

# ***Crompton***

**Crompton** 1999 Annual Report

1999 Annual Report

**global solutions**

Crompton Corporation is a global producer and marketer of polymer products and specialty chemicals and was formed with the September 1, 1999 merger of Crompton & Knowles Corporation and Witco Corporation. From the time of the merger until April 25, 2000, the company was named CK Witco Corporation. The company has about 8,600 employees in research, manufacturing, sales, and administrative facilities in every major market around the world.

Available in 120 countries, our products and services solve customer problems and add value to customers' products. Our 114 million shares of common stock are traded on the New York Stock Exchange under the symbol CK. Up-to-date information about the company is available at [www.cromptoncorp.com](http://www.cromptoncorp.com).



The company has more than 50 manufacturing facilities in 20 countries and receives 43% of its revenues from customers outside of the United States.

#### MANUFACTURING LOCATIONS

##### North America

Alabama  
Connecticut  
Illinois  
Louisiana  
New Jersey  
North Carolina  
Pennsylvania  
Tennessee  
Texas  
West Virginia  
Bahamas  
Canada

##### Latin/South America

Brazil  
Mexico

##### Europe

Belgium  
Denmark  
France  
Germany  
Italy  
Netherlands  
United Kingdom

##### Asia/Pacific

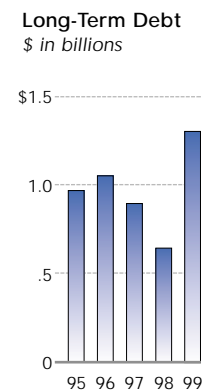
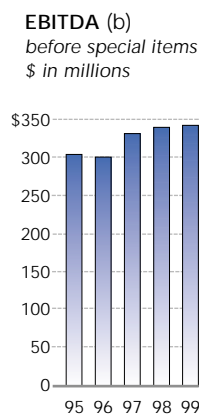
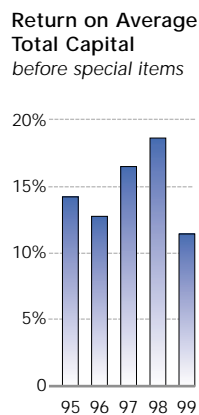
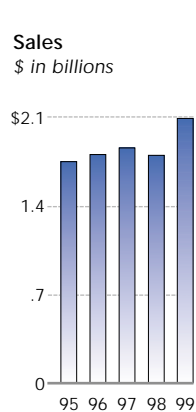
Australia  
China  
Indonesia  
Malaysia  
Singapore  
South Korea  
Taiwan  
Thailand

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(In thousands of dollars, except per share data) (a)

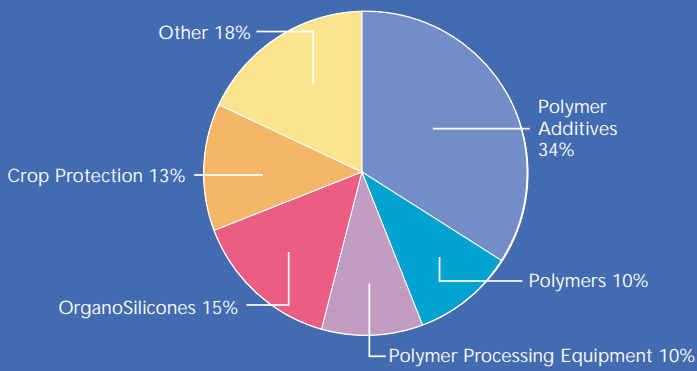
|   | 1999         | 1998        |
|---|--------------|-------------|
| Net sales   | \$2,092,358  | \$1,796,119 |
| Operating profit  | \$ 1,383     | \$ 218,298  |
| Interest expense  | \$ 69,833    | \$ 78,520   |
| Net earnings (loss)   | \$ (175,038) | \$ 161,755  |
| Basic earnings (loss) per share   | \$ (2.10)    | \$ 2.20     |
| Diluted earnings (loss) per share   | \$ (2.10)    | \$ 2.14     |
| Total assets  | \$3,726,618  | \$1,408,893 |
| Long-term debt  | \$1,309,812  | \$ 646,857  |
| Operating profit, EBITDA and net earnings before special items (refer to page 54) are as follows: |              |             |
| EBITDA before special items (b)   | \$ 342,549   | \$ 340,394  |
| Operating profit before special items   | \$ 225,901   | \$ 259,858  |
| Net earnings before special items   | \$ 94,988    | \$ 117,270  |



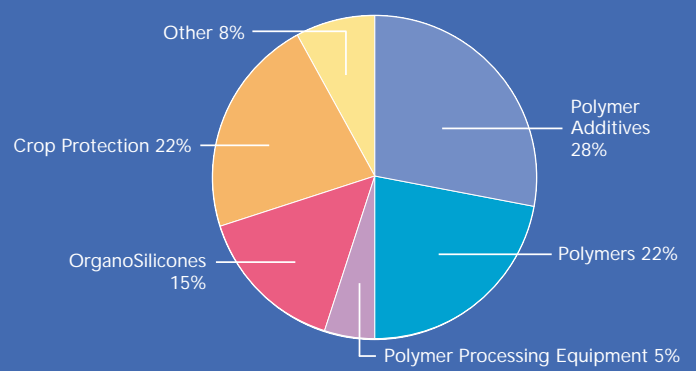
(a) The 1999 amounts include the results of operations of Crompton & Knowles Corporation for the twelve months ended December 1999 and the results of operations of Witco Corporation for the months of September through December 1999. The 1995 to 1998 amounts represent the results of Crompton & Knowles Corporation.

(b) EBITDA represents operating profit plus depreciation and amortization and excludes special items.

1999 ADJUSTED SALES\*



1999 ADJUSTED OPERATING PROFIT\*

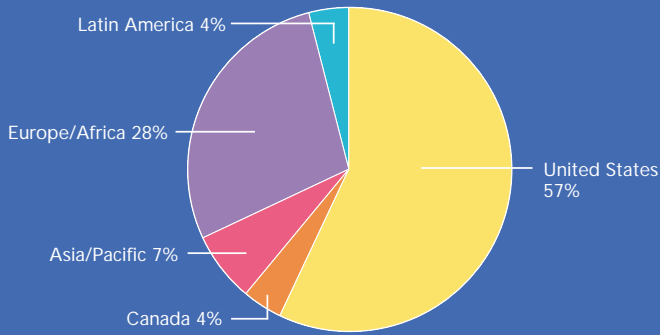


The company has six primary business segments divided into two groups:

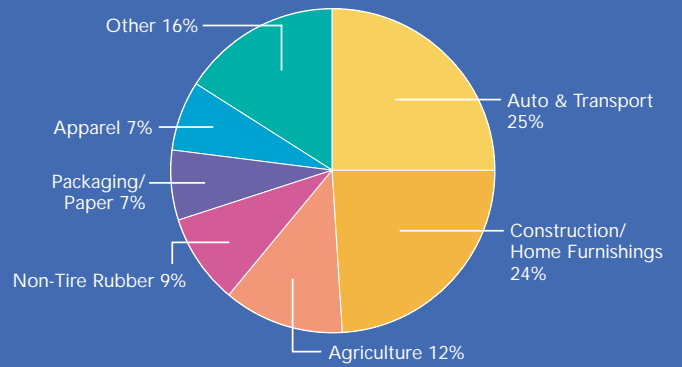
| POLYMER  | PRODUCTS  |   |
|--|---|---|
| \$1.7 Billion in sales*  |   |   |
|    |    |   |
| <p><b>POLYMER ADDITIVES</b></p> <p>The largest worldwide producer of heat stabilizers for polyvinyl chloride. A leading worldwide producer of additives for plastics and rubber.</p> <p><b>Key Products</b><br/>Plastics additives include alkyls, amides, stearates, white oils, heat stabilizers, plasticizers, lubricants, olefin additives, tin specialties, antioxidants, antistats, polymer modifiers, foaming agents, polymerization inhibitors, chemical intermediates, curatives, and dispersants. Rubber chemicals include antioxidants, antiozonants, accelerators, and miscellaneous specialty products. Urethane chemicals include polyester polyols, polyurethane dispersions, microcellular systems, silicones, amine catalysts, and specialty modifiers.</p> <p><b>Markets Served</b><br/>Products are sold to producers, compounders, extruders, and molders of vinyl, rubber, styrenics, polyolefins, and fiberglass. Rubber and plastic applications in construction, automotive, transportation, packaging, flooring, and synthetic fibers. Coatings and adhesives for industrial and marine uses.</p> | <p><b>POLYMERS</b></p> <p>The number one world supplier of castable urethane prepolymers. The number one manufacturer of EPDM in North America. World's largest dedicated nitrile rubber production facility.</p> <p><b>Key Products</b><br/>Abrasion and wear-resistant castable urethane prepolymers. Heat-, sunlight-, and ozone-resistant EPDM rubber. Oil-resistant nitrile rubber polymers.</p> <p><b>Markets Served</b><br/>Urethane end products include industrial and printing rolls, mining machinery and equipment, mechanical goods, solid industrial tires &amp; wheels, and sporting/recreational goods. EPDM is used in automotive applications as well as in roofing, hose, and wire &amp; cable insulation. Nitrile rubber is used in automotive hoses, seals, O-rings, and other consumer and industrial applications.</p> | <p><b>POLYMER PROCESSING EQUIPMENT</b></p> <p>The number one worldwide producer of plastics and rubber extruders and extrusion systems.</p> <p><b>Key Products</b><br/>Integrated single-screw, twin-screw and compounding extruders, and extrusion systems with advanced electronic controls.</p> <p><b>Markets Served</b><br/>Packaging, automotive, construction, appliance, medical, power &amp; communications cables, plastics.</p> |

\* Pro forma as adjusted for divested businesses

### 1999 ADJUSTED REGIONAL SALES\*



### 1999 END MARKET SALES



## SPECIALTY PRODUCTS

\$1.4 Billion in sales\*



### ORGANOSILICONES

World's leading supplier of specialty silicones and organofunctional silanes serving a wide variety of industrial and consumer markets.

#### Key Products

Silane coupling agents and adhesion promoters. Silicone surfactants, foam control agents, and other specialty silicones. Urethane foam additives, including surfactants and catalysts.

#### Markets Served

Rubber, coatings, fiberglass, adhesives & sealants used for automotive, transportation and tires, construction, and other industrial applications. Urethane foam for automotive, appliances and construction. Textiles and non-wovens, agriculture, personal care.



### CROP PROTECTION

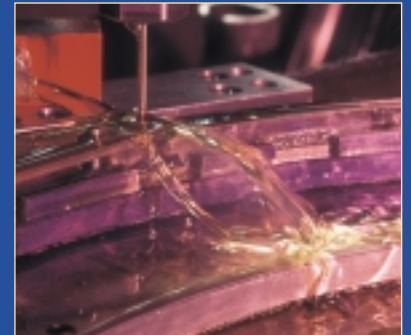
A world leader in seed treatment products, with the largest seed treatment company in North America, our Gustafson joint venture with Bayer Corporation.

#### Key Products

Fungicides, miticides, insecticides, herbicides, growth regulants, seed treatments, and surfactants.

#### Markets Served

Focus on high-value crops such as fruits, nuts, cotton, turf and ornamentals. Seed treatments cross all major crop segments and geographies.



### OTHER SPECIALTIES

World's leading supplier of amine antioxidants serving the lubricants industry. A leading global supplier of sodium sulfonates for the metalworking industry. Leading producer of industrial dyes.

#### Key Products

Petroleum and lubricant additives. USP white mineral oils, petrolatums, microcrystalline waxes, cable-filling compounds. Industrial dyes. Fatty acids and glycerines.

#### Markets Served

Petroleum and lubricant additive components for automotive, marine and metalworking. Paper, coatings and inks. Personal care, household, and institutional.

We are pleased to report that 1999 marked the attainment of another milestone in management's strategic plan to build a world-scale specialty chemical company. We accomplished this by merging Crompton & Knowles with Witco, creating CK Witco Corporation, a \$3.1 billion company with core strengths in polymer products and technology, crop protection and specialty organosilicones.

The combination gives our new company leadership positions in a majority of our product lines, supported by global research and development and production capacity able to meet customer needs with increased quality, speed and reliability. As a result we have enhanced our platforms for growth, increased our flexibility to optimize our business portfolio, and set the stage for accelerated growth in revenues and earnings.

Our strengths are significant, and we're excited by the opportunities. Nevertheless, we remain focused on a single overarching principle that guides all of our thinking as well as our actions: *to increase shareholder value*. Global scale, improved customer service and growth, in our view, are only vehicles for delivering improved returns to shareholders.

1999 marked the attainment of another milestone in management's strategic plan to build a world-scale specialty chemical company

Our confidence in our ability to achieve this is borne out by our accomplishments in the seven months since the completion of the merger on September 1, 1999.

#### Outstanding Business Opportunities

We continue to integrate the businesses making up the two operating groups of our company — Polymer Products and Specialty Products — and the synergies are powerful. Our broad-based and diversified business portfolio positions us to grow our share of existing markets and open new markets through product innovation, advanced technology and production economies in the 120 countries where we do business.

In Polymer Products, with annual adjusted sales of \$1.7 billion, our worldwide product mix is unparalleled by any of our competitors regardless of their size. The combined businesses, consisting of polymer additives, polymers and polymer processing equipment, have leading technology in elastomer and rubber and leadership positions in polymer and urethane chemistry. Our substantial market position and broad range of product offerings are enabling us to simplify our supply chain for our customers, pulling through more sales in growth markets. The synergistic benefits are obvious to our customers as we deliver solutions unavailable before our combination.

An illustration of this is our ability to test and market new plastics additives using the extrusion processing expertise of our Davis-Standard laboratories, the world's confirmed leader in plastics extrusion systems. Specialized knowledge, internal access and cooperative development of this nature gives us and our customers a quantifiable edge in the marketplace.

Our Specialty Products group, with annual adjusted sales of \$1.4 billion, consists of Organo-Silicones, Crop Protection and Petroleum Additives, businesses which offer an array of value-added products that solve customers' problems and create profitable opportunities for them to improve their products and processes. The complementary nature of our product lines and overlapping customer bases have already enabled us to increase sales of our products.

That customer overlap is very evident in our OrganoSilicones and Rubber Chemicals businesses, both of which are leading suppliers of essential products to the worldwide tire industry. Our antiozonants and antioxidants continue to improve the life and performance of rubber tires as our



**Vincent A. Calarco**  
Chairman, President and  
Chief Executive Officer

silanes replace carbon black, producing more fuel efficient and longer-lasting tires. To satisfy accelerated growth in this market for silanes, we are investing \$70 million in expanded proprietary production capacity.

The bottom line is that our core operating businesses have new opportunities for enhanced profitability, growth and new product development as a result of our merger. These developments have been very well received by our customers as evidenced by increased sales with key accounts.

Our combined businesses also benefit from increased geographic reach. The United States continues to be our single largest market, but international operations now account for approximately 43 percent of our revenues. In Europe, with about \$850 million in sales, we have a manufacturing infrastructure in place with well established customer access. Asia, with sales of more than \$200 million, has the capacity to meet the growing opportunities in China and India. Similarly, in Canada and Latin America, our \$250 million in sales gives us a good footprint for expansion and growth. With this strong base we fully expect to drive international sales to more than 50 percent of our company's revenues within the next five years even as we continue to grow our domestic business.

### **Productivity Gains and Cost Savings**

We began this merger with specific actions to improve our new company's productivity and to reduce costs.

We are well on our way to fulfilling our commitment to take out \$60 million in costs in 2000. We have reduced our workforce by 600 employees, and reduced the cost of logistics, insurance, consultants, and other outside services. We are also benefiting from the efficiencies of a global purchasing organization, which buys in excess of \$1.2 billion in raw materials and utilities annually.

Facilities consolidations will also improve our productivity in the new year. Plant closures in Brooklyn, New York and Gretna, Louisiana and sales office combinations in Asia, Europe and Latin

America have already been accomplished with other opportunities for consolidation currently being analyzed.

### Financial Strategies

Concurrent with the cost reductions throughout our company, we have taken other steps to improve our performance and to strengthen our financial position.

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We are focused on accelerating the growth of our individual businesses and improving their long-term strategic positions in order to improve our return on invested capital

We improved our portfolio by divesting two under-performing business units: textile colors and oleochemicals. Witco sold the oleochemicals operation in August, before the merger, and used the \$249 million in cash to pay down debt. The textile colors operation was sold in December for \$86.5 million and generated \$78 million in cash that was used to buy back our company's common stock under a Board authorization to repurchase 10 percent of the 119 million shares then outstanding. We have identified additional businesses, with annual sales of approximately \$400 million, for potential divestment. We will continue to review our portfolio of businesses to concentrate our investments in growth areas, and to dispose of non-core operations.

At the end of 1999, we also repurchased our 10.5% and 9% notes in order to secure more favorable financing terms and eliminate some restrictive financial covenants. In the first quarter of 2000, we completed a \$600 million bond offering at a coupon rate of 8.5%. Our company's total year-end debt was \$1.4 billion, and a key corporate objective is to reduce it by approximately \$125 million annually. We believe this objective is reasonable in light of the \$150 to \$200 million in free cash flow we will generate annually.

Following the merger, our Board set a five cents per share regular quarterly dividend in line with our peer group in the specialty chemicals industry.

### Long-term Performance Goals

We are focused on accelerating the growth of our individual businesses and improving their long-term strategic positions in order to improve our return on invested capital. This is how shareholder value is created. We are continually evaluating our businesses in the context of both financial performance and market-driven parameters to determine which businesses will be components of our corporation in the future.

The criteria we use to assess the potential to achieve and sustain performance over the long term is simple and straightforward.

The first financial measure is operating profit margin of more than 15 percent, on a sustainable, long-term basis. This has to be accompanied by operating profit growth of more than 10 percent per year and a return on capital employed of more than 18 percent at the operating level.

Our non-financial, market-driven criteria for each business is related specifically to sustainability of leadership positions, and each business should have a mix of these characteristics. First, each should have a leading market position, being number one or two in its identifiable market. Second, the business should have a proprietary or unique product or process technology that provides a competitive advantage, and, third, each should be a low-cost producer. Additionally, the business

should have a new product pipeline that would sustain or put it in a position to meet the other criteria.

Most of our combined businesses have these market-driven attributes and should be able to achieve our financial goals as we make progress in implementing our programs. More details about these opportunities are outlined in the business and markets review section of this report.

We are pleased to report that in early 2000, as part of our strategy to enhance our growth opportunities via e-commerce, we made an equity investment in ChemConnect Inc., the largest global internet exchange for chemicals and plastics. We expect that our internet strategy will improve customer service, grow sales and gain efficiencies throughout our company.

### **Board Changes**

Since the completion of the merger there have been several changes in our Board of Directors. In November, E. Gary Cook, chairman of CK Witco, and former chairman, president and chief executive officer of Witco Corporation, retired from the company and the Board. At year-end, Don L. Blankenship, chairman, president and chief executive officer of A.T. Massey Coal Company, Inc, retired from the Board. In January, Richard M. Hayden, limited partner of Goldman Sachs, retired from the Board. Not standing for election at the April 2000 annual meeting of shareholders will be James A. Bitonti, chairman and chief executive officer of BITCO International, Inc., and Nicholas Pappas, president, chief executive officer and vice chairman of BioTraces, Inc., who have reached our mandatory retirement age, and Simeon Brinberg, senior vice president of BRT Realty Trust, who has chosen to retire. We thank them for their service to CK Witco and our predecessor companies.

In summary, the merger of Crompton & Knowles and Witco was an astute move for both companies. We have created a new and powerful global force in the specialty chemical industry with significant business efficiencies and growth opportunities in all of our core businesses. The potential for value creation is significant, and we are highly confident of the ability of our 8,600 employees to deliver on this potential. We will achieve our goals by adhering to this management's guiding principles of keeping everyone focused on meeting customers' needs and working to improve every day. By assuring the success of our customers, we will succeed with them and thereby reward our shareholders.

While 1999 was a year of great change for our company, and while there are significant challenges ahead, we fully expect to have a record year in 2000 that will set us on a course for continued prosperity and success in the new century. The specialty chemical industry will, no doubt, continue to consolidate as companies seek competitive global advantage. We view this as an opportunity to strategically reinforce our market positions and to further broaden our core business strengths. Our objective remains constant — profitable growth.

Thank you for your support. We look forward to keeping you informed of our progress.

Respectfully yours,

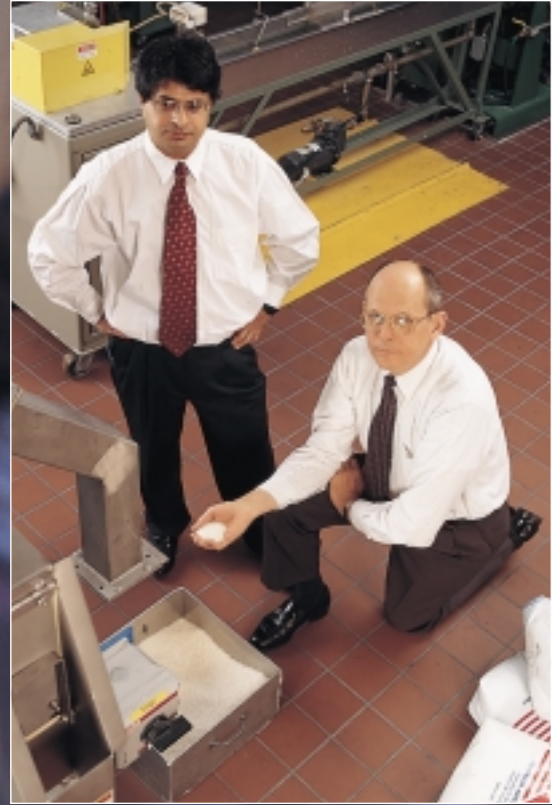


Vincent A. Calarco  
Chairman, President and  
Chief Executive Officer  
March 15, 2000

SOLUTION:

UNIPRENE®  
THERMOPLASTIC  
VULCANIZATES

Our Royalene® EPDM technology is used in Uniprene® thermoplastic vulcanizates (TPVs) to provide the functional performance of vulcanized rubber combined with the processability of plastics. We have partnered with Teknor Apex Company in Pawtucket, Rhode Island by contributing our EPDM technology and technical service to its technical, manufacturing and marketing efforts for the Uniprene product.



*(Uniprene is a registered trademark of Teknor Apex Company)*