

At December 31, 1997, the company held an interest rate floor expiring in 1999 to hedge \$50 million of its fixed-rate debt. The floor rate under this contract was 6%. The premium paid for the option was amortized to interest expense over the life of the option. This contract was closed out during 1998 at an immaterial gain.

The company uses commodity swap agreements for hedging purposes to reduce the effects of changing raw material prices. Gains and losses on the swap agreements are deferred until settlement and recorded as a component of underlying inventory costs when settled. The notional value of commodity swap agreements totaled \$5 million and \$9 million at December 31, 1998 and 1997, respectively. The company recorded immaterial net losses in 1998 and net gains of \$1 million in 1997.

The fair value of financial instruments was estimated based on the following methods and assumptions:

Cash and cash equivalents, accounts receivable, accounts payable and notes payable — the carrying amount approximates fair value due to the short maturity of these instruments.

# Notes to Consolidated Financial Statements

Long-term debt — the fair value is estimated based on quoted market prices for the same or similar issues or the current rates offered to the company or its subsidiaries for debt with the same or similar remaining maturities and terms.

Interest rate option contracts — the fair value is estimated based on quoted market prices of the same or similar issues available.

Foreign currency option contracts — the fair value is estimated based on the amount the company would receive or pay to terminate the contracts.

Foreign currency forward and swap agreements — the carrying value approximates fair value because these contracts are adjusted to their market value at the balance sheet date.

Commodity swap agreements — the fair value is estimated based on the amount the company would receive or pay to terminate the contracts.

The carrying amounts and fair values of material financial instruments at December 31, 1998 and 1997, are as follows:

	1998		1997	
(Millions of dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Asset (Liability)			
Long-term debt	\$(409)	\$(464)	\$(509)	\$(578)
Written interest rate options	(10)	(10)	(8)	(8)
Foreign currency options	4	7	5	8
Foreign exchange forward contracts	(1)	(1)	—	—

## Note 5: Income Taxes

Earnings before income taxes earned within or outside the United States are shown below:

(Millions of dollars)	1998	1997*	1996
United States			
Parent and subsidiaries	\$559	\$446	\$371
Affiliates	1	7	—
Foreign			
Subsidiaries	120	154	171
Affiliates	1	4	(12)
Earnings before income taxes	\$681	\$611	\$530

\*Restated to conform to current year presentation.

Earnings before income taxes in 1998 include \$19 million related to an extraordinary loss on early extinguishment of debt.

The provision for income taxes is composed of:

(Millions of dollars)	1998	1997	1996
Taxes on U.S. earnings			
Federal			
Current	\$142	\$134	\$56
Deferred	40	7	58
	182	141	114
State and other			
Current	8	6	2
Total taxes on U.S. earnings	190	147	116
Taxes on foreign earnings			
Current	68	77	69
Deferred	(17)	(23)	(18)
Total taxes on foreign earnings	51	54	51
Total income taxes	\$241	\$201	\$167

Income taxes in 1998 include a \$6 million tax benefit resulting from an extraordinary loss on early extinguishment of debt.

Cash payments of income taxes were \$237 million, \$181 million and \$120 million in 1998, 1997 and 1996, respectively.

Deferred income taxes reflect temporary differences between the valuation of assets and liabilities for financial and tax reporting. Details at December 31, 1998 and 1997, were:

(Millions of dollars)	1998	1997*
Deferred tax assets related to:		
Compensation and benefit programs	\$213	\$203
Accruals for waste disposal site remediation	47	54
Inventories	29	33
All other	52	66
Valuation allowance	(3)	(4)
Total deferred tax assets	\$338	\$352
Deferred tax liabilities related to:		
Tax depreciation in excess of book depreciation	\$300	\$312
Pension	80	69
All other	23	8
Total deferred tax liabilities	\$403	\$389
Net deferred tax liability	\$ 65	\$ 37

\*Restated to conform to current year presentation.

Deferred taxes, which are classified into a net current and non-current balance by tax jurisdiction, are presented in the balance sheet as follows:

(Millions of dollars)	1998	1997
Prepaid expenses and other assets	\$ 94	\$ 87
Other assets, net	10	3
Accounts payable and accrued liabilities	1	1
Non-current deferred income tax liabilities	168	126
Net deferred tax liability	\$ 65	\$ 37

The valuation allowance was reduced by \$1 million in 1998 and 1997 due to usage of tax credit carryforwards and net operating loss carryforwards.



# Notes to Consolidated Financial Statements

The effective tax rate on pre-tax income differs from the U.S. statutory tax rate due to the following:

	1998	1997	1996
Statutory tax rate	35.0%	35.0%	35.0%
U.S. tax credits	(1.4)	(1.5)	(3.4)
Asset write-downs and dispositions	.5	—	(.2)
Effect of non-taxable currency items	.1	.5	(.5)
Gain on sale of facilities and investments	1.5	—	—
Taxes on foreign earnings and tax adjustments			
of foreign subsidiaries	(.6)	(.6)	.3
Other, net	.2	(.5)	.3
Effective tax rate	35.3%	32.9%	31.5%

The company has net operating loss carryforwards of \$5 million to offset future foreign taxable income through 2003.

Provision for U.S. income taxes, after applying statutory tax credits, was made on the unremitted earnings of foreign subsidiaries and affiliates which have not been reinvested abroad indefinitely. Total unremitted earnings, after provision for applicable foreign income taxes, were approximately \$399 million at December 31, 1998. If the foreign subsidiaries and affiliates earnings that have been reinvested abroad indefinitely were remitted as dividends, the amount of additional U.S. income taxes, after applying statutory tax adjustments, would be approximately \$25 million.

## Note 6: Segment Information

In 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The statement supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," replacing the industry segment approach with a management approach. SFAS No. 131 designates the internal management accountability structure as the source of the company's reportable segments. The statement also requires disclosures about products and services, geographic areas and major customers. The adoption of this standard did not affect results of operations or financial position but did affect the disclosure of segment information as presented below.

The company's business segment reporting under SFAS No. 131 is consistent with the changes in its financial reporting structure incorporated in the company's reporting since the first quarter of 1998. These changes, and concurrent changes to the management organization, were made to better reflect the company's technical strengths and focus on key markets. There are three business segments: Performance Polymers, consisting of the Polymers and Resins (which includes Coatings, Specialty

Polymers and Building Products), Monomers, Formulation Chemicals and Plastics Additives businesses; Chemical Specialties, consisting of the Agricultural Chemicals, Ion Exchange, Biocides and Primenes businesses; and Electronic Materials, consisting of Shipley and Rodel, Inc., an affiliate. Corporate includes non-operating items such as interest income and expense, corporate governance costs, corporate exploratory research and, in 1998, loss on early extinguishment of debt.

The 1997 and 1996 presentations have been restated to reflect these changes. In the restatement, 1997 and 1996 results of AtoHaas and RohMax are reported under Performance Polymers.

1998	Performance Polymers	Chemical Specialties	Electronic Materials	Corporate	Consolidated
Sales to external customers	\$2,447	\$875	\$398	\$—	\$3,720
Operating profit after tax <sup>(1)</sup>	394	72	45	(71)	440
Share of affiliate earnings	2	—	4	(4)	2
Depreciation	188	51	17	20	276
Segment assets	1,927	783	511	427	3,648
Capital additions	150	38	29	12	229

1997	Performance Polymers	Chemical Specialties	Electronic Materials	Corporate	Consolidated
Sales to external customers	\$2,712	\$888	\$399	\$—	\$3,999
Operating profit after tax <sup>(2)</sup>	317	85	52	(44)	410
Share of affiliate earnings	9	(1)	3	—	11
Depreciation	200	51	16	12	279
Segment assets	2,182	779	457	482	3,900
Capital additions	171	35	33	15	254

1996	Performance Polymers	Chemical Specialties	Electronic Materials	Corporate	Consolidated
Sales to external customers	\$2,694	\$930	\$358	\$—	\$3,982
Operating profit after tax	274	112	39	(62)	363
Share of affiliate losses	(12)	—	—	—	(12)
Depreciation	184	48	15	15	262
Segment assets	2,200	821	359	553	3,933
Capital additions	244	45	28	17	334

(1) Includes a one-time net gain of \$45 million after-tax. This net gain was the result of the sale of the company's interest in the AtoHaas and RohMax joint ventures, an early extinguishment of debt, the write-off of certain intangible assets in Europe and business realignment costs primarily in Asia.

(2) Includes a gain of \$16 million after-tax, the net result of remediation settlements with insurance carriers during the fourth quarter.

# Notes to Consolidated Financial Statements

The tables below present sales and long-lived asset information by geographic area as of and for the periods ending December 31. Sales are attributed to the United States and to all foreign countries combined based on customer location and not on the geographic location from which goods were shipped.

1998	United States	Foreign	Consolidated
Sales to external customers	\$1,754	\$1,966	\$3,720
Long-lived assets	936	1,206	2,142

1997	United States	Foreign	Consolidated
Sales to external customers	\$1,890	\$2,109	\$3,999
Long-lived assets	1,059	1,263	2,322

1996	United States	Foreign	Consolidated
Sales to external customers	\$1,843	\$2,139	\$3,982
Long-lived assets	1,115	1,189	2,304

## Note 7: Pension Plans

In 1997, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which amends a number of previous statements and establishes guidance for disclosure in annual financial statements. As required, the company adopted the disclosures prescribed by this statement below.

The company has noncontributory pension plans that provide defined benefits to domestic and non-U.S. employees meeting age and length of service requirements. The following disclosures include amounts for both the U.S. and significant foreign pension plans.

(Millions of dollars)	1998	1997	1996
<b>Components of net periodic pension income</b>			
Service cost	\$ (39)	\$ (39)	\$(38)
Interest cost	(64)	(63)	(60)
Expected return on plan assets	108	101	96
Amortization of net gain existing at adoption of SFAS No. 87	9	10	11
Other amortization, net	5	1	(2)
Net periodic pension income	\$ 19	\$ 10	\$ 7

Pension income primarily reflects recognition of favorable investment experience as stipulated by SFAS No. 87. The pension benefit payments in all three years included payments related to voluntary early retirement incentives and a severance benefit program.

The early retirement and severance benefit programs resulted in a pre-tax gain of \$3 million, \$4 million and \$2 million in 1998, 1997 and 1996, respectively, as settlement gains from retirees electing lump-sum distributions exceeded the cost of the special termination benefits.

Plan activity and status as of and for the years ended December 31 were as follows:

(Millions of dollars)	1998	1997
<b>Change in pension obligation</b>		
Pension obligation at beginning of year	\$ 943	\$ 907
Service cost, excluding expenses	34	35
Interest cost	64	63
Plan participants' contributions	1	1
Divestitures, curtailments and settlements	(35)	—
Special termination benefits	5	9
Actuarial loss	75	26
Foreign currency exchange rate changes	(1)	(4)
Benefits paid	(87)	(94)
Pension obligation at end of year	\$ 999	\$ 943
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	\$1,401	\$1,306
Actual return on plan assets	198	210
Contributions	2	2
Transfer to fund retiree medical expenses	(14)	(13)
Trust expenses	(5)	(5)
Divestitures	(32)	—
Foreign currency exchange rate changes	(1)	(5)
Benefits paid	(87)	(94)
Fair value of plan assets at end of year	\$1,462	\$1,401
Funded status	463	458
Unrecognized actuarial gain	(302)	(305)
Unrecognized prior service cost	15	17
Net amount recognized	\$ 176	\$ 170
Amounts recognized in the statement of financial position consist of:		
Prepaid pension cost	\$ 146	\$ 128
Unrecognized transition asset	30	42
Net amount recognized	\$ 176	\$ 170

Net assets of the pension trusts, which primarily consist of common stocks and debt securities, were measured at market value. Assumptions used are as follows:

	1998		1997	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
<b>Weighted-average assumptions as of December 31</b>				
Discount rate	6.5%	6.3%	7.0%	8.0%
Expected return on plan assets	8.5	7.9	8.5	9.0
Rate of compensation increase	4.0	4.3	5.0	6.2

The company transferred excess pension plan assets of \$14 million in 1998 and \$13 million in 1997 to fund retiree medical expenses as allowed by U.S. tax regulations.

The company has a noncontributory, unfunded pension plan that provides supplemental defined benefits to U.S. employees whose benefits under the qualified pension plan are limited by

# Notes to Consolidated Financial Statements

the Employee Retirement Security Act of 1974 and the Internal Revenue Code. These employees must meet age and length of service requirements. Pension cost determined in accordance with plan provisions was \$11 million in 1998, \$6 million in 1997 and \$7 million in 1996. Pension benefit payments for this plan were \$4 million in 1998 and 1997 and \$5 million in 1996.

The company has a nonqualified trust, referred to as a "rabbi" trust, to fund benefit payments under this pension plan. Rabbi trust assets are subject to creditor claims under certain conditions and are not the property of employees. Therefore, they are accounted for as corporate assets and are classified as other non-current assets. Assets held in trust at December 31, 1998 and 1997, totaled \$30 million and \$25 million, respectively.

The status of this plan at year end was as follows:

(Millions of dollars)	1998	1997
<b>Change in pension obligation</b>		
Pension obligation at beginning of year	\$61	\$53
Service cost	1	1
Interest cost	6	4
Special termination benefit cost	4	—
Actuarial loss	23	7
Benefits paid	(4)	(4)
Pension obligation at end of year	\$91	\$61

Pension benefit obligations for this plan were determined from actuarial valuations using an assumed discount rate of 6.5% and 7% at December 31, 1998 and 1997, respectively, and an assumed long-term rate of compensation increase of 4% in 1998 and 5% in 1997.

In 1997, the company instituted a nonqualified savings plan for eligible employees in the United States. The purpose of the plan is to provide additional retirement savings benefits beyond the otherwise determined savings benefits provided by the Rohm and Haas Company Employee Stock Ownership and Savings Plan (the "Savings Plan"). Each participant's contributions will be notionally invested in the same investment funds as the participant has elected for investment in his or her Savings Plan account. For most participants, the company will contribute a notional amount equal to 60% of the first 6% of the amount contributed by the participant. The company's matching contributions will be allocated to deferred stock units. At the time of distribution, each deferred stock unit will be distributed as one share of Rohm and Haas Company common stock. Contributions to this plan were \$2 million in 1998. There were no contributions in 1997.

## Note 8: Employee Benefits

(Millions of dollars)	1998	1997
Postretirement health care and life insurance benefits	\$313	\$323
Postemployment benefits	19	16
Unfunded supplemental pension plan (see Note 7)	74	50
Unfunded foreign pension liabilities	26	21
Total	\$432	\$410

The company provides health care and life insurance benefits under numerous plans for substantially all of its domestic retired employees, for which the company is self-insured. In general, employees who have at least 15 years of service and are 60 years of age are eligible for continuing health and life insurance coverage. Retirees contribute toward the cost of such coverage.

The status of the plans at year end was as follows:

(Millions of dollars)	1998	1997
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	\$265	\$303
Service cost	5	5
Interest cost	17	17
Divestitures, curtailments and settlements	(8)	—
Amendments	—	(2)
Special termination benefits	1	2
Actuarial (gain) loss	7	(44)
Benefits paid	(18)	(16)
Benefit obligation at end of year	\$269	\$265
Unrecognized prior service cost	10	12
Unrecognized actuarial loss	53	62
Total accrued postretirement benefit obligation	\$332	\$339

The accrued postretirement benefit obligation is recorded in "accrued liabilities" (current) and "employee benefits" (non-current).

Net periodic postretirement benefit cost includes the following components:

(Millions of dollars)	1998	1997	1996
<b>Components of net periodic postretirement cost</b>			
Service cost	\$ 5	\$ 5	\$ 5
Interest cost	17	17	20
Net amortization	(4)	(4)	(1)
Net periodic postretirement cost	\$18	\$18	\$24

The calculation of the accumulated postretirement benefit obligation assumes 5% and 6% annual rates of increase in the health care cost trend rate for 1998 and 1997, respectively. The company's plan limits its cost for health care coverage to an



# Notes to Consolidated Financial Statements

increase of 10% or less each year, subject ultimately to a maximum cost equal to double the 1992 cost level. Increases in retiree health care costs in excess of these limits will be assumed by retirees. The change in the annual rates of increase reflects lower expected health care inflation, improved health care utilization and lower per capita cost experience.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have approximately the following effects:

	1-Percentage Point Increase		1-Percentage Point Decrease	
(Millions of dollars)	1998	1997	1998	1997
Effect on total of service and interest cost components	\$1	\$1	\$ (1)	\$(1)
Effect on postretirement benefit obligation	9	7	(11)	(9)

The weighted average discount rate used to estimate the accumulated postretirement benefit obligation was 6.5% at December 31, 1998, and 7% at December 31, 1997.

## Note 9: Accounts Receivable, Net

(Millions of dollars)	1998	1997
Customers	\$642	\$672
Unconsolidated subsidiaries and affiliates	21	43
Employees	6	5
Insurance recoveries for environmental remediation (see Note 21)	2	19
Other	52	31
	<b>723</b>	<b>770</b>
Less allowance for losses	12	15
Total	<b>\$711</b>	<b>\$755</b>

## Note 10: Inventories

(Millions of dollars)	1998	1997
Finished products and work in process	\$330	\$352
Raw materials	48	49
Supplies	49	58
Total	<b>\$427</b>	<b>\$459</b>

Inventories amounting to \$391 million and \$430 million were valued using the LIFO method at December 31, 1998 and 1997, respectively. The excess of current cost over the stated amount for inventories valued under the LIFO method approximated \$77 million and \$127 million at December 31, 1998 and 1997, respectively. Liquidation of prior years' LIFO inventory layers in 1998, 1997 and 1996 did not materially affect cost of goods sold in either year.

## Note 11: Prepaid Expenses and Other Assets

(Millions of dollars)	1998	1997
Prepaid expenses	\$ 29	\$ 36
Deferred tax benefits (see Note 5)	94	87
Notes receivable	—	4
Other current assets	10	16
Total	<b>\$133</b>	<b>\$143</b>

## Note 12: Land, Buildings and Equipment, Net

(Millions of dollars)	1998	1997
Land	\$ 44	\$ 50
Buildings and improvements	813	817
Machinery and equipment	3,276	3,307
Capitalized interest cost	229	220
Construction	109	98
	<b>4,471</b>	<b>4,492</b>
Less accumulated depreciation	2,563	2,484
Total	<b>\$1,908</b>	<b>\$2,008</b>

The principal lives (in years) used in determining depreciation rates of various assets are: buildings and improvements (10-50); machinery and equipment (5-20); automobiles, trucks and tank cars (3-10); furniture and fixtures, laboratory equipment and other assets (5-10).

Gross book values of assets depreciated by accelerated methods totaled \$1,011 million and \$1,115 million at December 31, 1998 and 1997, respectively. Assets depreciated by the straight-line method totaled \$3,307 million and \$3,230 million at December 31, 1998 and 1997, respectively.

In 1998, 1997 and 1996 respectively, interest costs of \$9 million, \$12 million and \$15 million were capitalized and added to the gross book value of land, buildings and equipment. Amortization of such capitalized costs included in depreciation expense was \$15 million in 1998 and \$14 million in 1997 and 1996.

## Note 13: Other Assets, Net

(Millions of dollars)	1998	1997
Prepaid pension cost (see Note 7)	\$146	\$128
Goodwill	92	110
Patents, trademarks and technology rights	55	54
Rabbi trust assets (see Note 7)	30	25
Deferred tax benefits (see Note 5)	10	3
Other noncurrent assets	33	26
	<b>366</b>	<b>346</b>
Less accumulated amortization of intangible assets	55	48
Total	<b>\$311</b>	<b>\$298</b>

## Note 14: Notes Payable

(Millions of dollars)	1998	1997
Short-term borrowings	\$167	\$49
Current portion of long-term debt	5	48
Total	\$172	\$97

Short-term borrowings include commercial paper and bank debt owed by foreign subsidiaries. The weighted-average interest rate of short-term borrowings was 6.5% and 7.8% at December 31, 1998 and 1997, respectively.

At December 31, 1998, the company has revolving credit agreements totaling \$400 million, of which \$150 million expire in 1999, \$20 million in 2002 and \$230 million in 2003. These agreements, which carry various interest rates and fees, are available to support commercial paper borrowings. Several permit foreign subsidiaries to borrow local currencies. At December 31, 1998, \$74 million was outstanding under these agreements.

## Note 15: Long-Term Debt

(Millions of dollars)	1998	1997
9.80% notes due 2020	\$135	\$150
9.875% notes due 2000	100	100
9.375% debentures due 2019 (callable 1999 at 104.7%)	22	100
9.50% notes due 2021 (callable 2002 at 104.8%)	38	75
6.63% obligation due through 2012 (callable 2000 at 104.4%)	46	48
1.55% note due 2003 (yen denominated)	44	—
Other	24	36
Total	\$409	\$509

The various loan agreements contain certain restrictions with respect to tangible net worth and maintenance of working capital. There are no restrictions on the payment of dividends.

In 1998 the company retired \$130 million of high interest long-term debt through a tender offer. These debt retirements resulted in an after-tax extraordinary loss of \$13 million, or \$.07 per share.

Total cash used for the payment of interest expense, net of amounts capitalized, was \$36 million, \$40 million and \$39 million in 1998, 1997 and 1996, respectively.

Long-term debt maturing in the next five years is:

(Millions of dollars)			
1999	\$ 5	2002	\$12
2000	107	2003	64
2001	12		

## Note 16: Accounts Payable and Accrued Liabilities

(Millions of dollars)	1998	1997
Trade payables	\$235	\$252
Salaries and wages	139	117
Taxes, other than income taxes	29	38
Interest	10	13
Employee benefits	25	23
Reserves for environmental remediation (see Note 21)	45	47
Sales incentive programs	55	41
Other	115	138
Total	\$653	\$669

## Note 17: Other Liabilities

(Millions of dollars)	1998	1997
Reserves for environmental remediation (see Note 21)	\$ 86	\$100
Deferred revenue on supply contracts	56	—
Other	42	30
Total	\$184	\$130

## Note 18: Stockholders' Equity

In 1998, the board of directors declared a three-for-one split of the company's common stock. The stock split was effected in the form of a 200% common stock dividend. The par value of the common stock remained unchanged at \$2.50 per share. Also in 1998, the company retired 39 million treasury shares. As a result of these transactions, the company reclassified \$296 million from retained earnings to common stock. This amount represents the total par value of new shares issued, net of retirements of treasury shares. Amounts per share, numbers of common shares and capital accounts have been restated to give retroactive effect to the stock split.

The company has the authorization to issue up to 25 million shares of preferred stock. The outstanding preferred stock was issued in connection with the acquisition of Shipley Company in 1992. This preferred stock pays an annual cumulative dividend of \$2.75 per share. It has antidilution protection against stock splits, stock dividends and certain issuances of additional securities and extraordinary dividends. This preferred stock is convertible at any time at the holder's option into Rohm and Haas common stock at the rate of 2.34 shares of common stock for each share of preferred stock. Holders of the preferred stock are entitled to one vote per share. The company has the option to redeem the preferred stock on or after June 12, 1999, at a fixed redemption price of \$50.62, payable in Rohm and Haas common stock. The redemption price reduces each year to a final price of \$50 on or after June 12, 2002.

## Notes to Consolidated Financial Statements

Dividends paid on ESOP shares, used as a source of funds for meeting the ESOP financing obligation, were \$12 million in 1998 and \$11 million in 1997. These dividends were recorded net of the related U.S. tax benefits. The number of ESOP shares not allocated to plan members at December 31, 1998 and 1997 were 13.5 million and 14.2 million, respectively.

The company recorded compensation expense of \$6 million in 1998, 1997 and 1996 for ESOP shares allocated to plan members. The company expects to record annual compensation expense at approximately this level over the next 22 years as the remaining \$132 million of ESOP shares are allocated. The allocation of shares from the ESOP is expected to fund a substantial portion of the company's future obligation to match employees savings plan contributions as the market price of Rohm and Haas stock appreciates.

Purchases of treasury stock in 1998 totaled 17,459,435 shares, compared with 7,653,453 and 13,292,913 shares in 1997 and 1996, respectively. Most of the shares were obtained in August 1998 through an accelerated stock repurchase program with a third party. Under the terms of this purchase, the final cost to the company will reflect the average share price paid by the third party in the market over an extended trading period. Through December 31, 1998, the company had repurchased two-thirds of the 12 million shares of common stock authorized under the current buyback program, and received board approval in October 1998 for another buyback of an additional 9 million shares.

The reconciliation from basic to diluted earnings per share is as follows:

	Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
<b>1998</b>			
Net earnings available to common shareholders	\$434	175,591	\$2.47
Effect of convertible preferred stock	6	3,417	
Dilutive effect of options	—	693	
Diluted earnings per share	\$440	179,701	\$2.45
<b>1997</b>			
Net earnings available to common shareholders	\$403	185,808	\$2.17
Effect of convertible preferred stock	7	5,913	
Dilutive effect of options	—	717	
Diluted earnings per share	\$410	192,438	\$2.13
<b>1996</b>			
Net earnings available to common shareholders	\$356	196,122	\$1.82
Effect of convertible preferred stock	7	6,168	
Dilutive effect of options	—	525	
Diluted earnings per share	\$363	202,815	\$1.79

## Note 19: Stock Compensation Plans

As permitted under SFAS No. 123, "Accounting for Stock-Based Compensation," the company continues to apply the provisions of APB Opinion No. 25. Accordingly, no compensation expense has been recognized for the fixed stock option plans. For restricted stock awards, compensation expense equal to the fair value of the stock on the date of the grant is recognized over the five-year vesting period. Total compensation expense for restricted stock was \$3 million in 1998 and \$1 million in 1997 and 1996. Had compensation expense for the company's fixed stock option plans been determined in accordance with SFAS No. 123, the company's net earnings would have been reduced to \$437 million in 1998, \$407 million in 1997 and \$361 million in 1996. Diluted earnings per common share would have been reduced to \$2.43, \$2.12 and \$1.78 in 1998, 1997 and 1996, respectively.

### Non-Employee Directors' Stock Plan of 1997

Under the 1997 Non-Employee Directors Stock Plan, directors receive half of their annual retainer in deferred stock. Each share of deferred stock represents the right to receive one share of company common stock upon leaving the board. Directors may also elect to defer all or part of their cash compensation into deferred stock. Annual compensation expense is recorded equal to the number of deferred stock shares awarded multiplied by the market value of the company's common stock on the date of award. Additionally, directors receive dividend equivalents on each share of deferred stock, payable in deferred stock, equal to the dividend paid on a share of common stock.

### Restricted Stock Plan of 1992

Under this plan, executives were paid some or all of their bonuses in shares of restricted stock instead of cash. Most shares vest after 5 years. The plan covers an aggregate 450,000 shares of common stock. Shares of restricted stock issued in 1998 totaled 74,106 at a weighted-average grant date fair value of \$34 per share. In 1997, 93,714 shares of restricted stock were granted at a weighted-average grant-date fair value of \$28 per share. As of January 1, 1999, restricted stock grants will be made, subject to shareholder approval, under the 1999 Stock Plan.

### Fixed Stock Option Plans

The company has granted stock options to key employees under its Stock Option Plans of 1984 and 1992. Options granted pursuant to the plans are priced at the fair market value of the common stock on the date of the grant. Options vest after one year and most expire 10 years from the date of grant.



# Notes to Consolidated Financial Statements

The Stock Option Plan of 1992, as amended in 1994, limits the number of options that can be granted to any one individual within a five-year period to 300,000 shares. These plans have been superseded by the 1999 Stock Plan, subject to shareholder approval. Under the 1999 Stock Plan, the company may grant options for up to eight million shares of common stock, subject to shareholder approval.

The status of the company's stock options as of December 31 is presented below:

	1998		1997		1996	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
	(000)		(000)		(000)	
Outstanding at beginning of year	2,394	\$20.63	2,283	\$17.49	2,331	\$15.84
Granted	471	31.51	600	27.42	603	21.43
Canceled	(10)	31.49	—	—	(6)	21.48
Exercised	(438)	15.80	(489)	14.31	(645)	12.76
Outstanding at end of year	2,417	23.58	2,394	20.63	2,283	17.49
Options exercisable at year-end	1,956	21.71	1,809	18.44	1,686	16.10
Weighted-average fair value of options granted during the year		\$ 8.40		\$ 7.26		\$ 5.56

The Black-Scholes option pricing model was used to estimate the fair value for each grant made during the year. The following are the weighted-average assumptions used for all shares granted in the years indicated:

	1998	1997
Dividend yield	2.52%	2.59%
Volatility	25.07	20.74
Risk-free interest rate	5.52	6.46
Time to exercise	6 years	7 years

The following table summarizes information about stock options outstanding and exercisable at December 31, 1998:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
	(000s)			(000s)	
\$11 to \$15	155	2.7 years	\$13.63	155	\$13.63
18 to 22	1,226	6.1	20.04	1,226	20.04
25 to 35	1,036	8.5	29.24	575	27.43
	2,417			1,956	

## Note 20: Leases

The company leases certain properties and equipment used in its operations, primarily under operating leases. Total net rental expense incurred under operating leases amounted to \$57 million in 1998, \$62 million in 1997 and \$63 million in 1996.

Total future minimum lease payments under the terms of non-cancellable operating leases are as follows:

(Millions of dollars)			
1999	\$31	2002	\$14
2000	22	2003	12
2001	18	Thereafter	57

## Note 21: Contingent Liabilities, Guarantees and Commitments

There is a risk of environmental damage in chemical manufacturing operations. The company's environmental policies and practices are designed to ensure compliance with existing laws and regulations and to minimize the possibility of significant environmental damage. These laws and regulations require the company to make significant expenditures for remediation, capital improvements and the operation of environmental protection equipment. Future developments and even more stringent environmental regulations may require the company to make additional unforeseen environmental expenditures. The company's major competitors are confronted by substantially similar environmental risks and regulations.

The company is a party in various government enforcement and private actions associated with former waste disposal sites, many of which are on the U.S. Environmental Protection Agency's (EPA) Superfund priority list. The company is also involved in corrective actions at some of its manufacturing facilities. The company considers a broad range of information when determining the amount of its remediation accruals, including available facts about the waste site, existing and proposed remediation technology and the range of costs of applying those technologies, prior experience, government proposals for this or similar sites, the liability of other parties, the ability of other principally responsible parties to pay costs apportioned to them and current laws and regulations. These accruals are updated quarterly as additional technical and legal information becomes available. Major sites for which reserves have been provided are the non-company-owned Lipari, Woodland and Kramer sites in New Jersey, and Whitmoyer in Pennsylvania and company-owned sites in Bristol and Philadelphia, Pennsylvania, and in Houston, Texas. In addition, the company has provided for future costs at approximately 80 other sites

## Notes to Consolidated Financial Statements

where it has been identified as potentially responsible for cleanup costs and, in some cases, damages for alleged personal injury or property damage.

The amount charged to earnings before tax for environmental remediation, net of insurance recoveries, was \$9 million in 1998. In 1997, remediation related settlements with insurance carriers, a \$20 million charge resulting from an unfavorable arbitration decision relating to the Woodlands sites, and other waste remediation expenses resulted in a net gain of \$13 million. The 1996 charge, net of insurance recoveries, was \$27 million.

The reserves for remediation were \$131 million and \$147 million at December 31, 1998 and 1997, respectively, and are recorded as "other liabilities" (current and long-term). The company is in the midst of lawsuits over insurance coverage for environmental liabilities. It is the company's practice to reflect environmental insurance recoveries in results of operations for the quarter in which the litigation is resolved through settlement or other appropriate legal process. Resolutions typically resolve coverage for both past and future environmental spending. Insurance recoveries receivable, included in accounts receivable, net, were \$2 million at December 31, 1998, and \$19 million at December 31, 1997. The company settled with several of its insurance carriers in January 1999 for approximately \$17 million. These settlements will be recognized in income in 1999.

In addition to accrued environmental liabilities, the company has reasonably possible loss contingencies related to environmental matters of approximately \$65 million at December 31, 1998 and 1997. Further, the company has identified other sites, including its larger manufacturing facilities in the United States, where additional future environmental remediation may be required, but these loss contingencies are not reasonably estimable at this time. These matters involve significant unresolved issues, including the number of parties found liable at each site and their ability to pay, the outcome of negotiations with regulatory authorities, the alternative methods of remediation and the range of costs associated with those alternatives. The company believes that these matters, when ultimately resolved, which may be over an extended period of time, will not have a material adverse effect on the consolidated financial position or consolidated cash flows of the company, but could have a material adverse effect on consolidated results of operations in any given year because of the company's obligation to record the full projected cost of a project when such costs are probable and reasonably estimable.

Capital spending for new environmental protection equipment was \$17 million in 1998. Spending for 1999 and 2000 is

expected to be approximately \$22 million and \$15 million, respectively. Capital expenditures in this category include projects whose primary purposes are pollution control and safety, as well as environmental aspects of projects that are intended primarily to improve operations or increase plant efficiency. The company expects future capital spending for environmental protection equipment to be consistent with prior-year spending patterns. Capital spending does not include the cost of environmental remediation of waste disposal sites.

Cash expenditures for waste disposal site remediation were \$26 million in 1998, \$37 million in 1997 and \$58 million in 1996. The expenditures for remediation are charged against accrued remediation reserves. The cost of operating and maintaining environmental facilities was \$94 million, \$95 million and \$104 million in 1998, 1997 and 1996, respectively, and was charged against current-year earnings.

Subsequent to the sale of the AtoHaas joint venture, the buyer asserted a claim against the company in late 1998 related to the value of certain joint venture assets. Because the investigation and assessment of this claim is not expected to be completed until the latter part of the first quarter of 1999, the potential amount of the claim and its impact on results of operations and financial position, if any, cannot be reasonably estimated at this time.

In addition, the company and its subsidiaries are parties to litigation arising out of the ordinary conduct of its business. The company is also a subject of an investigation by U.S. Customs into the labeling of some products imported into the U.S. from some of the company's non-U.S. locations. Recognizing the amounts reserved for such items and the uncertainty of the ultimate outcomes, it is the company's opinion that the resolution of these pending lawsuits, investigations and claims will not have a material adverse effect, individually or in the aggregate, upon the results of operations and the consolidated financial position of the company.

In the ordinary course of business, the company has entered into certain purchase commitments, has guaranteed certain loans (with recourse to the issuer), and has made certain financial guarantees, primarily for the benefit of its non-U.S. and unconsolidated subsidiaries and affiliates. It is believed that these commitments and any liabilities that may result from these guarantees will not have a material adverse effect upon the consolidated financial position of the company.

At December 31, 1998, construction commitments totaled approximately \$23 million.

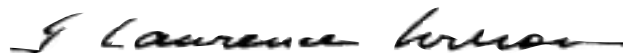
## Report on Financial Statements

The financial statements of Rohm and Haas Company and subsidiaries were prepared by the company in accordance with generally accepted accounting principles. The financial statements necessarily include some amounts that are based on the best estimates and judgments of the company. The financial information in this annual report is consistent with that in the financial statements.

The company maintains accounting systems and internal accounting controls designed to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with the company's authorization and transactions are properly recorded. The accounting systems and internal accounting controls are supported by written policies and procedures, by the selection and training of qualified personnel and by an internal audit program. In addition, the company's code of business conduct requires employees to discharge their responsibilities in conformity with the law and with a high standard of business conduct.

The company's financial statements have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report below. Their audit was conducted in accordance with generally accepted auditing standards and included a review of internal accounting controls to the extent considered necessary to determine the audit procedures required to support their opinion.

The audit committee of the board of directors, composed entirely of non-employee directors, recommends to the board of directors the selection of the company's independent auditors, approves their fees and considers the scope of their audits, audit results, the adequacy of the company's internal accounting control systems and compliance with the company's code of business conduct.



**J. Lawrence Wilson**  
Chairman of the Board  
and Chief Executive Officer



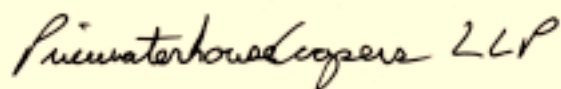
**Bradley J. Bell**  
Senior Vice President  
and Chief Financial Officer

## Report of Independent Accountants

**PricewaterhouseCoopers LLP**  
Thirty South Seventeenth Street  
Philadelphia, PA 19103-4094  
Telephone (215) 575 5000

To the Board of Directors and  
Stockholders of Rohm and Haas Company

In our opinion, the accompanying consolidated balance sheets and the related statements of consolidated earnings, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Rohm and Haas Company and its subsidiaries at December 31, 1998, and the results of their operations and their cash flows for the year, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above. The financial statements of Rohm and Haas Company for the years ended December 31, 1997 and 1996, were audited by other independent accountants whose report dated February 23, 1998, expressed an unqualified opinion on those statements.



February 22, 1999



# Eleven-Year Summary of Selected Financial Data (Unaudited)

Rohm and Haas Company and Subsidiaries

<i>(Millions of dollars, except per-share amounts)</i>	1998	1997	1996
<b>Summary of Operations</b>			
Volume of shipments in millions of units	5,054	4,997	4,725
Net sales	\$ 3,720	\$ 3,999	\$ 3,982
Gross profit	1,464	1,455	1,395
Earnings before interest and taxes	734	650	569
Earnings before income taxes	700	611	530
<b>Earnings before extraordinary items and cumulative effect of accounting changes</b>	<b>\$ 453</b>	<b>\$ 410</b>	<b>\$ 363</b>
<b>Net earnings (loss)</b>	<b>\$ 440</b>	<b>\$ 410</b>	<b>\$ 363</b>
<i>As a percent of sales</i>			
Gross profit	39.4%	36.4%	35.0%
Selling and administrative expense	17.1	16.0	15.8
Research and development expense	5.6	5.0	4.7
Earnings before extraordinary items and cumulative effects	12.2	10.3	9.1
Return on net assets <sup>(1)</sup>	12.7%	11.2%	9.9%
Return on common stockholders' equity <sup>(2)</sup>	25.3%	22.7%	20.1%
<i>Ten-year compound growth rate</i>			
Sales	3.9%	6.1%	6.8%
Basic earnings per common share before extraordinary items and cumulative effect of accounting changes	8.3	8.6	10.5
Cash dividends per common share	7.5	8.2	8.2
Wages and salaries	\$ 643	\$ 630	\$ 627
<b>Cash Flow Data</b>			
Cash provided by operating activities	\$ 682	\$ 791	\$ 706
Additions to fixed assets	229	254	334
Depreciation	276	279	262
Cash dividends	125	121	116
Free cash flow <sup>(3)</sup>	328	416	256
Share repurchases	567	216	302
Investments in joint ventures, affiliates and subsidiaries	21	80	7
<b>Per Common Share Data and Other Share Information <sup>(4)</sup></b>			
Net earnings before extraordinary items and cumulative effect of accounting changes:			
Basic	\$ 2.55	\$ 2.17	\$ 1.82
Diluted	2.52	2.13	1.79
Cash dividends per common share	\$ .70	\$ .63	\$ .57
Common stock price			
High	\$ 38 <sup>7</sup> / <sub>8</sub>	\$ 33 <sup>3</sup> / <sub>4</sub>	\$ 27 <sup>1</sup> / <sub>2</sub>
Low	26	23 <sup>9</sup> / <sub>16</sub>	18 <sup>5</sup> / <sub>16</sub>
Year-end close	30 <sup>1</sup> / <sub>8</sub>	31 <sup>15</sup> / <sub>16</sub>	27 <sup>3</sup> / <sub>16</sub>
Number of shares repurchased in thousands	17,459	7,653	13,293
Average number of shares outstanding – basic, in thousands	175,591	185,808	196,122
<b>At Year End</b>			
Working capital	\$ 412	\$ 547	\$ 570
Gross fixed assets	4,471	4,492	4,327
Total assets	3,648	3,900	3,933
Total debt	581	606	707
Stockholders' equity	1,561	1,797	1,728
Debt-to-equity ratio <sup>(5)</sup>	34.3%	31.3%	37.5%
Number of registered common stockholders	4,451	4,352	4,492
Number of employees	11,265	11,592	11,633

(1) Net earnings plus after-tax interest expense, divided by year-end total assets.

(2) Excluding ESOP adjustment and cumulative effect of accounting changes.

(3) Cash provided by operating activities less fixed asset spending and dividends.

See accompanying notes on page 60.

(4) 1988 to 1997 earnings per share and share information has been restated to reflect the 1998 three-for-one stock split.

(5) Excluding ESOP adjustment.

See 1998, 1997 and 1996 results in Management Discussion and Analysis on pages 26 to 37.

1995	1994	1993	1992	1991	1990	1989	1988
4,473	4,549	4,214	3,750	3,267	3,336	3,259	3,143
\$ 3,884	\$ 3,534	\$ 3,269	\$ 3,063	\$ 2,763	\$ 2,824	\$ 2,661	\$ 2,535
1,333	1,267	1,095	1,049	902	930	841	889
480	453	235	314	288	350	290	378
441	407	194	261	240	313	251	346
\$ 292	\$ 264	\$ 126	\$ 174	\$ 163	\$ 207	\$ 176	\$ 230
\$ 292	\$ 264	\$ 107	\$ (5)	\$ 163	\$ 207	\$ 176	\$ 230
34.3%	35.9%	33.5%	34.2%	32.6%	32.9%	31.6%	35.1%
15.9	16.7	18.0	17.9	17.0	16.1	15.1	15.0
5.0	5.7	6.3	6.5	6.6	6.3	6.6	6.2
7.5	7.5	3.9	5.7	5.9	7.3	6.6	9.1
8.1%	7.6%	4.3%	6.1%	6.8%	8.6%	8.3%	11.2%
16.6%	16.5%	8.1%	11.4%	11.2%	15.2%	14.0%	20.4%
6.6%	5.6%	5.7%	5.3%	3.9%	5.1%	5.3%	7.3%
7.7	5.4	(0.9)	8.6	7.4	9.9	7.1	17.0
8.3	9.1	10.5	10.5	11.2	13.0	14.9	16.1
\$ 625	\$ 632	\$ 616	\$ 589	\$ 540	\$ 520	\$ 481	\$ 457
\$ 513	\$ 524	\$ 358	\$ 401	\$ 357	\$ 336	\$ 309	\$ 314
417	339	382	283	265	412	385	338
242	231	226	203	183	159	150	128
109	102	97	88	80	79	77	67
(13)	83	(121)	30	12	(155)	(153)	(91)
29	7	—	1	1	213	—	10
—	—	—	172	41	12	2	—
\$ 1.41	\$ 1.26	\$ .58	\$ .84	\$ .82	\$ 1.03	\$ .88	\$ 1.15
1.40	1.26	.58	.84	.82	1.03	.88	1.15
\$ .52	\$ .48	\$ .45	\$ .43	\$ .41	\$ .41	\$ .39	\$ .34
\$ 21 <sup>5</sup> / <sub>8</sub>	\$ 22 <sup>13</sup> / <sub>16</sub>	\$ 20 <sup>11</sup> / <sub>16</sub>	\$ 19 <sup>7</sup> / <sub>8</sub>	\$ 16 <sup>3</sup> / <sub>16</sub>	\$ 12 <sup>5</sup> / <sub>16</sub>	\$ 12 <sup>1</sup> / <sub>2</sub>	\$ 12 <sup>1</sup> / <sub>2</sub>
16 <sup>1</sup> / <sub>2</sub>	17 <sup>3</sup> / <sub>4</sub>	15 <sup>3</sup> / <sub>4</sub>	14 <sup>1</sup> / <sub>4</sub>	10 <sup>15</sup> / <sub>16</sub>	8 <sup>1</sup> / <sub>16</sub>	10 <sup>5</sup> / <sub>16</sub>	9 <sup>5</sup> / <sub>16</sub>
21 <sup>7</sup> / <sub>16</sub>	19 <sup>1</sup> / <sub>16</sub>	19 <sup>13</sup> / <sub>16</sub>	17 <sup>13</sup> / <sub>16</sub>	14 <sup>1</sup> / <sub>2</sub>	11 <sup>5</sup> / <sub>8</sub>	11 <sup>9</sup> / <sub>16</sub>	11 <sup>1</sup> / <sub>2</sub>
1,545	369	21	54	48	19,428	24	930
202,566	203,121	202,857	199,188	192,309	198,654	199,779	199,683
\$ 593	\$ 508	\$ 499	\$ 533	\$ 606	\$ 424	\$ 434	\$ 485
4,158	3,969	3,696	3,470	3,015	2,770	2,396	2,062
3,916	3,861	3,524	3,517	2,897	2,702	2,455	2,242
696	786	773	800	753	679	531	454
1,781	1,620	1,441	1,428	1,235	1,137	1,311	1,207
36.0%	44.3%	48.2%	50.1%	50.0%	48.0%	40.5%	37.6%
4,721	4,907	5,120	5,653	5,796	6,088	5,816	5,695
11,670	12,211	12,985	13,619	12,872	12,920	13,040	12,444

**A.** Included in 1998 results is a one-time net gain of \$45 million, or 25 cents per common share. This net gain affected all segments and regions, except Latin America, and was the net result of the sale of the company's interest in the AtoHaas and RohMax joint ventures, an early extinguishment of debt, the write-off of certain intangible assets in Europe and business realignment costs primarily in Asia.

**B.** The 1997 earnings include a gain of \$16 million after tax, or 9 cents per common share, the result of remediation settlements with insurance carriers during the fourth quarter.

**C.** The 1996 earnings included a net gain of 2 cents per common share from non-recurring items. This is the net effect of a 5 cent per common share gain related to retroactive tax credits on sales outside of the United States and a charge of 3 cents per common share for charges for restructuring operations in Japan, a plant writedown in the United States, a gain from a land sale in Japan, and restructuring costs associated with the AtoHaas joint venture in Europe.

**D.** Results in 1995 were reduced by a charge of 8 cents per common share for additional potential liability related to the cleanup of the Whitmoyer waste site in Myerstown, Pennsylvania.

**E.** Earnings in 1993 included charges of 16 cents per common share for remediation of property near the Lipari landfill, 8 cents per common share for cancelling construction of a plastics manufacturing facility in England and 9 cents per common share for the writedown of the imidized plastics production line in Kentucky. Results also included a gain of 5 cents per common share for the sale of Supelco, Inc.

**F.** Effective January 1, 1993, the company adopted a new accounting standard for postemployment benefits. The cumulative effect of the change as of the adoption date was a charge of 9 cents per common share. The impact on 1993 earnings was not material.

**G.** Results in 1992 included a 19 cents per common share charge for the estimated costs of downsizing a manufacturing site in Philadelphia.

**H.** Effective January 1, 1992, the company adopted new accounting standards for postretirement benefits and income taxes. The cumulative effect of these accounting changes as of the adoption date was a charge of 90 cents per common share. The impact on 1992 results was an after-tax charge of 4 cents per common share.

## Shareholder Information

### Form 10-K Filing

A copy of Rohm and Haas's annual report to the Securities and Exchange Commission is available by contacting:

Rohm and Haas Company  
Public Relations Department  
100 Independence Mall West  
Philadelphia, PA 19106  
(215) 592-3045  
[www.rohmhaas.com](http://www.rohmhaas.com)

### Stock Exchange Listing

Rohm and Haas common stock trades on the New York Stock Exchange under the symbol ROH.

### Transfer Agent and Registrar

EquiServe, L.P.  
P.O. Box 8218  
Boston, MA 02266-8218  
(800) 633-4236  
[www.equiserve.com](http://www.equiserve.com)

## Corporate Headquarters

Rohm and Haas Company  
100 Independence Mall West  
Philadelphia, Pennsylvania USA  
19106-2399  
(215) 592-3000  
(Delaware Corporation)

## Subsidiaries

AgLead K.K.  
Tokyo, Japan  
(70% owned)

Beijing Eastern Rohm and Haas  
Company, Limited  
Beijing, China  
(60% owned)

Duolite Int. Limited  
Croydon, England

Japan Acrylic Chemical Co., Ltd.  
Tokyo, Japan

LG-Shipley Ltd.  
Seoul, South Korea  
(51% owned)

NorsoHaas S.A.  
Villers-Saint-Paul, France

Polytribo Inc.  
Bristol, Pennsylvania USA  
(60% owned)

Quimica Conosur Sociedad  
Anonima  
Montevideo, Uruguay

P.T. Rohm and Haas Indonesia  
Jakarta, Indonesia

Rohm and Haas Australia Pty. Ltd.  
Melbourne, Australia

Rohm and Haas (Bermuda), Ltd.  
Hamilton, Bermuda

Rohm and Haas Canada, Inc.  
West Hill, Canada

Rohm and Haas Capital  
Corporation  
Wilmington, Delaware USA

Rohm and Haas Chemical  
(Thailand) Limited  
Bangkok, Thailand

Rohm and Haas China, Inc.  
Hong Kong, China

Rohm and Haas Colombia S.A.  
Bogota, Colombia

Rohm and Haas Commerce Inc.  
Wilmington, Delaware USA

Rohm and Haas Credit Corporation  
Wilmington, Delaware USA

Rohm and Haas Deutschland  
GmbH  
Frankfurt, Germany

Rohm and Haas Equity Corporation  
Wilmington, Delaware USA

Rohm and Haas España S.A.  
Barcelona, Spain

Rohm and Haas Finance Company  
Wilmington, Delaware USA

Rohm and Haas Foreign Sales  
Corporation  
St. Thomas, U.S. Virgin Islands

Rohm and Haas France S.A.  
Paris, France

Rohm and Haas Holdings Ltd.  
Hamilton, Bermuda

Rohm and Haas (India) Pvt. Ltd.  
New Delhi, India

Rohm and Haas Investment  
Holdings Inc.  
Wilmington, Delaware, USA

Rohm and Haas Italia S.r.l.  
Milan, Italy

Rohm and Haas Japan K.K.  
Tokyo, Japan

Rohm and Haas Korea Co. Ltd.  
Seoul, South Korea

Rohm and Haas Latin America, Inc.  
Philadelphia, Pennsylvania USA

Rohm and Haas Mexico S.A. de  
C.V.  
Mexico City, Mexico

Rohm and Haas New Zealand  
Limited  
Auckland, New Zealand

Rohm and Haas Nordiska AB  
Landskrona, Sweden

Rohm and Haas Performance  
Plastics Inc.  
Wilmington, Delaware USA

Rohm and Haas Philippines, Inc.  
Manila, Philippines

Rohm and Haas Puerto Rico Inc.  
Wilmington, Delaware USA

Rohm and Haas Quimica Ltda.  
São Paulo, Brazil

Rohm and Haas (Scotland) Limited  
Grangemouth, Scotland  
(75% owned)

Rohm and Haas Singapore (Pte.)  
Ltd.  
Singapore

Rohm and Haas Taiwan, Inc.  
Taipei, Taiwan

Rohm and Haas Texas,  
Incorporated  
Houston, Texas USA

Rohm and Haas (UK) Limited  
Croydon, England

R and H Unison Holdings Inc.  
Wilmington, Delaware USA

Shipley Company, L.L.C.  
Marlborough, Massachusetts USA

Shipley Europe Ltd.  
Coventry, England

Shipley Far East Ltd.  
Tokyo, Japan

Shipley Holdings Inc.  
Wilmington, Delaware USA

## Affiliates

Kureha Chemicals (Singapore) Pte.  
Limited  
Singapore  
(25% owned)

Rodel, Inc.  
Newark, Delaware  
(48% owned, effective  
January 15, 1999)

RohMid L.L.C.  
Parsippany, New Jersey USA  
(50% owned)

TosoHaas  
Montgomeryville, Pennsylvania  
USA  
(50% owned)

Unison Fiber Optic Lighting  
Systems L.L.C.  
Wilmington, Delaware USA  
(50% owned)

## Manufacturing Locations

Australia: Geelong  
Brazil: Jacarei  
Canada: West Hill  
China: Beijing  
Colombia: Barranquilla  
England: Coventry; Jarrow  
France: Chauny; Lauterbourg;  
Villers-Saint-Paul  
Indonesia: Cilegon  
Italy: Mozzanica  
Japan: Nagoya; Sasagami; Soma  
Mexico: Apizaco  
New Zealand: Auckland  
Philippines: Las Pinas  
Scotland: Grangemouth  
Singapore: Singapore  
Spain: Tudela  
Sweden: Landskrona  
Taiwan: Min-Hsiung  
Thailand: Map Ta Phut  
United States:  
California: Hayward; La Mirada  
Delaware: Newark  
Illinois: Chicago Heights;  
Kankakee  
Kentucky: Louisville  
Massachusetts: Marlborough  
North Carolina: Charlotte  
Pennsylvania: Bristol;  
Montgomeryville;  
Philadelphia  
Tennessee: Knoxville  
Texas: Bayport; Houston

## Research Facilities

**Corporate Research Headquarters**  
Spring House, Pennsylvania

## Other Research and Technical Facilities

Brazil: Campinas  
Canada: West Hill  
France: Chauny; Valbonne  
Japan: Washinomiya  
United States:  
Massachusetts: Marlborough  
North Carolina: Charlotte  
Pennsylvania: Bristol; Newtown  
Texas: Houston; Waller County

This annual report contains statements that are forward-looking, and that are subject to risks and uncertainties. Actual results may vary due to factors such as changing economic conditions in key geographic markets, fluctuating currency exchange rates, acquisitions or divestitures, customer demand, competitive products and pricing, technological innovations, government regulations and litigation.