LEADING MTI

FACING THE CHALLENGE EVERY DAY

Minerals Technologies Inc.
2003 Annual Report

About Minerals Technologies Inc.

Minerals Technologies Inc. is a global resource- and technology-based growth company that develops, produces and markets the highest quality performance-enhancing minerals and related products, systems and services for the paper, steel, polymer, and other manufacturing industries.

The Company has two operating segments: Specialty Minerals and Refractories. The Specialty Minerals segment produces and sells precipitated calcium carbonate (PCC), and mines and produces the natural mineral-based products ground calcium carbonate and talc. The Company is the leading producer and supplier of PCC to the worldwide paper industry. Its Specialty Minerals segment also serves the building materials, paints and coatings, glass, ceramic, polymers, food and pharmaceuticals industries. The Company's Refractories segment is one of the world's leading developers and marketers of mineral-based monolithic refractory materials, which are used to resist the effects of high temperature and are usually applied as coatings to surfaces exposed to extreme heat. These materials are used primarily in the steel, cement and glass industries.

Millions of Dollars, Except Per Share Data	December 31, 2003	December 31, 2002
Net sales	**$813.7**	$752.7
Specialty Minerals Segment	**557.1**	520.1
PCC Products	**436.1**	423.0
Processed Minerals Products	**121.0**	97.1
Refractories Segment	**256.6**	232.6
Operating income before restructuring and impairment of assets	**83.7**	81.6
Operating income	**77.2**	80.9
Net income	**63.2**	53.8
Earnings per share:		
Basic	**3.13**	2.66
Diluted	**3.09**	2.61
Research and development expenses	**25.1**	22.7
Depreciation and depletion	**66.3**	69.0
Capital expenditures and acquisitions	**54.7**	71.2
Net cash provided by operating activities	**100.1**	117.8
Number of shareholders of record	**212**	212
Number of employees	**2,425**	2,374

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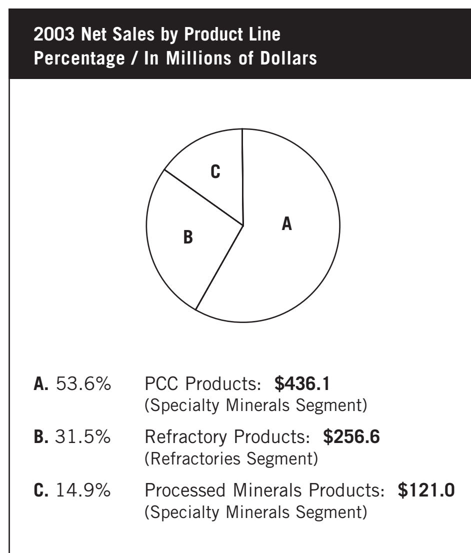
2003 Net Sales by Product Line
Percentage / In Millions of Dollars

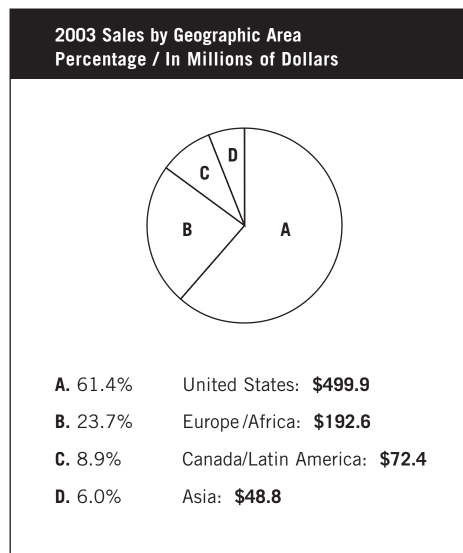


A. 53.6% PCC Products: **$436.1** (Specialty Minerals Segment)

B. 31.5% Refractory Products: **$256.6** (Refractories Segment)

C. 14.9% Processed Minerals Products: **$121.0** (Specialty Minerals Segment)

2003 Sales by Geographic Area
Percentage / In Millions of Dollars

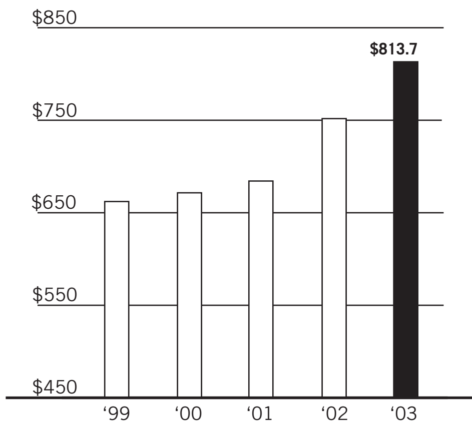


A. 61.4% United States: **$499.9**

B. 23.7% Europe /Africa: **$192.6**

C. 8.9% Canada/Latin America: **$72.4**

D. 6.0% Asia: **$48.8**



Dear MTI investor:

Above: the MTI Management Committee, from left: **Kenneth L. Massimine**, *Senior Vice President and Managing Director, Paper PCC;* **Alain Bouruet-Aubertot**, *Senior Vice President and Managing Director, MINTEQ International;* **John A. Sorel**, *Senior Vice President and Chief Financial Officer;* **Gordon S. Borteck**, *Vice President, Organization and Human Resources;* **Howard R. Crabtree**, *Senior Vice President, Technology and Logistics;* **D. Randy Harrison**, *Vice President and Managing Director, Performance Minerals; and* **S. Garrett Gray**, *Vice President, General Counsel and Secretary*

I believe it is important for our shareholders to understand that today we are operating our businesses in a totally different environment than we operated in the 1990s. Permanent changes have taken place in the marketplace, and we have had to adjust to those changes. The theme of this year's annual report is Leadership, and in these pages, we cite some of the people at MTI who have been in the forefront in meeting the challenges presented by this new business environment.

The manufacturing sector of the United States has undergone a structural change; and that change is most evident in the end markets that Minerals Technologies serves—the paper and steel industries. Since mid-2000, when a sharp slowdown in the United States economy created a subsequent downturn in global growth, we have seen the worldwide paper industry consolidate and shut down inefficient capacity; we have seen literally dozens of steel companies seek bankruptcy protection or close their doors. In the early 1990s, approximately 60 major paper companies were in operation worldwide; today, there are 13 truly global companies. In the United States alone, 45 steel makers have declared bankruptcy since 1998. Needless to say, it has been a difficult period for us when our major customers are in such turmoil. This downturn, however, is not simply part of the business cycle for paper and steel. We are faced with what I call a permanent disruption in the marketplace. I do not believe we will ever again see the levels of paper and steel production in the United States that we saw in 1999 and 2000. And, despite the recent pronouncements of resurgence in the manufacturing sector, we have not yet seen a significant upturn in paper or steel.

Despite the uncertain economic conditions in the paper and steel industries, we have a number of strategies and programs that will enable us to continue to grow this company.

Paul R. Saueracker
Chairman, President and CEO

But all is not doom and gloom. During this time, although our growth rate has declined and is below our stated objectives, MTI has continued to grow. It has been a difficult period, but we have fared better than most companies in our peer group because our people are capable of adjusting to change.

We have reduced costs and improved operating efficiencies; and, we have made a number of organizational changes to place the right people in the right positions. I also believe that we have the right strategies and programs in place to ensure the future growth of our company.

Before discussing these strategies, let's take a look at our financial performance for 2003. Worldwide sales for the full year were $813.7 million, an 8-percent increase over the $752.7 million reported in 2002. Foreign exchange had a favorable impact on sales of $32.6 million or 4 percentage points of growth. Our operating income for 2003 was $77.2 million, a 5-percent decrease from $80.9 million the previous year. Our operating income as a percentage of sales declined from 10.7 percent in 2002 to 9.5 percent in 2003.

However, a number of factors complicate our results. Excluding charges for restructuring and asset impairments, operating income was $83.7 million, a 4-percent increase over 2002, reflecting the operational changes we made to improve profitability in these challenging times. Additionally, primarily as a result of a favorable tax adjustment, net income for the full year increased 18 percent in 2003 to $63.2 million compared with $53.8 million in the prior year, and diluted earnings per common share increased 18 percent to $3.09 compared with $2.61 in 2002. In the first quarter of 2003, we adopted an accounting change related to retirement obligations associated with our satellite PCC facilities and mining properties. Income before the cumulative effect of the accounting change, including the reversal of tax accruals, increased 24 percent to $66.7 million from $53.8 million.

Diluted earnings per share before the cumulative effect of the accounting change were $3.26, a 25-percent increase over the previous year. Earnings per share were affected by the cumulative effect of the accounting change ($0.17 per share); the restructuring charges ($0.19 per share); and the favorable tax adjustment ($0.73 per share). Excluding these items, earnings per share grew 4 percent. Our growth in profitability, however, was limited by higher employee benefit costs, particularly pension and medical expenses, higher costs associated with the implementation of a new information technology system and increased provisions for bad debt.

Looking at our product lines, volumes of PCC for paper, our largest business, increased slightly for the year, remaining above 3.4 million tons. Our PCC volumes were affected by paper mill shutdowns, curtailments in production and the temporary shutdown of our satellite PCC facility at a paper mill in Millinocket, Maine. This paper mill, when owned by Great Northern Paper Inc., filed for bankruptcy protection in the fourth quarter of 2002. Katahdin Paper Company, the new owner, expects to resume operation of the mill during 2004. In the fourth quarter, we began operation of a satellite PCC plant at a paper mill in Sipitang, Sabah, Malaysia, owned by Sabah Forest Industries Sdn.Bhd., which will produce approximately 30,000 tons of PCC annually. Today, we operate 54 satellite PCC plants in 17 countries.

Our Specialty PCC product line continued to show weakness as a result of poor industry conditions and competition in the calcium supplement market.

Processed Minerals products turned in a solid performance with a 25-percent increase in sales for the year, which was primarily the result of the September 2002 acquisition of Polar Minerals Inc., a producer of industrial minerals in the Midwest United States.

Sales for the full year for the Refractories segment increased 10 percent over 2002, which was attributable primarily to increased sales of equipment and application systems in Europe and the strong Euro.

Despite the uncertain economic conditions in the paper and steel industries, we have a number of strategies and programs that will enable us to continue to grow this company.

As a research-based growth company, the development of new products is our foundation, and we will continue to seek innovative products and services that will add value for our customers. During 2004, we will increase our research expenditures by more than 10 percent. This additional funding will primarily support our efforts in the area of filler-fiber composite material technology for paper filling and in our SYNSIL® Products for the glass industry.

In May of 2003, we reached a two-part agreement with International Paper Company to extend eight satellite PCC plant supply contracts and to initiate joint efforts to develop new mineral-based products for papermaking applications—filler-fiber composite material. Both MTI and International Paper are committed to developing this technology, which has the potential to double the amount of PCC used for filling paper, thereby providing significant economic benefits to both companies.

In the fourth quarter of 2003, we signed our first commercial contract with a major glass manufacturer for SYNSIL® products, our family of synthetic silicates for the glass industry. We are confident that we will soon sign a second contract with that same company at a different production location, further confirming the value of the product. We continue to run trials with other glass manufacturers and the body of evidence is building to support the use of SYNSIL® products as an alternative to partially replace the conventional raw materials used in glass manufacturing.

In Paper PCC, we are investing heavily in our effort to penetrate the pigment market for paper coating. We estimate that approximately 16 million tons of pigment—mostly ground calcium carbonate and kaolin clays—are used to coat paper worldwide. PCC has a very small percentage of that market. We are now constructing a large merchant coating-grade PCC facility at Walsum, Germany, in order to service the growing European market for coated paper. Qualification trials of MTI's product are proceeding, supplied from our Hermalle, Belgium, facility, to develop an immediate base load for the Walsum plant when it comes on stream in September 2004.

Also, we continue to move forward with our strategy to increase PCC use in groundwood papers, which represent a major market for us. I am also confident that we will sign contracts for additional satellite PCC plants during the year.

In the Refractories segment, because the majority of our business is in North America, where steel production is declining, it is imperative that we change the way we do business. We have a number of strategies to accomplish this. During 2004, we will broaden our geographic scope and accelerate our market development efforts in China. We will introduce new monolithic refractory products and integrated systems that help steel makers eliminate costly installation labor. We are expanding the classic concept of the refractories business to include a large component of high technology measurement and control devices aimed at the high-temperature processing areas where our materials are now used.

In January of this year, we announced an increase in our dividend rate—from 10 cents a year to 20 cents a year. We decided this was an appropriate time to benefit our shareholders, given our strong cash position, the growth we have achieved since 1992 and our confidence in our future profitable growth.

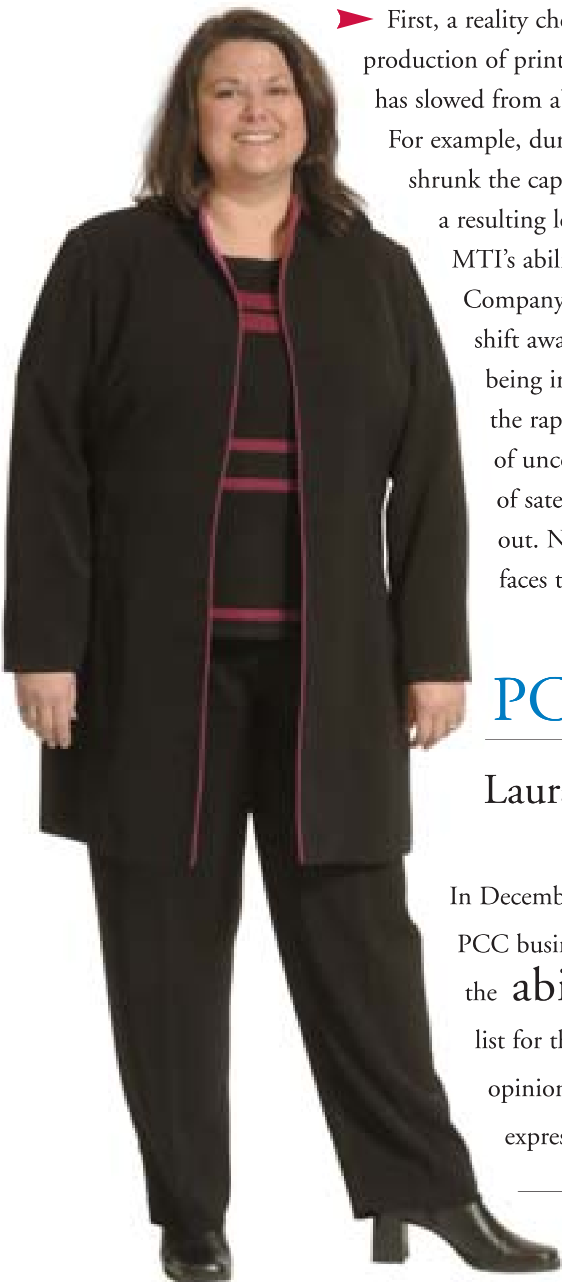
Looking ahead, the economic picture for the paper and steel industries remains clouded. The foundation of our business, however, remains solid. We are hopeful that as the U.S. economy finally gains momentum, the manufacturing sector will pick up speed and accelerate throughout 2004.

Over the last several months, one member of MTI's Board of Directors elected to step down and another elected not to stand for reelection. William C. Steere, Jr., former chairman of Pfizer Inc, who had been on our board from the outset in 1992, resigned for personal reasons at the end of 2003. Paul M. Meister, Vice Chairman of the Board of Fisher Scientific International Inc., who was elected a board member in 1997, has decided not to stand for reelection at the Company's annual meeting in May. I want to wish them well and express my gratitude to both of them for their hard work and dedication over the years.

In conclusion, I would like to thank our shareholders for the confidence they have placed in MTI, our customers for selecting us as a preferred supplier, and our employees, who have demonstrated leadership and ingenuity by remaining focused and skillfully executing our strategies during these difficult economic times.

Paul R. Saueracker
Chairman, President and Chief Executive Officer

In many ways Minerals Technologies is uniquely positioned to capitalize on the changing marketplace...creating the framework for solid growth opportunities.



First, a reality check…the papermaking landscape has changed. Although global production of printing and writing paper continues to grow, the rate of that growth has slowed from about 4 percent in the early 1990s to just over 1 percent today. For example, during the past decade, industry contractions and consolidations have shrunk the capacity to produce these papers in North America by 5 percent with a resulting loss of over 1.5 million tons of capacity. This has directly affected MTI's ability to market PCC, which has forced the closure of several of the Company's North American PCC satellite plants. Production continues to shift away from North America, with the newest, highest-output machinery being installed in other parts of the world, particularly in China. Further, the rapid conversion to alkaline papermaking, especially in the production of uncoated free sheet, which supported construction of a steady number of satellite plants throughout the 1990s, has reached maturity and leveled out. No longer able to ride the crest of a genuine revolution, the Company faces the task of trying to accelerate evolution.

PCC: The Art of the Sale

Laura Landau

Director of Sales, Paper PCC-North America

In December of 2003, Laura Landau became responsible for sales of the domestic paper PCC business and the 12 individuals who guide that sales effort. "I think I've demonstrated the ability to generate growth," she said. "I don't follow a 'to-do' list for the day. I'm always trying to look at the big picture, and I'm open about my opinions on things. I don't worry too much about how my opinions about the business, expressed respectfully, will affect my fate. Our leadership is receptive to new ideas."

Pushing PCC Worldwide

Ari-Pekka Laakso

Director, Global Paper Filling-R&D

Ari-Pekka Laakso symbolizes the Company's reach and commitment to worldwide industry leadership. From a home base in Finland, Laakso supervises the development of the Company's cutting-edge initiatives in the global paper market. "Ari-Pekka is now managing the entire R&D paper filling effort worldwide," said Kenneth Massimine, Senior Vice President and Managing Director, Paper PCC. "Not only is he well-grounded scientifically, but he's adept at creating a sense of partnership with customers." Laakso plays a key role in the development of acid-free technology and the Company's ongoing efforts to address environmental issues.

"There is no way to overstate the impact of all this," said Kenneth L. Massimine, Senior Vice President and Managing Director, Paper PCC. "We face a tough competitive and market environment. The key focus is on cost reduction by the paper manufacturers. It is now paramount that we demonstrate our ability to supply value-added products and services."

Now, some good news. In many ways Minerals Technologies is uniquely positioned to capitalize on the changing marketplace, with the disruptions in the paper market creating the framework for solid growth opportunities. "I see 2004 as a year of commercialization of new products now in development and trials," said Massimine.

The effort will rely heavily on R&D, with its pipeline of new and enhanced products that offer built-in cost-efficiencies for the paper mill. However, new products bring new complexities as well. For example, while PCC filler technology saves customers money by allowing them to substitute higher levels of mineral for costly wood pulp, those higher filler levels create a different set of papermaking dynamics that may affect paper runnability, printability, and ultimately a host of other paper characteristics. The company has an enviable track record of partnering successfully with paper customers to resolve such production issues.

That is why Massimine emphasizes the importance of maintaining business relationships characterized by vision and trust, wherein the Company's sales and marketing personnel make an all-out effort to ensure that MTI is in lockstep with paper companies as they pursue their own sales visions. "We recognize that our success depends upon building a working relationship with these paper companies," he said. "When you're selling in a world of value-added,

you can't let it come down to your price versus your competitor's. The ability to market a higher level technological message becomes all-important." Custom-engineered PCC, as opposed to naturally derived minerals, offers the papermaker the most flexibility with the maximum in cost savings.

Incremental refinements in the Company's groundwood program are ongoing, with excellent potential for sales growth in North America as well as in the huge European market for supercalendared paper. "We're also starting to see the Nordic countries more interested in what PCC can bring them, value-wise," said Massimine.

Promising enhancements in the Company's coating platform are on the near horizon as well. MTI's new $34.5 million plant in Walsum, Germany, is designed to yield 125,000 tons of coating grade PCC annually. Work also continues on technology for filler-fiber composites, which could significantly enhance the percentage of filler in paper.

As elsewhere in the MTI system, a December reorganization addressed Paper PCC's evolving role in the new global marketplace, with numerous changes in reporting lines and several positions created to better execute global strategies on a regional basis. But equally important from a leadership standpoint, said Massimine, was his intent of giving veteran personnel fresh challenges.

"You want your people to be able to improve both their depth and breadth," said Massimine. "That's how you create the leaders of the future."

Expecting Peak Performance

D.J. Monagle

Vice President, North America, Paper PCC

Recently promoted to lead the North American Paper PCC business, D.J. Monagle "appreciated quickly what was required to ensure our long term business success," said Kenneth Massimine, Senior Vice President and Managing Director, Paper PCC. "He helped create **an improved sense of common purpose.**" Monagle said he feels obligated to the shareholders in two areas—fostering a "culture of peak performance where we challenge the status quo" and "driving value by providing customers with the flexibility to either improve current product quality or reduce costs at current quality levels."

MINTEQ positions itself for success through focused product development and a customer-partnership approach...we are a key resource to the industries we serve.

For MINTEQ International Inc., the Refractories segment of MTI—which develops and markets monolithic refractory materials and associated systems for use primarily by the steel industry—leadership means anticipating, adapting to, and capitalizing upon changes in customer industries that create opportunities for growth.

If asked to name an industry that has increased production more than 20 percent in 2002 and 2003, most people would not think of steel. Yet, the Chinese steel industry has expanded at that rate and offers the prospect of continued high growth as the country goes through an extended industrialization phase. Today, China produces more steel than the US and Japan combined.

Over the past year MINTEQ has put into place a centrally coordinated global strategy and organization. As a result, "Minteq is prepared to move with the market," said Alain Bouruet-Aubertot, Senior Vice President and Managing Director, MINTEQ International. "We are investing and reallocating resources to Asia and the developing regions accordingly. Today, MINTEQ operates in 41 markets worldwide and has 19 manufacturing sites."

"Success today is based on who brings added value to the customer," said John Damiano, Vice President of Research and Development, MINTEQ. "We stretch the envelope in terms of the ways we can reduce costs for our steel customers. For example, we have competitors who supply both refractory materials and an application system. But we supply products that are up to four times more durable as well as application equipment that is faster, safer, and more precise, which reduces the amount of time a steel furnace is not producing steel. We are not just selling materials. We sell a value package that includes time, labor savings, increased production and lower cost—all critical to the survivors in today's consolidating steel industry."

"MINTEQ positions itself for success through focused product development and a customer-partnership approach that allocates our resources to areas of immediate commercial concern to our customer," said Damiano. "In bringing our technology to bear worldwide we have taken the lead in becoming a key resource to the industries we serve. We'll work with them at optimizing their product. And we're always thinking ahead in the lab, integrating the latest developments in ceramics, chemistry, sensing and application technology."

Embattled steel makers have been shifting the burden of R&D to suppliers for some time now, there's no question that the trend will continue to intensify. "For us, that's another form of opportunity," said Christian Wahsmut, Vice President, Europe. "They need help, and we're there to help."

The history of MINTEQ'S landmark SCANTROL® system is a good example of how step-by-step execution of a sound technology strategy was able to yield a major advance in steel mill maintenance practices. In 2001, the Company's MINSCAN™ robotic manipulator for

Offering a Smarter Solution

Etienne Castiaux

Sales and Marketing Manager for MINTEQ-Benelux

As Sales and Marketing Manager for the Benelux countries and France, Etienne Castiaux must grapple with a turbulence in the European steel industry that, for example, has left the French market with only two major steel producers. "The refractory gunning business is no longer the business it was—one of long-established relationships," said Castiaux. "To be successful, we need to offer something our competitors do not—technical know-how and the ways you can help them operate their business more efficiently. And MINTEQ is doing that today with our new products and application systems."

application of refractory materials had already been in use for a few years. In March 2001, the Company acquired Ferrotron Electronik, whose two-year-old LaCam® laser-measurement system eliminated guesswork in determining how much refractory remained in a steel-making vessel. It accurately measured a typical refractory lining in just 20 seconds, compared to 20 minutes for other laser technology.

With those two basic pieces in place, the Company set about developing an interface module that would enable LaCam to guide MINSCAN™ operations. The result—the SCANTROL™ fully automated refractory maintenance system—demonstrated through a pilot program at Edestahlwerke Buderus AG in Germany that significant customer value could be created through a system that reduced maintenance, labor, and downtime while increasing steel throughput. It enables steel makers to maintain a uniform, near-constant thickness of residual furnace linings while reducing the risk of costly and dangerous breakouts. By its nature, the system promotes an ongoing demand for MINTEQ'S monolithic refractory materials that are applied through the system. With about 80 percent of steel makers still using manual application of refractory materials, "the market potential for automation systems like SCANTROL™ is enormous," said Wahsmut.

Refractories: The SCANTROL™ System

In 2002, MINTEQ introduced a revolutionary technology to the steel industry—the SCANTROL™ laser refractory measuring system. This system combined state-of-the-art laser measuring technology with a robotic manipulator to become the world's first fully automated module for measuring, evaluating and repairing factory linings in high-temperature steel-making vessels. The SCANTROL™ system measures and repairs a furnace in about five minutes, which provides the steel maker with improved productivity, adding value to the steel-making process.

The goal is replace refractory brick (an almost archaeological material from MINTEQ'S perspective) with faster, easier to install monolithic linings. Shotcrete products for various applications, notably steel ladles and reheat furnaces with the durability of brick, are now being promoted actively. Moreover, the Company is pursuing the systems approach that it developed for steel for use in non-steel refractory applications.

As efficiencies in cost, time and productivity become ever more critical to the steel and other manufacturing industries, they create additional opportunities for MINTEQ to expand the scope of it business.

"Our innovative approach of coupling materials and equipment will continue to help us open doors in high-temperature processing applications, and to create new opportunities for growth," said Bouruet-Aubertot.

The Ultimate Challenge: Change

Jim Reid

Director, South East Asian Operations

In his quarter-century with the company, Jim Reid has seen a lot of change in markets and technologies, and has had to master the fine art of adapting to all of it. "I believe that leadership in a business like this requires thorough market understanding and the willingness to evaluate, change, and control the organization as necessary." Jim has been instrumental in reorganizing Minteq's Japanese operations to better suit new marketplace realities.

The companies that succeed today are the ones planning proactively for the realities of tomorrow.

It takes no special skill set to make the easy, sure moves. But leadership often involves making tough and sometimes unpopular choices—the business equivalent of passing up the bird in hand for the two that, your homework says, lay hidden in the bush. Such decisions must be based on unswerving commitment to growing the Company's revenue and profitability. As Randy Harrison, Vice President and Managing Director, Performance Minerals, puts it, "It requires proactive thinking about where you want to go, staying true to your beliefs, managing through the obstacles and minimizing the propensity to react to just to what the market gives you." Harrison oversees Processed Minerals, which mines processes and sells mineral products, primarily ground calcium carbonate and talc.

This approach was more than just a philosophical concept in 2003. It is a process the Company's unit is adapting and is focused on for 2004 and beyond. "Historically we've been quite successful at reacting and focusing resources on immediate situations or opportunities," said Harrison. "But we need to better position ourselves for what's coming, as the markets of yesterday are not the ones we will work in tomorrow. It is, whether one likes it or not, a global economy that we compete in today. Take plastics for example. The polyvinyl chloride or PVC business in North America has been an attractive market for Processed Minerals for several years. But now this sector, although still sizeable, is showing increasing signs of relocating to Asia, principally China."

What are the possible solutions? Clearly, one is to follow the PVC market to Asia "and that is just what we are evaluating" says Harrison. "The Asian

Processed Minerals: FLEXTALC® Products

In 2002, to penetrate the plastics market in the Midwest, MTI acquired Polar Minerals Inc., which had minerals processing plants in Indiana and Ohio, By combining Polar's technology with Specialty Minerals know how, the Company developed FLEXTALC® products—a family of ultrafine, densified talc for use in polypropylene. In late 2003, MTI expanded the Indiana processing facility to produce FLEXTALC® products for use in the automotive industry. The plant has been sold out since.

market, especially China, offers a number of interesting avenues for growth, but things are changing rapidly there so we need to be prudent about how we enter the market. "

Plastics, however, are more to the Processed Minerals business than just PVC. The Company has been successful with its anti-block talc products in polyethylene and more recently with newly developed talc products for polypropylene. "This Company developed a number of the original talc applications for polypropylene reinforcement," Harrison said. "But with all our plants on the East and West coasts, we never got the full benefit because we didn't have a presence in the Midwest."

Minerals Technologies addressed this competitive weakness through the acquisition of Polar Minerals in 2002, which facilitated an aggressive marketing and sales campaign on the so-called polypropylene corridor that runs along I-65 in America's industrial heartland.

Last December's restructuring reflects a top-to-bottom attempt to infuse the product line with similar vision. Harrison broke marketing out of the single reporting arm it had shared with sales. "Marketing is strategic, sales is tactical," said Harrison. "There really wasn't enough true marketing being done because their efforts were focused on the immediate solution. We had to get marketing to focus on the strategic piece."

In the same vein, a new post, Director of Manufacturing, was created to tackle long-range issues and opportunities for current as well as future manufacturing plants. Harrison explains, "We have a very solid group of plant managers who can manage their day-to-day operations effectively. This position was established to work on setting long-term manufacturing strategy."

Doing What Needs to be Done

Kevin Porterfield

Director, Global Sales and Distribution, Performance Minerals

"Boundless enthusiasm" and "unbridled optimism" are phrases commonly used in describing Kevin Porterfield. Said Randy Harrison, Vice President and Managing Director, Performance Minerals, "Kevin puts in the hours, he never asks people to do anything he won't do himself, he keeps a can-do attitude, and he doesn't get down easily. Kevin leads by example, and as a result, people want to produce for him."

Meeting New Challenges

Doug Mayger

Director of Sales, Western Region

It was a tribute to Doug Mayger's overall leadership when the Company recently took the unusual step of placing him in charge of sales for the Western Region in addition to his ongoing duties as Plant Manager for the Lucerne Valley, California, facility. Mayger himself explains, "There's always natural conflict between sales and operations, but if you listen to both sides and act fairly—and everybody knows you're trying to do what's best for the business—then people take their cues from you."

The Company also announced the formation of a Performance Minerals Management Team that will work toward improved strategic implementation, focused allocation of resources to achieve business goals, and increased alignment with other corporate functions. "To ensure that customers are satisfied and will give you repeat business, you must have multiple disciplines involved in the business. Everyone has something to contribute," Said Harrison.

Going forward, the Processed Minerals' culture will emphasize this kind of empowered, holistic thinking throughout the system and the hierarchy. "I've seen people who try to manage from a desk by giving a lot of orders," said Harrison. "That's not leadership. Don't expect your people to do what you wouldn't go out and do yourself."

In 2004 and 2005, the Company looks for Processed Minerals' strategic clarity and more energized outlook to lay the groundwork for growth in the consumer market, especially in food fortification with low-lead GCC products. Another promising area is the build-and-construction portion of the GCC market. Processed Mineral's housing-related business is concentrated in Southern California and the northeast. Though results in the northeast likely will be a straight-line function of the economy and its many variables, the omens seem more predictably good for California. Long-term demographics project the state as the beneficiary of a 16 million-person migration over the next decade.

Harrison cites the California construction opportunity as an obvious but compelling example of long-term thinking rooted in reliable contextual data. "The companies that succeed today," he said, "are the ones planning proactively for the realities of tomorrow."

MTI's overall R&D effort... has quite literally helped drive and shape the evolution of the primary industries it serves: paper and steel.

In the decade since MTI became an independent entity, R&D has served as an identifying corporate hallmark. "R&D is a keynote for us and a major point of differentiation from our competitors," said John Damiano, Vice President of Research and Development, MINTEQ International Inc., the subsidiary that produces refractory products. "It starts with the mission statement and runs through all aspects of operations."

Not only has MTI's overall R&D effort better equipped its sales force to succeed in an ever-more-competitive world, but it has helped drive and shape the evolution of the primary industries it serves: paper and steel. "R&D quite literally requires an ability to shape the future," said Dr. Robert Moskaitis, Vice President of Research and Development, Specialty Minerals. "It requires people with vision and leadership. Because there is going to be a 2007, a 2008, a 2009."

Preparing for that future is the core mission of the 160 employees who staff the Company's R&D facilities in Bethlehem and Easton, Pennsylvania, Finland, Ireland, and Japan. Historically, MTI has outpaced its competitors in research spending, averaging between 3 and 4 percent of sales. The Company held that line in 2003 in an environment that had much of industry thinking no farther than next quarter. This unwavering commitment to R&D translates to more than 425 patents that MTI owns outright or has proprietary use of, and an additional 671 trademarks. Prominent among the R&D yield are AT® PCC for use in acid papermaking

PCC: Filler-Fiber Composite Technology

To be more competitive, paper companies worldwide continue to search for ways to reduce the amount of expensive pulp in their paper. One method is to increase the level of fillers like precipitated calcium carbonate (PCC). In May 2003, MTI acquired an exclusive license from International Paper Company for patented technology on increasing mineral filler levels. The two companies are committed to developing a new filler-fiber composite material that has the potential to double the amount of PCC in paper.

environments; and OPACARB® PCC crystal morphologies for coating paper. For the Refractories segment: the SEQUAD® sprayer; MAG-O-STAR® spray-on coating; MINSCAN™ and SCANTROL™ application systems; and OPTISHOT™ Shotcrete. And R&D also invented and developed the SYNSIL® Products family of synthetic silicates for the glass industry.

MTI's visionary, leadership-based model of R&D is evident in many areas:

- A willingness to go against the grain. "When we first proposed using calcium carbonate in an acid papermaking environment, people told us, 'You can't do that,'" said Moskaitis. "Now we have a growing multi-million-dollar business, and the industry itself has felt the impact." As a model of best-practices research—and unwavering focus on the end-user—AT® PCC embodies an approach the Company seeks to clone in other areas.
- A commitment to funding efforts that may lack immediate profit implications, but may also change the very nature of the playing field. Undaunted by the problematic market conditions of 2002, MTI unveiled Discovery Research with the goal of conceiving products, presently connected to existing business lines, that have a disruptive, game-changing effect on the market. In this category is SYNSIL® Products technology, a family of synthetic silicate minerals that, in glass production, lower melting temperatures, reduce energy requirements, cut emissions, and provide improved integration of raw materials.
- Allowing people to grow and develop in their work. Moskaitis cites SYNSIL® technical manager John Hockman as a living example of the Company's emphasis on productivity first: "John is one of the inventors of our SYNSIL® Products family of synthetic silicates for the glass industry. He's a natural leader, and an innovator."

Creative Driver

John Hockman,
Technical Manager, SYNSIL® Products

Of SYNSIL® products Technical Manager John Hockman, Robert Moskaitis, Vice President, R&D, Specialty Minerals, said, "John represents the lesson that there are no boundaries on advancement in this Company. John is one of the principal inventors of the SYNSIL® Products family of synthetic silicates that could revolutionize the way glass is made. His intelligence and creativity and drive to succeed are what have made him successful. His job requires him not just to innovate but to be innovative. And he's doing that in spades."

A Thirst for Exploration

Joann Foster,
Technical Manager, Performance Minerals

"Joann brings **unique viewpoints and creative opinion** as well as a tireless will for exploration," is how Robert Moskaitis, Vice President, R&D, Specialty Minerals, describes Joann Foster, Technical Manager, Performance Minerals. Joann's forte is her work with different particle sizes and morphologies of PCC in food research.

- A determination to partner with customers. As industries served by MTI continue to retrench in their own R&D commitments, they become more dependent on outside innovation. This creates opportunities for the Company to become more deeply involved in the customer's business plan. A textbook example of this synergistic relationship is the SCANTROL™ automatic refractory-maintenance system, which proved itself during a pilot program with Buderus Edestahl and now, at rollout, "creates a true ongoing partnership between Minteq and steel makers in a way that hasn't existed before," said Damiano. Similarly, the OPTIBLOC® clarity antiblock, developed in 1997, was fine-tuned in a joint program with ExxonMobil Corporation the following year, and in 2000 became the basis of a joint advertising campaign with ExxonMobil.

Finally, amid a business landscape where everything is increasingly interconnected, MTI places unique emphasis on multidisciplinary skills. Today, some of the Company's key R&D employees also serve on business-development teams, while others devote considerable energy to presenting keynote papers to technological panels or working as liaisons to wider industry. "R&D doesn't, or shouldn't, happen in a vacuum," said Moskaitis. "This is how you empower people with a sense of ownership. It's also how you move whole industries forward."

Income and Expense Items as a Percentage of Net Sales

Year Ended December 31,	**2003**	2002	2001
Net sales	**100.0%**	100.0%	100.0%
Cost of goods sold	**75.7**	75.5	73.4
Marketing and administrative expenses	**10.3**	9.9	10.3
Research and development expenses	**3.1**	3.0	3.4
Bad debt expenses	**0.6**	0.8	0.6
Restructuring charges	**0.4**	–	0.5
Write-down of impaired assets	**0.4**	0.1	–
Income from operations	**9.5**	10.7	11.8
Income before provision for taxes on income and minority interests	**8.9**	10.0	10.6
Provision for taxes on income	**0.5**	2.7	3.1
Minority interests	**0.2**	0.2	0.2
Income before cumulative effect of accounting change	**8.2**	7.1	7.3
Cumulative effect of accounting change	**0.4**	–	–
Net income	**7.8%**	7.1%	7.3%

Executive Summary

At Minerals Technologies, more than 85% of our sales are to customers in two industries: papermaking and steelmaking. The economic downturn of the past three years has had severe effects on the paper industry, by far our largest customer group, as paper mills have closed or taken significant downtime and the industry has consolidated. The effect on the steel industry has been even more dramatic, with several large steelmakers having sought bankruptcy protection. Although the overall economy began to improve in late 2003 and early 2004, the paper and steel industries have been slow to participate in the recovery, and have reduced their output while maintaining pricing pressure on their suppliers.

Even in this very difficult business environment, our sales increased by 8% from 2002 to 2003, about half of this increase being the favorable effect of foreign exchange. This was despite the loss of approximately 10 customers to bankruptcy, and the effect of an agreement with our largest customer, International Paper, which reduced our sales in the short run, but which we believe will add significant value over the next several years. Our operating income, essentially flat from 2001 to 2002, decreased in 2003 by 5% as a result of charges taken for workforce reductions and asset impairments. Our net income, however, after increasing 8% from 2001 to 2002, increased a further 18% in 2003, primarily because of a one-time reduction in our effective tax rate from about 26.7% to about 5.7%.

The comparison of our operating income and net income in the past three years has been affected by a number of factors:

- In 2001, we recorded restructuring charges of approximately $3.4 million for workforce reductions;
- In 2002, we recorded an impairment charge of $0.8 million related to a satellite PCC plant at a paper mill which was permanently shut down;
- We adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," in the first quarter of 2003, which resulted in a charge to earnings of about $3.4 million, net of tax and annual ongoing costs of approximately $0.04 per share;
- Because of the expiration of the statute of limitations on our U.S. tax returns, we reversed certain tax accruals for earlier years, increasing our net income in 2003 by about $15 million;
- The impact of the revisions to the International Paper contracts reduced earnings by approximately $0.12 per share in 2003;
- In the fourth quarter of 2003, we recorded charges relating to a reduction of approximately 3% in our worldwide workforce; the planned closure of the facility at River Rouge, Michigan, which we acquired in 2001 as part of the refractory business of Martin Marietta Materials; and the retirement of some SYNSIL® product manufacturing assets, which had been made obsolete by improvements in the production process. The total effect was to reduce pretax income by about $6.5 million.

We face some significant risks and challenges in the future:

- Our success depends in part on the performance of the industries we serve, particularly papermaking and steelmaking. Our customers continue to face a very difficult business environment, and may experience further shutdowns or bankruptcies;
- The recent wave of consolidations in the paper and steel industries concentrates purchasing power in the hands of fewer customers, increasing pricing pressure on suppliers such as MTI;
- Most of our PCC sales are under long-term contracts with paper companies at whose mills we operate satellite PCC plants; when they reach their expiration dates these contracts may not be renewed, or may be renewed on terms less favorable to us;
- The cost of employee benefits, particularly health insurance and pension expense, has risen significantly in recent years and continues to do so;

- Although the SYNSIL® products family has produced favorable reactions from potential customers and we have signed one supply contract, this product line is not yet profitable and its commercial viability cannot be assured; and
- As we expand our operations abroad we face the inherent risks of doing business in many foreign countries, including foreign exchange risk, import and export restrictions, and security concerns.

Despite these difficulties, we are optimistic about the opportunities for continued growth that are open to us, including:

- Increasing our sales of PCC for paper by further penetration of the markets for paper filling at both free sheet and groundwood mills;
- Increasing our sales of PCC for paper coating, particularly from the coating PCC facility under construction in Walsum, Germany, which we expect will be completed in September 2004;
- Continuing research and development activities for new products, in particular our joint project with International Paper to develop and implement a filler-fiber composite technology;
- Achieving market acceptance of the SYNSIL® family of synthetic silicate materials for the glass industry;
- Increase market penetration in the Refractories segment through higher-value specialty products and application systems.

However, there can be no assurance that we will achieve success in implementing any one or more of these opportunities.

Results of Operations

Sales

Net Sales Dollars in Millions	**2003**	**% of Total Sales**	**Growth**	2002	% of Total Sales	Growth	2001	% of Total Sales
U.S.	**$499.9**	**61.4%**	**3.7%**	$482.2	64.1%	8.9%	$442.7	64.7%
International	**$313.8**	**38.6%**	**16.0%**	$270.5	35.9%	11.9%	$241.7	35.3%
PCC Products	**$436.1**	**53.6%**	**3.1%**	$423.0	56.2%	6.8%	$396.1	57.9%
Processed Minerals Products	**$121.0**	**14.9%**	**24.6%**	$ 97.1	12.9%	11.4%	$ 87.2	12.7%
Specialty Minerals Segment	**$557.1**	**68.5%**	**7.1%**	$520.1	69.1%	7.6%	$483.3	70.6%
Refractories Segment	**$256.6**	**31.5%**	**10.3%**	$232.6	30.9%	15.7%	$201.1	29.4%
Net Sales	**$813.7**	**100.0%**	**8.0%**	$752.7	100.0%	10.0%	$684.4	100.0%

Worldwide net sales in 2003 increased 8% from the previous year to $813.7 million. Foreign exchange had a favorable impact on sales of approximately $32.6 million or 4 percentage points of growth. Sales in the Specialty Minerals segment, which includes the PCC and Processed Minerals product lines, increased 7.1% to $557.1 million compared with $520.1 million for the same period in 2002. Sales in the Refractories segment grew 10.3% over the previous year to $256.6 million. In 2002, worldwide net sales increased 10.0% to $752.7 million from $684.4 million in the prior year. Specialty Minerals segment sales increased approximately 7.6% and Refractories segment sales increased approximately 15.7% in 2002.

Worldwide net sales of PCC in 2003 increased 3.1% to $436.1 million from $423.0 million in the prior year. Paper PCC volumes grew slightly for the full year with volumes in excess of 3.4 million tons. In 2003, United States printing and writing paper shipments were down 2.8 percent, and demand for uncoated freesheet, our largest market for PCC, was down 1 percent, compared with 2002. Sales of PCC for paper were adversely affected by these decreases in production. In addition, one paper mill at which we have a satellite plant, in Millinocket, Maine, has been idled since December 2002. The implementation of the International Paper agreements also had a negative impact on sales. However, the favorable effect of foreign exchange more than offset these factors. In the third quarter we also began operation of a one-unit PCC plant in

Malaysia at a paper mill owned by Sabah Forest Industries Sdn. Bhd. A unit represents between 25,000 to 35,000 tons of annual PCC production capacity. Sales of Specialty PCC decreased slightly because of poor industry conditions and competition in the calcium supplement market from ground calcium carbonate. PCC sales in 2002 increased approximately 6.8% to $423.0 million from $396.1 million in 2001. Paper PCC sales and volumes grew 8% for the full year, even though the paper industry was affected adversely by consolidations, shutdowns and slowdowns.

Net sales of Processed Minerals products in 2003 increased 24.6% to $121.0 million from $97.1 million in 2002. This increase was primarily attributable to the acquisition of Polar Minerals Inc. Full year sales excluding Polar Minerals increased approximately 9% due to strong demand from the residential construction-related industries and from new polymer and health-care applications for our talc products. Processed Minerals net sales in 2002 increased 11.4% to $97.1 million from $87.2 million in 2001.

Net sales in the Refractories segment in 2003 increased 10.3% to $256.6 million from $232.6 million in the prior year. The increase in sales for the Refractories segment was primarily attributable to increased sales of equipment and application systems in Europe and the favorable impact of foreign exchange. In 2002, net sales in the Refractories segment increased 15.7% from the prior year. The increase in sales in 2002 was attributable primarily to the 2001 acquisitions of the Martin Marrietta refractories business and Rijnstaal B.V. business, which more than offset unfavorable economic conditions in the worldwide steel industry.

Net sales in the United States was $499.9 million in 2003, approximately 3.7% higher than in the prior year. Increased sales from the acquisitions were partially offset by the aforementioned weakness in the steel and paper industries. International sales in 2003 increased 16.0% primarily as a result of the impact of foreign exchange. In 2002, domestic net sales were 9% higher than the prior year due primarily to acquisitions, and international sales were approximately 12% greater than in the prior year primarily due to the international expansion of our PCC product line and acquisitions.

On May 28, 2003, we reached a two-part agreement with International Paper Company ("IP") that extended eight satellite precipitated calcium carbonate plant supply contracts and gave us an exclusive license to patents held by IP relating to the use of novel fillers, such as PCC-fiber composites. We made a one-time $16 million payment to IP in exchange for the contract extensions and technology license. Approximately $15.8 million of this payment was attributed to the revisions to the contracts, including extensions of their lives, and will be amortized as a reduction of sales over the remaining lives of the extended contracts. The result was a reduction of sales of approximately $1.3 million in 2003, an anticipated overall reduction of approximately $1.8 million per year over the next five years, and smaller reductions thereafter over the remaining lives of the contracts. In addition, prices were adjusted at certain of the IP facilities covered by the contract extensions. The overall impact of the revisions to the IP contracts was to reduce earnings by approximately $0.12 per share in 2003.

In October 2003, we signed our first commercial contract with a major glass manufacturer for use of our SYNSIL® products.

Operating Costs and Expenses

Dollars in Millions	**2003**	Growth	2002	Growth	2001
Cost of goods sold	**$615.7**	8.4%	$567.9	13.0%	$502.5
Marketing and administrative	**$ 83.8**	12.9%	$ 74.2	5.2%	$ 70.5
Research and development	**$ 25.1**	10.6%	$ 22.7	(3.4%)	$ 23.5
Bad debt expenses	**$ 5.3**	(14.5%)	$ 6.2	59.0%	$ 3.9
Restructuring charges	**$ 3.3**	*	$ –	*	$ 3.4
Write-down of impaired assets	**$ 3.2**	*	$ 0.8	*	$ –

* Percentage not meaningful

Cost of goods sold was 75.7% of sales compared with 75.5% in the prior year. Our production margin increased at approximately the same rate as sales. In the Specialty Minerals segment, production margins increased 2% despite a 7% sales growth. Margins in this segment were affected by the shutdown of the Millinocket satellite PCC plant, continuing development costs in the coating PCC program, the effect of the revisions to the IP contracts, and weakness in the Specialty PCC product line. In the Refractories segment, production margins increased 19%, almost double the sales growth. This was due to an improved product mix, increased equipment sales, and improved manufacturing operations.

Marketing and administrative costs increased 12.9% in 2003 to $83.8 million and represented 10.3% of net sales from 9.9% of net sales in 2002. The Refractories segment increased marketing expenses to support worldwide business development efforts. In addition, we realized higher information technology costs associated with the implementation of a new global enterprise resource planning system, and incurred higher employee benefit costs, particularly pension and medical expenses. In 2002, marketing and administrative costs increased 5.2% to $74.2 million and decreased to 9.9% of net sales from 10.3% of net sales in 2001.

Research and development expenses increased 10.6% to $25.1 million and represented 3.1% of net sales due to increased product development activities in both segments. In 2002, research and development expenses decreased 3.4% and represented 3.0% of sales. This decrease was primarily the result of the restructuring, a decrease in PCC trial activity and a shift of SYNSIL® product activities from development to production.

We recorded bad debt expenses of $5.3 million and $6.2 million in 2003 and 2002, respectively. These charges were primarily related to additional provisions associated with potential risks to our customers in the steel, paper and other industries and several customer bankruptcy filings.

During the fourth quarter of 2003, we restructured our operations to reduce operating costs and improve efficiency. This resulted in a fourth quarter restructuring charge of $3.3 million. The restructuring charges relate to workforce reductions from all business units throughout our worldwide operations and the termination of certain leases.

During the fourth quarter of 2003, we recorded a write-down of impaired assets of $3.2 million. The impairment charges are related to the planned closure of our operations in River Rouge, Michigan, in 2004 and the retirement of certain SYNSIL® assets that have been made obsolete. In 2002, we recorded a write-down of impaired assets of $0.8 million for a satellite plant that ceased operations.

Income from Operations

Dollars in Millions	**2003**	**Growth**	2002	Growth	2001
Income from operations	**$77.2**	**(4.6%)**	$80.9	0.4%	$80.6

Income from operations in 2003 decreased 4.6% to $77.2 million from $80.9 million in 2002. Income from operations decreased to 9.5% of sales as compared with 10.7% of sales in 2002. This decrease was primarily due to the aforementioned restructuring and impairment costs. Excluding these charges, income from operations was 10.3% of net sales and increased 3.5%.

Income from operations for the Specialty Minerals segment decreased 7.7% to $55.4 million and was 9.9% of its net sales. Excluding the restructuring and impairment asset charges, operating income of this segment was 10.6% of its net sales and down 1.4% from the prior year. The margins of this segment continue to be affected in the near term by the IP agreement and the Millinocket temporary shutdown. Operating income for the Refractories segment increased 4.5% to $21.8 million and was 8.5% of its net sales. Excluding the restructuring and impairment of asset charges, operating income of this segment was 9.6% of its net sales and increased 17.8% from the prior year. The improvement in operating income was primarily due to an improved product mix, increased equipment sales, and more efficient manufacturing operations.

Non-Operating Deductions

Dollars in Millions	**2003**	**Growth**	2002	Growth	2001
Non-operating deductions, net	**$4.9**	**(3.9%)**	$5.1	(35.4%)	$7.9

Non-operating deductions decreased 3.9% from the prior year. This decrease was due to lower interest expense and lower average borrowings in 2003 when compared with 2002. In 2002, interest expense decreased from 2001 due primarily to lower average borrowings than in 2001.

Provision for Taxes on Income

Dollars in Millions	**2003**	**Growth**	2002	Growth	2001
Provision for taxes on income	**$4.1**	**(79.7%)**	$20.2	(4.3%)	$21.1

The effective tax rate decreased to 5.7% in 2003 compared with 26.7% in 2002. This decrease was due to the reversal of certain tax accruals during the second half of 2003 as a result of the expiration of the statute of limitations on the U.S. tax returns for certain earlier years. This one-time, non-cash item reduced the 2003 income tax provision by $15 million. The effective tax rate was 29.1% in 2001.

Minority Interests

Dollars in Millions	**2003**	**Growth**	2002	Growth	2001
Minority interests	**$1.6**	**(11.1%)**	$1.8	5.9%	$1.7

The consolidated joint ventures continue to operate profitably but decreased approximately $0.2 million from the prior year due to higher support costs at our joint venture in Indonesia.

Net Income

Dollars in Millions	**2003**	**Growth**	2002	Growth	2001
Net income	**$63.2**	**17.5%**	$53.8	8.0%	$49.8

Income before the cumulative effect of an accounting change increased 24.0% to $66.7 million from $53.8 million in 2002. Diluted earnings per common share before the cumulative effect of the accounting change increased 24.9% to $3.26 compared with $2.61 in 2002.

Effective January 1, 2003, we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes the financial accounting and reporting for obligations associated with the retirement of long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

Upon adoption of SFAS No. 143, we recorded a non-cash, after-tax charge to earnings of approximately $3.4 million for the cumulative effect of this accounting change related to retirement obligations associated with our PCC satellite facilities and mining properties, both within the Specialty Minerals segment. As a result of this pronouncement, we recorded in cost of goods sold additional depreciation and accretion expenses of approximately $1.0 million in 2003. The pro forma effect on results, assuming that SFAS No. 143 were applied retroactively, would be a non-cash, after-tax charge to earnings of approximately $0.5 million in 2002.

Net income increased 17.5% in 2003 to $63.2 million. In 2002, net income increased 8.0% to $53.8 million. Earnings per common share, on a diluted basis, increased 17.5% to $3.09 in 2003 as compared with $2.61 in the prior year.

Outlook

In 2003, despite pronouncements of economic recovery, we continued to see weakness in the two main industries we serve—paper and steel. However, unlike a number of manufacturers, we continue to show growth in sales and net income. We are hopeful that the improvement in the rest of the U.S. economy will carry through to the paper and steel industries, and we feel confident that we have taken the necessary steps to position ourselves for continued growth and improved profitability in the coming year.

We continue to be affected by negative factors in the industries we primarily serve:

- In 2003, the PCC business was affected by paper mill shutdowns, curtailments in production due to weakened demand, and the temporary shutdown of the satellite PCC plant in Maine.
- The steel industry continued to experience difficulties in 2003 as several steel manufacturers ceased operations and eight North American steel companies filed for bankruptcy protection.

However, despite this difficult market environment, we were able to achieve low double-digit operating margins. Our operating margin as a percentage of sales, before restructuring and impairment of asset charges, declined to 10.3% in 2003 as compared with 10.8% in 2002. Reported operating income as a percentage of sales was 9.5% in 2003 as compared with 10.7% in 2002.

In 2004, we plan to continue our focus on the following growth strategies:

- Increase market penetration of PCC in paper filling at both free sheet and groundwood mills.
- Increase penetration of PCC into the paper coating market.
- Emphasize higher value specialty products and application systems to increase market penetration in the Refractories segment.
- Continue selective acquisitions to complement our existing businesses.
- Continue research and development and marketing efforts for new and existing products.

However, there can be no assurance that we will achieve success in implementing any one or more of these strategies.

In 2003, we added one unit of production capacity for PCC from a satellite plant built at a paper mill owned by Sabah Forest Industries in Malaysia. This plant became operational in the third quarter of 2003. In addition, we added one unit of capacity through an expansion at an existing satellite PCC facility.

In August 2003, we announced that our merchant PCC plant in Walsum, Germany, will be operational in September 2004. The project was announced in May 2001, and since then, we have received the necessary regulatory, planning and permitting approvals from state and local agencies. The initial capacity of the modular plant will be 125,000 metric tons of PCC for paper coating.

We also made the following acquisition in 2003:

- On September 15, 2003, the assets of ISA Manufacturing Inc., a company that produces pre-cast shapes primarily for the steel industry.

In 2004, we expect additional expansions at existing satellite PCC plants to occur and also expect to sign contracts for new satellite PCC plants.

As we continue to expand our operations overseas, we face the inherent risks of doing business abroad, including inflation, fluctuations in interest rates and currency exchange rates, changes in applicable laws and regulatory requirements, export and import restrictions, tariffs, nationalization, expropriation, limits on repatriation of funds, civil unrest, terrorism, unstable governments and legal systems, and other factors. Some of our operations are located in areas that have experienced political or economic instability, including Indonesia, Israel, Brazil, Thailand, China and South Africa. In addition, our performance depends to some extent on that of the industries we serve, particularly the paper manufacturing, steel manufacturing, and construction industries.

Our sales of PCC are predominantly pursuant to long-term contracts, initially ten years in length, with paper companies at whose mills we operate satellite PCC plants. The terms of many of these agreements have been extended, often in connection with an expansion of the satellite PCC plant. Failure of a number of our customers to renew existing agreements on terms as favorable to us as those currently in effect could cause our future growth rate to differ materially from our historical growth rate, and could also result in impairment of the assets associated with the PCC plant.

There is presently one satellite location at which the contract with the host mill has expired and one location, representing less than one unit of PCC production, at which the host mill has informed us that the contract will not be renewed upon its expiration in 2004. We continue to supply PCC at both of these locations. At the location at which the contract has expired, we hope to reach agreement on a long-term extension of the contract; however, there can be no assurance that these negotiations will be successful.

In addition, Great Northern Paper, Inc. ceased operations at its two paper mills in Millinocket and East Millinocket, Maine, which were served by a PCC plant operated by us. Great Northern Paper filed for bankruptcy protection on January 9, 2003, and on April 29, 2003, the paper mills were sold to Brascan Corporation, the parent company of Nexfor Fraser Papers Inc. The East Millinocket mill has resumed operations, and we are supplying it from other nearby PCC production facilities. Brascan has announced its intention to begin production at the Millinocket mill later in 2004 where our satellite plant is located. If the Millinocket mill does not resume production, we could incur an impairment charge of approximately $10 million.

We have a consolidated interest in two joint venture companies that operate satellite PCC plants at paper mills owned by subsidiaries of Asia Pulp & Paper Company Ltd. ("APP"), one at Perawang, Indonesia, and one at Dagang, China. APP is a multinational pulp and paper company whose current financial difficulties have been widely publicized. While APP is negotiating with its creditors, the Perawang and Dagang facilities have remained in operation at levels consistent with the prior year. Both mills are continuing to use our PCC and to satisfy their obligations to the joint ventures. However, there can be no assurance that our operations at these paper mills will not be adversely affected by APP's financial difficulties in the future. Our net investment in these satellite plants was approximately $4.4 million at December 31, 2003.

Liquidity and Capital Resources

Cash flows in 2003 were provided from operations and proceeds from stock option exercises. The cash was applied principally to fund $52.7 million of capital expenditures and purchases of common shares for treasury. Cash provided from operating activities amounted to $100.1 million in 2003 as compared with $117.8 million in 2002. The reduction in cash from operations was primarily due to the IP payment of $16 million in exchange for customer contract extensions and a technology license. Included in cash flow from operations was pension plan funding of approximately $20.8 million, $20.2 million, and $10.7 million for the years ended December 31, 2003, 2002 and 2001, respectively.

We expect to utilize our cash reserves to support the aforementioned growth strategies.

On May 31, 2003, we acquired land and limestone ore reserves from the Cushenbury Mine Trust for approximately $17.5 million. Approximately $6.1 million was paid at the closing and $11.4 million was financed through an installment obligation. The average interest rate on this obligation is approximately 4.25%. The principal payments are as follows: 2004 - $0.8 million; 2005 - $0.9 million; 2006 - $0.9 million; 2007 - $0.9 million; 2008 - $6.5 million; 2013 - $1.4 million.

On February 22, 2001, the Board authorized our Management Committee to repurchase, at its discretion, up to $25 million in additional shares per year over the following three years. As of December 31, 2003, we had repurchased approximately 619,500 shares under this program at an average price of approximately $40 per share.

On October 23, 2003, our Board of Directors authorized our Management Committee, at its discretion, to repurchase up to $75 million in additional shares over the next three-year period.

On January 22, 2004, our Board of Directors declared a regular quarterly dividend on our common stock of $0.05 per share. The dividend is an increase from the amount we have historically paid, which had been a quarterly dividend of $0.025 per share since we became a publicly owned company in October 1992. No dividend will be payable unless declared by the Board and unless funds are legally available for payment thereof.

We have $110 million in uncommitted short-term bank credit lines, of which $30 million was in use at December 31, 2003. We anticipate that capital expenditures for 2004 should approximate $80 million, principally related to the construction of PCC plants and other opportunities that meet our strategic growth objectives. We expect to meet our long-term financing requirements from internally generated funds, uncommitted bank credit lines and, where appropriate, project financing of certain satellite plants. The aggregate maturities of long-term debt are as follows: 2004 - $3.2 million; 2005 - $3.8 million; 2006 - $54.0 million; 2007 - $2.0 million; 2008 - $7.0 million; thereafter - $31.3 million.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

On an ongoing basis, we evaluate our estimates and assumptions, including those related to revenue recognition, allowance for doubtful accounts, valuation of inventories, valuation of long-lived assets, goodwill and other intangible assets, pension plan assumptions, income taxes, income tax valuation allowances and litigation and environmental liabilities. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that can not readily be determined from other sources. There can be no assurance that actual results will not differ from those estimates.

We believe the following critical accounting policies require us to make significant judgments and estimates in the preparation of our consolidated financial statements:

- Revenue recognition: Revenue from sale of products is recognized at the time the goods are shipped and title passes to the customer. In most of our PCC contracts, the price per ton is based upon the total number of tons sold to the customer during the year. Under those contracts, the price billed to the customer for shipments during the year is based on periodic estimates of the total annual volume that will be sold to the customer. Revenues are adjusted at the end of each year to reflect the actual volume sold.

- Allowance for doubtful accounts: Substantially all of our accounts receivable are due from companies in the paper, construction and steel industries. Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Such allowance is established through a charge to the provision for bad debt expenses. We recorded bad debt expenses of $5.3 million, $6.2 million, and $3.9 million in 2003, 2002 and 2001, respectively. These charges were much higher than historical levels and were primarily related to bankruptcy filings by some of our customers in the paper and steel industries and to additional provisions associated with potential risks in the paper, steel and other industries. In addition to specific allowances established for bankrupt customers, we also analyze the collection history and financial condition of our other customers considering current industry conditions and determine whether an allowance needs to be established or increased.

- Property, plant and equipment, goodwill, intangible and other long-lived assets: Property, plant and equipment are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets can generate revenue, which does not necessarily coincide with the remaining term of a customer's contractual obligation to purchase products made using those assets. Our sales of PCC are predominantly pursuant to long-term contracts, initially ten years in length, with paper mills at which we operate satellite PCC plants. The terms of many of these agreements have been extended, often in connection with an expansion of the satellite PCC plant. We also continue to supply PCC at one location at which the PCC contract has expired. Failure of a PCC customer to renew an agreement or continue to purchase PCC from our facility could result in an impairment of assets charge at such facility.

  In the third quarter of 2002, we reduced the useful lives of satellite PCC plants at International Paper Company's ("IP") mills due to an increased risk that some or all of these PCC contracts would not be renewed. As a result of this change, we also reviewed the useful lives of the assets at our remaining satellite PCC facilities and other plants. During the first quarter of 2003, we revised the estimated useful lives of machinery and equipment pertaining to our natural stone mining and processing plants and chemical processing plants from 12.5 years (8%) to 15 years (6.67%) and reduced the useful lives of buildings at certain satellite PCC facilities from 25 years (4%) to 15 years (6.67%). We also reduced the estimated useful lives of certain software-related assets due to implementation of a new global enterprise resource planning system. During the second quarter of 2003, we reached an agreement with IP that extended eight PCC supply contracts and therefore extended the useful lives of the satellite PCC plants at those IP mills. The net effect of the changes in estimated useful lives, including the deceleration of depreciation at the IP plants, was an increase to diluted earnings per share of approximately $0.08 in 2003.

- Valuation of long-lived assets, goodwill and other intangible assets: We assess the possible impairment of long-lived assets and identifiable intangibles whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill and other intangible assets with indefinite lives are reviewed for impairment at least annually in accordance with the provisions of SFAS No. 142. Factors we consider important that could trigger an impairment review include the following:
- significant under-performance relative to historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for the overall business;
- significant negative industry or economic trends.

When we determine that the carrying value of intangibles, long-lived assets or goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment by our ability to recover the carrying amount of the assets from expected future operating cash flow on a discounted basis. Net intangible assets, long-lived assets, and goodwill amounted to $621.6 million as of December 31, 2003.

- Accounting for income taxes: As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatments of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the Statement of Income.

- Pension Benefits: We sponsor pension and other retirement plans in various forms covering substantially all employees who meet eligibility requirements. Several statistical and other factors which attempt to estimate future events are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, expected return on plan assets and rate of future compensation increases as determined by us, within certain guidelines. Our assumptions reflect our historical experience and management's best judgement regarding future expectations. In addition, our actuarial consultants also use subjective factors such as withdrawal and mortality rates to estimate these factors. The actuarial assumptions used by us may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants, among other things. Differences from these assumptions may result in a significant impact to the amount of pension expense/liability recorded by us.

For a detailed discussion on the application of these and other accounting policies, see Note 1 — "Summary of Significant Accounting Policies" in the "Notes to the Consolidated Financial Statements." This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report.

Prospective Information and Factors That May Affect Future Results

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand companies' future prospects and make informed investment decisions. This report may contain forward-looking statements that set out anticipated results based on management's plans and assumptions. Words such as "expects," "plans," "anticipates," "will," and words and terms of similar substance, used in connection with any discussion of future operating or financial performance, identify these forward-looking statements.

We cannot guarantee that the outcomes suggested in any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements and should refer to the discussion of certain risks, uncertainties and assumptions under the heading "Cautionary Factors That May Affect Future Results" in Item 1 of the Annual Report on Form 10-K.

Inflation

Historically, inflation has not had a material adverse effect on us. The contracts pursuant to which we construct and operate our satellite PCC plants generally adjust pricing to reflect increases in costs resulting from inflation.

Cyclical Nature of Customers' Businesses

The bulk of our sales are to customers in the paper manufacturing, steel manufacturing and construction industries, which have historically been cyclical. These industries encountered difficulties in 2003. The pricing structure of some of our long-term PCC contracts makes our PCC business less sensitive to declines in the quantity of product purchased. For this reason, and because of the geographical diversification of our business, our operating results to date have not been materially affected by the difficult economic environment. However, we cannot predict the economic outlook in the countries in which we do business, nor in the key industries we serve. There can be no assurance that a recession, in some markets or worldwide, would not have a significant negative effect on our financial position or results of operations.

Recently Issued Accounting Standards

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The FASB recently indicated that they would require stock-based employee compensation to be recorded as a charge to earnings beginning in 2005. We continue to monitor their progress on the issuance of this standard as well as evaluating our position with respect to current guidance.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This statement establishes standards for how

an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. We had no such instruments as of December 31, 2003.

Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in market prices and rates. We are exposed to market risk because of changes in foreign currency exchange rates as measured against the U.S. dollar. We do not anticipate that near-term changes in exchange rates will have a material impact on our future earnings or cash flows. However, there can be no assurance that a sudden and significant decline in the value of foreign currencies would not have a material adverse effect on our financial condition and results of operations. Approximately 25% of our bank debt bear interest at variable rates; therefore, our results of operations would only be affected by interest rate changes to such bank debt outstanding. An immediate 10 percent change in interest rates would not have a material effect on our results of operations over the next fiscal year.

We are exposed to various market risks, including the potential loss arising from adverse changes in foreign currency exchange rates and interest rates. We do not enter into derivatives or other financial instruments for trading or speculative purposes. When appropriate, we enter into derivative financial instruments, such as forward exchange contracts and interest rate swaps, to mitigate the impact of foreign exchange rate movements and interest rate movements on our operating results. The counterparties are major financial institutions. Such forward exchange contracts and interest rate swaps would not subject us to additional risk from exchange rate or interest rate movements because gains and losses on these contracts would offset losses and gains on the assets, liabilities, and transactions being hedged. We have open forward exchange contracts to purchase approximately $2.2 million of foreign currencies as of December 31, 2003. These contracts mature between January and June of 2004. The fair value of these instruments at December 31, 2003 was an asset of $0.1 million. We entered into three-year interest rate swap agreements with a notional amount of $30 million that expire in January 2005. These agreements effectively convert a portion of our floating-rate debt to a fixed rate basis. The fair value of these instruments was a liability of approximately $1.0 million at December 31, 2003.

Selected Financial Data

Minerals Technologies Inc. and Subsidiary Companies 2003 Annual Report

Thousands, Except Per Share Data	**2003**	2002	2001	2000	1999
Income Statement Data					
Net sales	**$ 813,743**	$752,680	$684,419	$670,917	$662,475
Cost of goods sold	**615,749**	567,985	502,525	477,512	466,702
Marketing and administrative expenses	**83,809**	74,160	70,495	71,404	72,208
Research and development expenses	**25,149**	22,697	23,509	26,331	24,788
Bad debt expenses	**5,307**	6,214	3,930	5,964	1,234
Restructuring charges	**3,323**	–	3,403	–	–
Write-down of impaired assets	**3,202**	750	–	4,900	–
Income from operations	**77,204**	80,874	80,557	84,806	97,543
Income before provision for taxes on income and minority interests	**72,344**	75,734	72,670	79,772	92,535
Provision for taxes on income	**4,116**	20,220	21,148	23,735	28,920
Minority interests	**1,575**	1,762	1,729	1,829	1,499
Income before cumulative effect of accounting change	**66,653**	53,752	49,793	54,208	62,116
Cumulative effect of accounting change	**3,433**	–	–	–	–
Net income	**$ 63,220**	$ 53,752	$ 49,793	$ 54,208	$ 62,116
Earnings Per Share					
Basic:					
Before cumulative effect of accounting change	**$ 3.30**	$ 2.66	$ 2.54	$ 2.65	$ 2.90
Cumulative effect of accounting change	**(0.17)**	–	–	–	–
Basic earnings per share	**$ 3.13**	$ 2.66	$ 2.54	$ 2.65	$ 2.90
Diluted:					
Before cumulative effect of accounting change	**$ 3.26**	$ 2.61	$ 2.48	$ 2.58	$ 2.80
Cumulative effect of accounting change	**(0.17)**	–	–	–	–
Basic earnings per share	**$ 3.09**	$ 2.61	$ 2.48	$ 2.58	$ 2.80
Weighted average number of common shares outstanding					
Basic	**20,208**	20,199	19,630	20,479	21,394
Diluted	**20,431**	20,569	20,063	21,004	22,150
Dividends declared per common share	**$ 0.10**	$ 0.10	$ 0.10	$ 0.10	$ 0.10
Balance Sheet Data					
Working capital	**$ 218,090**	$167,028	$ 86,261	$ 81,830	$102,405
Total assets	**1,035,500**	899,877	847,810	799,832	769,131
Long-term debt	**98,159**	89,020	88,097	89,857	75,238
Total debt	**131,681**	120,351	160,031	138,727	88,677
Total shareholders’ equity	**707,381**	594,157	507,819	483,639	485,036

Consolidated Balance Sheet

Minerals Technologies Inc. and Subsidiary Companies 2003 Annual Report

Thousands of Dollars	**December 31, 2003**	December 31, 2002
Assets		
Current assets:		
Cash and cash equivalents	**$ 90,515**	$ 31,762
Accounts receivable, less allowance for doubtful accounts:		
2003 - $7,010; 2002 – $7,079	**147,600**	129,608
Inventories	**86,378**	82,909
Prepaid expenses and other current assets	**15,632**	14,770
Total current assets	**340,125**	259,049
Property, plant and equipment,		
less accumulated depreciation and depletion	**561,588**	537,424
Goodwill	**52,721**	51,291
Prepaid benefit cost	**46,251**	31,916
Other assets and deferred charges	**34,815**	20,197
Total assets	**$1,035,500**	$899,877
Liabilities & Shareholders' Equity		
Current liabilities:		
Short-term debt	**$ 30,347**	$ 30,000
Current maturities of long-term debt	**3,175**	1,331
Accounts payable	**44,217**	37,435
Income taxes payable	**–**	18,176
Accrued compensation and related items	**21,710**	15,086
Other current liabilities	**22,586**	21,909
Total current liabilities	**122,035**	123,937
Long-term debt	**98,159**	89,020
Accrued postretirement benefits	**20,385**	19,869
Deferred taxes on income	**51,617**	48,183
Other noncurrent liabilities	**35,923**	24,711
Total liabilities	**328,119**	305,720
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock, without par value; 1,000,000 shares authorized; none issued	**–**	–
Common stock at par, $0.10 par value; 100,000,000 shares authorized;		
issued 27,422,472 shares in 2003 and 26,937,260 shares in 2002	**2,742**	2,694
Additional paid-in capital	**210,512**	190,144
Deferred compensation	**(1,220)**	–
Retained earnings	**739,936**	678,740
Accumulated other comprehensive income (loss)	**3,814**	(35,034)
	955,784	836,544
Less common stock held in treasury, at cost; 6,930,973 shares in 2003		
and 6,781,473 shares in 2002	**248,403**	242,387
Total shareholders' equity	**707,381**	594,157
Total liabilities and shareholders' equity	**$1,035,500**	$899,877

See Notes to Consolidated Financial Statements, which are an integral part of these statements.

Consolidated Statement Of Income

Minerals Technologies Inc. and Subsidiary Companies 2003 Annual Report

Thousands of Dollars, Except Per Share Data	Year Ended December 31, **2003**	2002	2001
Net sales	**$813,743**	$752,680	$684,419
Operating costs and expenses:			
Cost of goods sold	**615,749**	567,985	502,525
Marketing and administrative expenses	**83,809**	74,160	70,495
Research and development expenses	**25,149**	22,697	23,509
Bad debt expenses	**5,307**	6,214	3,930
Restructuring charges	**3,323**	–	3,403
Write-down of impaired assets	**3,202**	750	–
Income from operations	**77,204**	80,874	80,557
Interest income	**836**	1,172	835
Interest expense	**(5,423)**	(5,792)	(7,884)
Other deductions	**(273)**	(520)	(838)
Non-operating deductions, net	**(4,860)**	(5,140)	(7,887)
Income before provision for taxes on income and minority interests	**72,344**	75,734	72,670
Provision for taxes on income	**4,116**	20,220	21,148
Minority interests	**1,575**	1,762	1,729
Income before cumulative effect of accounting change	**66,653**	53,752	49,793
Cumulative effect of accounting change, net of tax benefit of $2,072	**3,433**	–	–
Net income	**$ 63,220**	$ 53,752	$ 49,793
Earnings per share:			
Basic:			
Before cumulative effect of accounting change	**$ 3.30**	$ 2.66	$ 2.54
Cumulative effect of accounting change	**(0.17)**	–	–
Basic earnings per share	**$ 3.13**	$ 2.66	$ 2.54
Diluted:			
Before cumulative effect of accounting change	**$ 3.26**	$ 2.61	$ 2.48
Cumulative effect of accounting change	**(0.17)**	–	–
Diluted earnings per share	**$ 3.09**	$ 2.61	$ 2.48

See Notes to Consolidated Financial Statements, which are an integral part of these statements.

Consolidated Statement Of Cash Flows

Minerals Technologies Inc. and Subsidiary Companies 2003 Annual Report

Thousands of Dollars	Year Ended December 31, **2003**	2002	2001
Operating Activities			
Net income	**$ 63,220**	$ 53,752	$49,793
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting change	**3,433**	–	–
Depreciation, depletion and amortization	**66,340**	68,960	66,518
Reversal of tax liabilities	**(15,000)**	–	–
Write-down of impaired assets	**3,202**	750	–
Loss on disposal of property, plant and equipment	**1,472**	1,301	19
Deferred income taxes	**5,085**	2,643	(131)
Bad debt expenses	**5,307**	6,214	3,930
Other	**1,270**	1,519	1,446
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	**(7,946)**	1,143	(11,886)
Inventories	**767**	5,166	(2,182)
Prepaid expenses and other current assets	**(12,299)**	621	(9,173)
Prepaid benefit costs	**(14,335)**	(16,486)	(1,447)
Accounts payable	**4,706**	(5,542)	(1,077)
Income taxes payable	**(3,841)**	465	(144)
Other	**(1,293)**	(2,668)	2,661
Net cash provided by operating activities	**100,088**	117,838	98,327
Investing Activities			
Purchases of property, plant and equipment	**(52,665)**	(37,107)	(63,078)
Proceeds from disposal of property, plant and equipment	**1,874**	280	5,193
Acquisition of businesses, net of cash acquired	**(1,958)**	(34,100)	(37,363)
Net cash used in investing activities	**(52,749)**	(70,927)	(95,248)
Financing Activities			
Proceeds from issuance of short-term and long-term debt	**5,659**	154,908	268,684
Repayment of short-term and long-term debt	**(6,019)**	(194,876)	(248,677)
Purchase of common shares for treasury	**(6,016)**	(17,332)	(16,000)
Cash dividends paid	**(2,024)**	(2,026)	(1,960)
Proceeds from issuance of stock under option plan	**15,884**	29,384	3,158
Net cash provided by (used in) financing activities	**7,484**	(29,942)	5,205
Effect of exchange rate changes on cash and cash equivalents	**3,930**	1,747	(1,930)
Net increase in cash and cash equivalents	**58,753**	18,716	6,354
Cash and cash equivalents at beginning of year	**31,762**	13,046	6,692
Cash and cash equivalents at end of year	**$ 90,515**	$ 31,762	$13,046
Non-cash Investing and Financing Activities:			
Property, plant and equipment acquired by incurring installment obligations	**$ 11,368**	$ –	$ –
Property, plant and equipment additions related to asset retirement obligations	**$ 6,762**	$ –	$ –

See Notes to Consolidated Financial Statements, which are an integral part of these statements.

Consolidated Statement Of Shareholders' Equity

Minerals Technologies Inc. and Subsidiary Companies 2003 Annual Report

In Thousands	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Deferred Com-pensation	Retained Earnings	Accumulated Other Com-prehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Cost	Total
Balance as of January 1, 2001	25,853	$2,585	$155,001	–	$579,181	$(44,073)	(5,886)	$(209,055)	$483,639
Comprehensive income:									
Net income	–	–	–	–	49,793	–	–	–	49,793
Currency translation adjustment	–	–	–	–	–	(11,896)	–	–	(11,896)
Minimum pension liability adjustment	–	–	–	–	–	500	–	–	500
Net gain on cash flow hedges	–	–	–	–	–	174	–	–	174
Total comprehensive income	–	–	–	–	49,793	(11,222)	–	–	38,571
Dividends declared	–	–	–	–	(1,960)	–	–	–	(1,960)
Employee benefit transactions	109	11	3,147	–	–	–	–	–	3,158
Income tax benefit arising from employee stock option plans	–	–	411	–	–	–	–	–	411
Purchase of common stock for treasury	–	–	–	–	–	–	(462)	(16,000)	(16,000)
Balance as of December 31, 2001	25,962	2,596	158,559	–	627,014	(55,295)	(6,348)	(225,055)	507,819
Comprehensive income:									
Net income	–	–	–	–	53,752	–	–	–	53,752
Currency translation adjustment	–	–	–	–	–	22,137	–	–	22,137
Minimum pension liability adjustment	–	–	–	–	–	(829)	–	–	(829)
Cash flow hedges:									
Net derivative losses arising during the year	–	–	–	–	–	(968)	–	–	(968)
Reclassification adjustment	–	–	–	–	–	(79)	–	–	(79)
Total comprehensive income	–	–	–	–	53,752	20,261	–	–	74,013
Dividends declared	–	–	–	–	(2,026)	–	–	–	(2,026)
Employee benefit transactions	975	98	29,286	–	–	–	–	–	29,384
Income tax benefit arising from employee stock option plans	–	–	2,299	–	–	–	–	–	2,299
Purchase of common stock for treasury	–	–	–	–	–	–	(433)	(17,332)	(17,332)
Balance as of December 31, 2002	26,937	2,694	190,144	–	678,740	(35,034)	(6,781)	(242,387)	594,157
Comprehensive income:									
Net income	–	–	–	–	63,220	–	–	–	63,220
Currency translation adjustment	–	–	–	–	–	39,695	–	–	39,695
Minimum pension liability adjustment	–	–	–	–	–	(1,368)	–	–	(1,368)
Cash flow hedges:									
Net derivative gains arising during the year	–	–	–	–	–	521	–	–	521
Total comprehensive income	–	–	–	–	63,220	38,848	–	–	102,068
Dividends declared	–	–	–	–	(2,024)	–	–	–	(2,024)
Employee benefit transactions	485	48	15,836	–	–	–	–	–	15,884
Income tax benefit arising from employee stock option plans	–	–	3,176	–	–	–	–	–	3,176
Issuance of restricted stock	–	–	1,356	(1,356)	–	–	–	–	–
Amortization of restricted stock	–	–	–	136	–	–	–	–	136
Purchase of common stock for treasury	–	–	–	–	–	–	(150)	(6,016)	(6,016)
Balance as of December 31, 2003	27,422	$2,742	$210,512	$(1,220)	$739,936	$3,814	(6,931)	$(248,403)	$707,381

See Notes to Consolidated Financial Statements, which are an integral part of these statements.

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Minerals Technologies Inc. (the "Company") and its wholly and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The Company employs accounting policies that are in accordance with generally accepted accounting principles in the United States of America and require management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reported period. Significant estimates include those related to revenue recognition, allowance for doubtful accounts, valuation of inventories, valuation of long-lived assets, goodwill and other intangible assets, pension plan assumptions, income taxes, income tax valuation allowances and litigation and environmental liabilities. Actual results could differ from those estimates.

Business

The Company is a resource- and technology-based company that develops, produces and markets on a worldwide basis a broad range of specialty mineral, mineral-based and synthetic mineral products and related systems and technologies. The Company's products are used in manufacturing processes of the paper and steel industries, as well as by the building materials, polymers, ceramics, paints and coatings, glass and other manufacturing industries.

Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Cash equivalents amounted to $1.1 million and $3.8 million at December 31, 2003 and 2002, respectively.

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical write-off experience and specific allowances for bankrupt customers. The Company also analyzes the collection history and financial condition of its other customers considering current industry conditions and determines whether an allowance needs to be established. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Significant improvements are capitalized, while maintenance and repair expenditures are charged to operations as incurred. The Company capitalizes interest cost as a component of construction in progress. In general, the straight-line method of depreciation is used for financial reporting purposes and accelerated methods are used for U.S. and certain foreign tax reporting purposes. The annual rates of depreciation are 3% - 6.67% for buildings, 6.67% - 12.5% for machinery and equipment, 8% - 12.5% for furniture and fixtures and 12.5% - 25% for computer equipment and software-related assets.

Property, plant and equipment are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets can generate revenue, which does not necessarily coincide with the remaining term of a customer's contractual obligation to purchase products made using those assets. The Company's sales of PCC are predominantly pursuant to long-term contracts, initially ten years in length, with paper mills at which the Company operates satellite PCC plants. The terms of many of these agreements have been extended, often in connection with an expansion of the satellite PCC plant. The Company also continues to supply PCC at one location at which the PCC contract has expired. Failure of a PCC customer to renew an agreement or continue to purchase PCC from a Company facility could result in an impairment of assets charge at such facility.

In the third quarter of 2002, the Company reduced the useful lives of satellite PCC plants at International Paper Company's ("IP") mills due to an increased risk that some or all of these PCC contracts would not be renewed. As a result of this change, the Company also reviewed the useful lives of the assets at its remaining satellite PCC facilities and other plants. During the first quarter of 2003, the Company revised the estimated useful lives of machinery and equipment pertaining to its natural stone mining and processing

plants and chemical processing plants from 12.5 years (8%) to 15 years (6.67%) and reduced the useful lives of buildings at certain satellite PCC facilities from 25 years (4%) to 15 years (6.67%). The Company also reduced the estimated useful lives of certain software-related assets due to implementation of a new global enterprise resource planning system. During the second quarter of 2003, the Company reached an agreement with IP that extended eight PCC supply contracts and therefore extended the useful lives of the satellite PCC plants at those IP mills. The net effect of the changes in estimated useful lives, including the deceleration of depreciation at the IP plants, was an increase to diluted earnings per share of approximately $0.08 in 2003.

Depletion of mineral reserves is determined on a unit-of-extraction basis for financial reporting purposes and on a percentage depletion basis for tax purposes.

Mining costs associated with waste gravel and rock removal in excess of the expected average life of mine stripping ratio are deferred. These costs are charged to production on a unit-of-production basis when the ratio of waste to ore mined is less than the average life of mine stripping ratio.

Accounting for the Impairment of Long-Lived Assets

The Company accounts for impairment of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 establishes a uniform accounting model for long-lived assets to be disposed of. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrrying amount of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, the Company estimates the undiscounted future cash flows (excluding interest) resulting from the use of the asset and its ultimate disposition. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, the Company recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset, determined principally using discounted cash flows.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and other intangible assets with indefinite lives are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to the estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

The Company evaluates the recoverability of goodwill using a two-step impairment test approach at the reporting unit level. In the first step the fair value for the reporting unit is compared to its book value including goodwill. In the case that the fair value of the reporting unit is less than the book value, a second step is performed which compares the fair value of the reporting unit's goodwill to the book value of the goodwill. The fair value for the goodwill is determined based on the difference between the fair values of the reporting units and the net fair values of the identifiable assets and liabilities of such reporting unit. If the fair value of the goodwill is less than the book value the difference is recognized as an impairment.

Prior to the adoption of SFAS No. 142, goodwill was amortized on a straight-line basis over 20-25 years, and assessed for recoverability by determining whether the amortization of the goodwill balance over its remaining life could be recovered through undiscounted future operating cash flows of the acquired operation. All other intangible assets were amortized on a straight-line basis up to 17 years. The amount of goodwill and other intangible asset impairment, if any, was measured based on the Company's ability to recover the carrying amount from expected future operating cash flows on a discounted basis.

Accounting for Asset Retirement Obligations

Effective January 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes the financial accounting and reporting for obligations associated with the retirement of long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as a part of the carrying amount of the long-lived asset.

Derivative Financial Instruments

The Company enters into derivative financial instruments to hedge certain foreign exchange and interest rate exposures pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." See the Notes on Derivative Financial Instruments and Hedging Activities and Financial Instruments and Concentration of Credit Risk in the Consolidated Financial Statements for a full description of the Company's hedging activities and related accounting policies.

Revenue Recognition

Revenue from sale of products is recognized at the time the goods are shipped and title passes to the customer. In most of the Company's PCC contracts, the price per ton is based upon the total number of tons sold to the customer during the year. Under those contracts the price billed to the customer for shipments during the year is based on periodic estimates of the total annual volume that will be sold to such customer. Revenues are adjusted at the end of each year to reflect the actual volume sold.

Foreign Currency

The assets and liabilities of most of the Company's international subsidiaries are translated into U.S. dollars using exchange rates at the respective balance sheet date. The resulting translation adjustments are recorded in accumulated other comprehensive loss in shareholders' equity. Income statement items are generally translated at average exchange rates prevailing during the period. Other foreign currency gains and losses are included in net income. International subsidiaries operating in highly inflationary economies translate nonmonetary assets at historical rates, while net monetary assets are translated at current rates, with the resulting translation adjustments included in net income.

Income Taxes

Income taxes are provided for based on the asset and liability method of accounting pursuant to SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The accompanying financial statements generally do not include a provision for U.S. income taxes on international subsidiaries' unremitted earnings, which, for the most part, are expected to be reinvested overseas.

Research and Development Expenses

Research and development expenses are expensed as incurred.

Stock-Based Compensation

The Company has elected to recognize compensation costs on the intrinsic value of the equity instrument awarded as promulgated in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The Company has disclosed in Note 2, "Stock-Based Compensation" the pro forma effect of the fair value method on net income and earnings per share.

Pension and Post-retirement Benefits

The Company has defined benefit pension plans covering substantially all of its employees. The benefits are based on years of service.

The Company also provides post-retirement healthcare benefits for substantially all retirees and employees in the United States. The Company measures the costs of its obligation based on its best estimate. The net periodic costs are recognized as employees render the services necessary to earn the post-retirement benefits.

Earnings Per Share

Basic earnings per share have been computed based upon the weighted average number of common shares outstanding during the period.

Diluted earnings per share have been computed based upon the weighted average number of common shares outstanding during the period assuming the issuance of common shares for all dilutive potential common shares outstanding.

Reclassifications

Certain reclassifications have been made to prior-year amounts to conform with the current year presentation.

2. Stock-Based Compensation

In December 2002, The FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation, and requires additional disclosures in interim and annual financial statements. SFAS No. 123 requires the disclosure of pro forma net income and net income per share as if the Company adopted the fair value method of accounting for stock-based awards. The fair value of stock-based awards to employees was calculated using the Black-Scholes option-pricing model, modified for dividends, with the following weighted average assumptions:

	2003	2002	2001
Expected life (years)	**7**	7	7
Interest rate	**3.74%**	3.27%	4.69%
Volatility	**30.61%**	31.21%	30.41%
Expected dividend yield	**0.21%**	0.21%	0.28%

As required by SFAS No. 123, the Company has determined that the weighted average estimated fair values of options granted in 2003, 2002 and 2001 were $18.86, $18.30 and $14.36 per share, respectively. Pro forma net income for the fair value of stock options awarded in 2003, 2002 and 2001 were as follows:

Millions of Dollars, Except Per Share Amounts	**2003**	2002	2001
Income before cumulative effect of accounting change, as reported	**$66.7**	$53.8	$49.8
Add: Stock-based employee compensation included in reported income before accounting change	**0.1**	–	–
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(2.2)**	(2.2)	(5.5)
Pro forma income before cumulative effect of accounting change	**64.6**	51.6	44.3
Cumulative effect of accounting change	**3.4**	–	–
Pro forma net income	**$61.2**	$51.6	$44.3
Net income, as reported	**$63.2**	$53.8	$49.8

Basic EPS			
Income before cumulative effect of accounting change, as reported	**$3.30**	$2.66	$2.54
Pro forma income before cumulative effect of accounting change	**3.20**	2.55	2.26
Pro forma net income	**3.03**	2.55	2.26
Net income, as reported	**3.13**	2.66	2.54

Diluted EPS			
Income before cumulative effect of accounting change, as reported	**$3.26**	$2.61	$2.48
Pro forma income before cumulative effect of accounting change	**3.17**	2.51	2.21
Pro forma net income	**3.00**	2.51	2.21
Net income, as reported	**3.09**	2.61	2.48

3. Earnings Per Share (EPS)

Thousands of Dollars, Except Per Share Amounts

Basic EPS	**2003**	2002	2001
Income before cumulative effect of accounting change	**$66,653**	$53,752	$49,793
Cumulative effect of accounting change	**3,433**	–	–
Net income	**$63,220**	$53,752	$49,793
Weighted average shares outstanding	**20,208**	20,199	19,630
Basic earnings per share before cumulative effect of accounting change	**$ 3.30**	$2.66	$2.54
Cumulative effect of accounting change	**(0.17)**	–	–
Basic earnings per share	**$ 3.13**	$2.66	$2.54

Diluted EPS	**2003**	2002	2001
Income before cumulative effect of change	**$66,653**	$53,752	$49,793
Cumulative effect of accounting change	**3,433**	–	–
Net income	**$63,220**	$53,752	$49,793
Weighted average shares outstanding	**20,208**	20,199	19,630
Dilutive effect of stock options	**223**	370	433
Weighted average shares outstanding, adjusted	**20,431**	20,569	20,063

	2003	2002	2001
Diluted earnings per share before cumulative effect of accounting change	**$3.26**	$2.61	$2.48
Cumulative effect of accounting change	**(0.17)**	–	–
Diluted earnings per share	**$3.09**	$2.61	$2.48

The weighted average diluted common shares outstanding for the years ending December 31, 2002 and 2001 excludes the dilutive effect of approximately 445,000, and 376,000 options, respectively, since such options had an exercise price in excess of the average market value of the Company's common stock during such years.

4. Income Taxes

Income before provision for taxes, by domestic and foreign source is as follows:

Thousands of Dollars	2003	2002	2001
Domestic	**$ 32,853**	$44,768	$40,777
Foreign	**39,491**	30,966	31,893
Total income before provision for income taxes	**$ 72,344**	$75,734	$72,670

The provision for taxes on income consists of the following:

Thousands of Dollars	2003	2002	2001
Domestic			
Taxes currently payable			
Federal	**$(12,674)**	$ 5,797	$ 8,906
State and local	**1,281**	179	1,484
Deferred income taxes	**4,036**	5,873	998
Domestic tax provision	**(7,357)**	11,849	11,388
Foreign			
Taxes currently payable	**10,424**	11,601	10,889
Deferred income taxes	**1,049**	(3,230)	(1,129)
Foreign tax provision	**11,473**	8,371	9,760
Total tax provision	**$ 4,116**	$20,220	$21,148

The provision for taxes on income shown in the previous table is classified based on the location of the taxing authority, regardless of the location in which the taxable income is generated.

The major elements contributing to the difference between the U.S. federal statutory tax rate and the consolidated effective tax rate are as follows:

Percentages	2003	2002	2001
U.S. statutory tax rate	**35.0%**	35.0%	35.0%
Depletion	**(5.5)**	(4.7)	(4.5)
Difference between tax provided on foreign earnings and the U.S. statutory rate	**(3.3)**	(3.2)	(1.9)
State and local taxes, net of Federal tax benefit	**0.8**	1.4	1.5
Tax credits and foreign dividends	**2.3**	(0.9)	(1.4)
Contribution of technology	**(2.5)**	–	–
Reversal of tax accruals	**(20.7)**	–	–
Other	**(0.4)**	(0.9)	0.4
Consolidated effective tax rate	**5.7%**	26.7%	29.1%

The Company reversed certain tax accruals during the second half of 2003 as a result of the expiration of the statute of limitations on the Company's U.S. tax returns for certain earlier years. This one-time, non-cash item resulted in a reduction to the tax provision for 2003 of approximately $15 million and a reduction to the overall effective tax rate for 2003 from 26.4% to 5.7%.

The Company believes that its accrued liabilities are sufficient to cover its U.S. and foreign tax contingencies. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

Thousands of Dollars	2003	2002
Deferred tax assets:		
State and local taxes	**$ 4,218**	$ 3,554
Accrued expenses	**2,432**	3,131
Deferred expenses	**5,425**	4,244
Net operating loss carry forwards	**9,339**	7,745
Other	**4,520**	1,125
Total deferred tax assets	**25,934**	19,799
Deferred tax liabilities:		
Plant and equipment, principally due to differences in depreciation	**66,172**	63,590
Pension and post-retirement benefits cost deducted for tax purposes in excess of amounts reported for financial statements	**8,441**	2,885
Other	**2,938**	1,507
Total deferred tax liabilities	**77,551**	67,982
Net deferred tax liabilities	**$51,617**	$48,183

A valuation allowance for deferred tax assets has not been recorded since management believes it is more likely than not that the existing net deductible temporary differences will reverse during periods in which the Company generates net taxable income.

The Company recorded $9.3 million of deferred tax assets arising from tax loss carry forwards which will be realized through future operations. Carry forwards of approximately $0.5 million expire over the next six years, and $8.8 million can be utilized over an indefinite period.

Net cash paid for income taxes were $15.6 million, $14.6 million, and $20.8 million for the years ended December 31, 2003, 2002, and 2001, respectively.

5. Foreign Operations

The Company has not provided for U.S. federal and foreign withholding taxes on $102.8 million of foreign subsidiaries' undistributed earnings as of December 31, 2003 because such earnings, for the most part, are intended to be reinvested overseas. To the extent the parent company has received foreign earnings as dividends, the foreign taxes paid on those earnings have generated tax credits, which have substantially offset related U.S. income taxes. On repatriation, certain foreign countries impose withholding taxes. The amount of withholding tax that would be payable on remittance of the entire amount of undistributed earnings would approximate $3.8 million.

Net foreign currency exchange gains, included in other deductions in the Consolidated Statement of Income, were $476,000, $233,000, and $201,000 for the years ended December 31, 2003, 2002, and 2001, respectively.

6. Inventories

The following is a summary of inventories by major category:

Thousands of Dollars	**2003**	2002
Raw materials	**$34,132**	$32,967
Work in process	**8,153**	7,153
Finished goods	**25,998**	25,459
Packaging and supplies	**18,095**	17,330
Total inventories	**$86,378**	$82,909

7. Property, Plant and Equipment

The major categories of property, plant and equipment and accumulated depreciation and depletion are presented below:

Thousands of Dollars	**2003**	2002
Land	**$ 19,873**	$ 21,516
Quarries/mining properties	**49,770**	27,918
Buildings	**151,923**	140,550
Machinery and equipment	**837,659**	801,788
Construction in progress	**54,899**	39,548
Furniture and fixtures and other	**95,826**	84,684
	1,209,950	1,116,004
Less: Accumulated depreciation and depletion	**(648,362)**	(578,580)
Property, plant and equipment, net	**$ 561,58**8	$ 537,424

8. Restructuring Charges

During the fourth quarter of 2003, the Company announced plans to restructure its operations in an effort to reduce operating costs and to improve efficiency. The restructuring resulted in a total workforce reduction of approximately 70 people or three percent of the Company's worldwide workforce. The Company recorded a pre-tax restructuring charge of $3.3 million in the fourth quarter of 2003 to reflect these actions. This charge consisted of severance, other employee benefits, and lease termination costs. As of December 31, 2003 substantially all of the employees identified in the workforce reduction were terminated and $1.0 million of accrued restructuring liability was paid. As of December 31, 2003, the remaining restructuring liability was approximately $2.3 million.

9. Acquisitions

- On September 15, 2003, the Company purchased for approximately $2.0 million a pre-cast refractory shapes manufacturing facility.

In 2002, the Company acquired the following three entities for a total cash cost of $34.1 million:

- On February 6, 2002, the Company purchased a PCC manufacturing facility in Hermalle-sous-Huy, Belgium for approximately $10.2 million. The Company acquired this facility to accelerate the development of its European coating PCC

program. The terms of the acquisition also provide for additional consideration of $1.0 million to be paid if certain volumes of coating PCC are produced and shipped from this facility for any six consecutive months within five years following the acquisition.

- On April 26, 2002, the Company acquired for approximately $1.4 million the assets of a company that develops and manufactures a refractory lining monitoring system.
- On September 9, 2002, the Company acquired the business and assets of Polar Minerals Inc., a privately owned producer of industrial minerals in the Midwest United States, for approximately $22.5 million.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of the acquisitions:

Thousands of Dollars	**2003**	2002
Current assets	**$ –**	$11.6
Property, plant and equipment	**2.0**	17.7
Intangible assets	**–**	0.7
Goodwill	**–**	5.5
Net operating loss carry forwards	**–**	3.4
Total assets acquired	**2.0**	38.9
Liabilities assumed	**–**	(4.8)
Net cash paid	**$2.0**	$34.1

10. Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, “Goodwill and Other Intangible Assets.” Under SFAS No. 142, goodwill and other intangible assets with indefinite lives are not amortized, but instead reviewed for impairment at least annually in accordance with the provisions of SFAS No. 142. This statement also required an initial goodwill impairment assessment in the year of adoption. The Company completed the initial impairment analysis and performed a subsequent impairment analysis in the fourth quarter. These analyses did not result in an impairment charge.

The carrying amount of goodwill was $52.7 million and $51.3 million as of December 31, 2003 and December 31, 2002, respectively. The net change in goodwill since January 1, 2003 was primarily attributable to the effect of foreign exchange.

The following table reconciles previously reported net income as if the provisions of SFAS No. 142 had come into effect in 2001:

Thousands of Dollars	Year Ended December 31, **2003**	2002	2001
Reported net income	**$63,220**	$53,752	$49,793
Addback: goodwill amortization	**–**	–	818
Adjusted net income	**$63,220**	$53,752	$50,611
Basic earnings per share:			
Reported net income	**$ 3.13**	$ 2.66	$ 2.54
Goodwill amortization	**–**	–	0.04
Adjusted net income	**$ 3.13**	$ 2.66	$ 2.58
Diluted earnings per share:			
Reported net income	**$ 3.09**	$ 2.61	$ 2.48
Goodwill amortization	**–**	–	0.04
Adjusted net income	**$ 3.09**	$ 2.61	$ 2.52

Acquired intangible assets subject to amortization as of December 31, 2003 and December 31, 2002 were as follows:

December 31,	**2003**		2002	
Millions of Dollars	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents and trademarks	**$5.8**	**$0.9**	$5.8	$0.7
Customer lists	**1.4**	**0.2**	1.4	0.1
Other	**0.2**	**0.1**	0.2	–
	$7.4	**$1.2**	$7.4	$0.8

The weighted average amortization period for acquired intangible assets subject to amortization is approximately 15 years. Amortization expense was $0.4 million in 2003 and the estimated amortization expense is $0.4 million for each of the next five years through 2008.

Included in other assets and deferred charges is an intangible asset of approximately $13.1 million which represents the non-current unamortized amount paid to a customer in connection with contract extensions at eight PCC satellite facilities. In addition, a current portion of $1.8 million is included in prepaid expenses and other current assets. Such amounts will be amortized as a reduction of sales over the remaining lives of the customer contracts. Approximately $1.3 million was amortized in 2003. Estimated amortization as a reduction of sales is as follows: 2004 - $1.8 million; 2005 - $1.8 million; 2006 - $1.8 million; 2007 - $1.8 million; 2008 - $1.8 million; with smaller reductions thereafter over the remaining lives of the contracts.

11. Accounting for Impairment of Long-Lived Assets

The Company accounts for impairment of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 establishes a uniform accounting model for disposition of long-lived assets. This Statement also requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. During 2003, the Company recorded a writedown of impaired assets of $3.2 million for the planned closure of a plant and for assets made obsolete by improved technology. During 2002, the Company recorded a write-down of impaired assets of $0.8 million for a precipitated calcium carbonate plant at a paper mill that had ceased operations.

12. Derivative Instruments and Hedging Activities

The Company is exposed to foreign currency exchange rate fluctuations and interest rate changes in the normal course of its business. As part of the Company's risk management strategy, the Company uses interest-rate related derivative instruments to manage its exposure on its debt instruments, as well as forward exchange contracts (FEC) to manage its exposure to foreign currency risk on certain raw material purchases. The Company's objective is to offset gains and losses resulting from these exposures with gains and losses on the derivative contracts used to hedge them. The Company has not entered into derivative instruments for any purpose other than to hedge certain expected cash flows. The Company does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates and foreign currency, the Company exposes itself to credit risk and market risk. Credit risk is the risk that the counterparty will fail to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty, and therefore, it does not face any credit risk. The Company minimizes the credit risk in derivative instruments by entering into transactions with major financial institutions.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates, currency exchange rates, or commodity prices. The market risk associated with interest rate and forward exchange contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Based on criteria established by SFAS No. 133, the Company designated its derivatives as a cash flow hedge. During 2001, the Company entered into three-year interest rate swap agreements with notional amounts totaling $30 million that expire in January 2005. These agreements effectively convert a portion of the Company's floating-rate debt to a fixed-rate basis with an interest rate of 4.5%, thus reducing the impact of the interest rate changes on future cash flows and income. The Company uses FEC designated as cash flow hedges to protect against foreign currency exchange rate risks inherent in its forecasted inventory purchases. The Company had 13 open foreign exchange contracts at December 31, 2003.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is initially recorded in accumulated other comprehensive income as a separate component of stockholders' equity and subsequently reclassified into earnings in the period during which the hedged transaction is recognized in earnings. The gains and losses associated with these forward exchange contracts and interest rate swaps are recognized into cost of sales and interest expense, respectively.

13. Financial Instruments and Concentrations of Credit Risk

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents, accounts receivable and payable, and accrued liabilities: The carrying amounts approximate fair value because of the short maturities of these instruments.

Short-term debt and other liabilities: The carrying amounts of short-term debt and other liabilities approximate fair value because of the short maturities of these instruments.

Long-term debt: The fair value of the long-term debt of the Company is estimated based on the quoted market prices for that debt or similar debt and approximates the carrying amount.

Forward exchange contracts: The fair value of forward exchange contracts (used for hedging purposes) is estimated by obtaining quotes from brokers. If appropriate, the Company would enter into forward exchange contracts to mitigate the impact of foreign exchange rate movements on the Company's operating results. It does not engage in speculation. Such foreign exchange contracts would not subject the Company to additional risk from exchange rate movements because gains and losses on these contracts would offset losses and gains on the assets, liabilities and transactions being hedged. At December 31, 2003, the Company had open foreign exchange contracts to purchase $2.2 million of foreign currencies. These contracts range in maturity from January 21, 2004 to June 23, 2004. The fair value of these instruments was an asset of $0.1 million on December 31, 2003. There were no open foreign exchange contracts at December 31, 2002.

Interest rate swap agreements: The Company enters into interest rate swap agreements as a means to hedge its interest rate exposure on debt instruments. At December 31, 2003, the Company had two interest rate swaps with major financial institutions that effectively converted variable-rate debt to a fixed rate. One swap has a notional amount of $20 million and the other swap has a notional amount of $10 million. These swap agreements are under three-year terms expiring in January 2005 whereby the Company pays 4.50% and receives a three-month LIBOR rate plus 45 basis points. The fair value of these instruments was determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date. The fair value of these instruments was a liability of approximately $1.0 million and $1.5 million at December 31, 2003 and December 31, 2002, respectively.

Credit risk: Substantially all of the Company's accounts receivable are due from companies in the paper, construction and steel industries. Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. The Company regularly monitors its credit risk exposures and takes steps to mitigate the likelihood of these exposures resulting in actual loss. The Company's extension of credit is based on an evaluation of the customer's financial condition and collateral is generally not required.

The Company's bad debt expense for the years ended December 31, 2003, 2002, and 2001was $5.3 million, $6.2 million and $3.9 million, respectively.

14. Long-Term Debt and Commitments

The following is a summary of long-term debt:

Thousands of Dollars	December 31, **2003**	2002
7.49% Guaranteed Senior Notes Due July 24, 2006	**$ 50,000**	$50,000
Yen-denominated Guaranteed Credit Agreement Due March 31, 2007	**8,256**	8,957
Variable/Fixed Rate Industrial Development Revenue Bonds Due 2009	**4,000**	4,000
Economic Development Authority Refunding Revenue Bonds Series 1999 Due 2010	**4,600**	4,600
Variable/Fixed Rate Industrial Development Revenue Bonds Due August 1, 2012	**8,000**	8,000
Variable/Fixed Rate Industrial Development Revenue Bonds Series 1999 Due November 1, 2014	**8,200**	8,200
Variable/Fixed Rate Industrial Development Revenue Bonds Due March 31, 2020	**5,000**	5,000
Installment obligations	**11,368**	–
Other borrowings	**1,910**	1,594
	101,334	90,351
Less: Current maturities	**3,175**	1,331
Long-term debt	**$ 98,159**	$89,020

On July 24, 1996, through a private placement, the Company issued $50 million of 7.49% Guaranteed Senior Notes due July 24, 2006. The proceeds from the sale of the notes were used to refinance a portion of the short-term commercial bank debt outstanding. No required principal payments are due until July 24, 2006. Interest on the notes is payable semi-annually.

On May 17, 2000, the Company's majority-owned subsidiary, Specialty Minerals FMT K.K., entered into a Yen-denominated Guaranteed Credit Agreement with the Bank of New York due March 31, 2007. The proceeds were used to finance the construction of a PCC satellite facility in Japan. Principal payments began on June 30, 2002. Interest is payable quarterly at a rate of 2.05% per annum.

The Variable/Fixed Rate Industrial Development Revenue Bonds due 2009 are tax-exempt 15-year instruments issued to finance the expansion of a PCC plant in Selma, Alabama. The bonds are dated November 1, 1994, and provide for an optional put by the holder (during the Variable Rate Period) and a mandatory call by the issuer. The bonds bear interest at either a variable rate or fixed rate, at the option of the Company. Interest is payable semi-annually under the fixed rate option and monthly under the variable rate option. The Company has selected the variable rate option on these borrowings and the average interest rates were approximately 1.18% and 1.57% for the years ended December 31, 2003 and 2002, respectively.

The Economic Development Authority Refunding Revenue Bonds due 2010 were issued on February 23, 1999 to refinance the bonds issued in connection with the construction of a PCC plant in Eastover, South Carolina. The bonds bear interest at either a variable rate or fixed rate, at the option of the Company. Interest is payable semi-annually under the fixed rate option and monthly under the variable rate option. The Company has selected the variable rate option on these borrowings and the average interest rates were approximately 1.16% and 1.51% for the years ended December 31, 2003 and 2002, respectively.

The Variable/Fixed Rate Industrial Development Revenue Bonds due August 1, 2012 are tax-exempt 15-year instruments that were issued on August 1, 1997 to finance the construction of a PCC plant in Courtland, Alabama. The bonds bear interest at either a variable rate or fixed rate, at the option of the Company. Interest is payable semi-annually under the fixed rate option and monthly under the variable rate option. The Company has selected the variable rate option on these borrowings and the average interest rates were approximately 1.16% and 1.56% for the years ended December 31, 2003 and 2002, respectively.

The Variable/Fixed Rate Industrial Development Revenue Bonds due November 1, 2014 are tax-exempt 15-year instruments and were issued on November 30, 1999 to refinance the bonds issued in connection with the construction of a PCC plant in Jackson, Alabama. The bonds bear interest at either a variable rate or fixed rate at the option of the Company. Interest is payable semi-annually under the fixed rate option and monthly under the variable rate option. The Company has selected the variable rate option on these borrowings and the average interest rates were approximately 1.16% and 1.56% for the years ended December 31, 2003 and 2002, respectively.

On June 9, 2000 the Company entered into a twenty-year, taxable, Variable/Fixed Rate Industrial Development Revenue Bond agreement to finance a portion of the construction of a merchant manufacturing facility for the production of Specialty PCC in Mississippi. The Company has selected the variable rate option for this borrowing and the average interest rate was approximately 1.65% and 2.33% for the years ended December 31, 2003 and 2002, respectively.

On May 31, 2003, the Company acquired land and limestone ore reserves from the Cushenbury Mine Trust for approximately $17.5 million. Approximately $6.1 million was paid at the closing and $11.4 million was financed through an installment obligation. The average interest rate on this obligation is approximately 4.25%. The principal payments are as follows: 2004 - $0.8 million; 2005 - $0.9 million, 2006 - $0.9 million; 2007 - $0.9 million; 2008 - $6.5 million; 2013 - $1.4 million.

The aggregate maturities of long-term debt are as follows: 2004 - $3.2 million; 2005 - $3.8 million; 2006 - $54.0 million, 2007 - $2.0 million; 2008 - $7.0 million; thereafter - $31.3 million.

The Company had available approximately $110.0 million in uncommitted, short-term bank credit lines, of which $30.0 million was in use at December 31, 2003. The interest rate for these borrowings was approximately 4.09% for the year ended December 31, 2003.

During 2003, 2002 and 2001, respectively, the Company incurred interest costs of $6.2 million, $6.4 million and $8.8 million including $0.8 million, $0.6 million and $0.9 million, respectively, which were capitalized. Interest paid approximated the incurred interest costs.

15. Benefit Plans

Pension Plans and Other Postretirement Benefit Plans

The Company and its subsidiaries have pension plans covering substantially all eligible employees on a contributory or non-contributory basis.

Benefits under defined benefit plans are generally based on years of service and an employee's career earnings. Employees become fully vested after five years.

The Company provides postretirement health care and life insurance benefits for substantially all of its U.S. retired employees. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. The Company does not pre-fund these benefits and has the right to modify or terminate the plan in the future.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 became law in December 2003 and introduced both a Medicare prescription-drug benefit and a federal subsidy to sponsors of retiree health-care plans that provide a benefit at least "actuarially equivalent" to the Medicare benefit. The Company's other postretirement benefits do provide for such prescription-drug benefits. The Company has made a one-time election to defer accounting for the economic effects of the Medicare Act, as permitted by FASB Staff Position 106-1. The FASB plans to issue authoritative guidance on the accounting for the subsidies in 2004. The issued guidance could require the Company to change previously reported information.

The funded status of the Company's pension plans and other postretirement benefit plans at December 31, 2003 and 2002 is as follows:

Obligations and Funded Status

	Pension Benefits		Other Benefits	
Millions of Dollars	**2003**	2002	**2003**	2002
Change in benefit obligation				
Benefit obligation at beginning of year	**$125.8**	$107.2	**$24.3**	$21.6
Service cost	**5.7**	5.1	**1.2**	1.1
Interest cost	**7.9**	7.3	**1.6**	1.5
Actuarial gain	**7.9**	7.5	**2.2**	1.6
Benefits paid	**(6.2)**	(4.1)	**(2.4)**	(1.5)
Other	**1.6**	2.8	**–**	–
Benefit obligation at end of year	**$142.7**	$125.8	**$26.9**	$24.3

	Pension Benefits		Other Benefits	
Millions of Dollars	**2003**	2002	**2003**	2002
Change in plan assets				
Fair value of plan assets at beginning of year	**$111.4**	$102.7	**$ –**	$ –
Actual return on plan assets	**22.8**	(9.2)	**–**	–
Employer contributions	**20.8**	20.2	**2.4**	1.6
Plan participants' contributions	**0.2**	0.2	**–**	–
Benefits paid	**(7.2)**	(4.1)	**(2.4)**	(1.6)
Other	**4.7**	1.6	**–**	–
Fair value of plan assets at end of year	**$152.7**	$111.4	**$ –**	$ –
Funded status	**$ 10.0**	$(14.4)	**$(26.9)**	$(24.3)
Unrecognized transition amount	**(0.1)**	–	**–**	–
Unrecognized net actuarial loss	**31.3**	42.0	**6.4**	4.4
Unrecognized prior service cost	**4.6**	4.7	**–**	–
Prepaid (accrued) benefit cost	**$ 45.8**	$ 32.3	**$(20.5)**	$(19.9)

Amounts recognized in the consolidated balance sheet consist of:

	Pension Benefits		Other Benefits	
Millions of Dollars	**2003**	2002	**2003**	2002
Prepaid expenses	**$ 4.3**	$ –	**$ –**	$ –
Prepaid benefit cost	**46.3**	36.1	**(20.5)**	–
Accrued benefit liabilities	**(7.3)**	(7.2)	**–**	(19.9)
Intangible asset	**1.1**	1.2	**–**	–
Accumulated other comprehensive loss	**1.4**	2.2	**–**	–
Net amount recognized	**$45.8**	$32.3	**$(20.5)**	$(19.9)

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

December 31,	**2003**	2002
Projected benefit obligation	**$33.6**	$31.5
Accumulated benefit obligation	**$29.3**	$26.4
Fair value of plan assets	**$23.8**	$17.8

The accumulated benefit obligation for all defined benefit pension plans was $131.9 million and $109.8 million at December 31, 2003 and 2002, respectively.

The components of net periodic benefit costs are as follows:

	Pension Benefits		
Millions of Dollars	**2003**	2002	2001
Service cost	**$ 5.7**	$ 5.1	$ 5.2
Interest cost	**7.9**	7.3	6.9
Expected return on plan assets	**(10.1)**	(9.0)	(9.5)
Amortization of transition amount	**0.1**	0.1	0.8
Amortization of prior service cost	**0.6**	0.5	0.5
Recognized net actuarial loss (gain)	**2.3**	0.8	(0.2)
SFAS No. 88 settlement	**–**	–	1.9
Net periodic benefit cost	**$ 6.5**	$ 4.8	$ 5.6

	Other Benefits		
Millions of Dollars	**2003**	2002	2001
Service cost	**$1.2**	$ 1.1	$ 1.1
Interest cost	**1.6**	1.5	1.4
Amortization of prior service cost	**0.1**	(0.4)	(1.7)
Net periodic benefit cost	**$2.9**	$ 2.2	$ 0.8

Unrecognized prior service cost is amortized on an accelerated basis over the average remaining service period of each active employee.

Under the provisions of SFAS No. 88, lump sum distributions from the Company's Supplemental Retirement Plan caused a partial settlement of such plan, resulting in a charge of $1.9 million in 2001.

The Company's funding policy for U.S. plans generally is to contribute annually into trust funds at a rate that is intended to remain at a level percentage of compensation for covered employees. The funding policy for the international plans conforms to local governmental and tax requirements. The plans' assets are invested primarily in stocks and bonds.

Additional Information

The weighted average assumptions used in the accounting for the pension benefit plans and other benefit plans as of December 31 are as follows:

	2003	2002	2001
Discount rate	**6.25%**	6.75%	7.25%
Expected return on plan assets	**8.75%**	8.75%	9.25%
Rate of compensation increase	**3.50%**	3.50%	4.00%

The Company considers a number of factors to determine its expected rate of return on plan assets assumption, including historical performance of plan assets, asset allocation and other third-party studies and surveys. The Company reviewed the historical performance of plan assets over a ten-year period (from 1993-2003), the results of which exceeded the 8.75% rate of return assumption that the Company ultimately selected for domestic plans. The Company also considered the plan portfolios' asset allocations over a variety of time periods and compared them with third-party studies and surveys of annualized returns of similarly balanced portfolio strategies. The historical return of this universe of similar portfolios also exceeded the return assumption that the Company ultimately selected. Finally, the Company reviewed performance of the capital markets in recent years and, upon advice from various third parties, such as the pension plans' advisers, investment managers and actuaries, selected the 8.75% return assumption used for domestic plans.

For measurement purposes, health care cost trend rates of approximately 10% for pre-age-65 and post-age-65 benefits were used in 2003. These trend rates were assumed to decrease gradually to 5.0% for 2009 and remain at that level thereafter.

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

Thousands of Dollars	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total service and interest cost components	11	(12)
Effect on postretirement benefit obligation	150	(160)

Plan Assets

The Company's pension plan weighted average asset allocations at December 31, 2003 and 2002 by asset category are as follows:

	Plan Assets at December 31,	
Asset Category	**2003**	2002
Equity securities	**68.9%**	68.4%
Fixed income securities	**30.1%**	30.6%
Real estate	**0.4%**	0.4%
Other	**0.6%**	0.6%
Total	**100%**	100%

The following table presents domestic and foreign pension plan assets information at December 31, 2003, 2002 and 2001 (the measurement date of pension plan assets):

	U.S. Plans		
Millions of Dollars	**2003**	2002	2001
Fair value of plan assets	**$123.5**	$87.6	$77.9

	International Plans		
Millions of Dollars	**2003**	2002	2001
Fair value of plan assets	**$ 29.2**	$23.7	$24.7

Contributions

The Company expects to contribute $7 million to its pension plan and $10 million to its other postretirement benefit plan in 2004.

Investment Strategies

The Plan Assets Committee has adopted an investment policy for domestic pension plan assets designed to meet or exceed the expected rate of return on plan assets assumption. To achieve this, the pension plans retain professional investment managers that invest plan assets, primarily in equity and fixed income securities. The Company has targeted an investment mix of 65% in equity securities and 35% in fixed income securities.

Savings and Investment Plans

The Company maintains a voluntary Savings and Investment Plan for most non-union employees in the U.S. Within prescribed limits, the Company bases its contribution to the Plan on employee contributions. The Company's contributions amounted to $3.0 million, $2.9 million and $2.9 million for the years ended December 31, 2003, 2002 and 2001, respectively.

16. Leases

The Company has several noncancelable operating leases, primarily for office space and equipment. Rent expense amounted to approximately $4.9 million, $4.6 million and $4.4 million for the years ended December 31, 2003, 2002 and 2001, respectively. Total future minimum rental commitments under all noncancelable leases for each of the years 2004 through 2008 and in the aggregate thereafter are approximately $5.4 million, $4.8 million, $3.9 million, $3.0 million and $4.7 million, respectively and $8.1 million thereafter.

Total future minimum payments to be received under direct financing leases for each of the years 2004 through 2008 and in the aggregate thereafter are approximately $2.8 million, $2.6 million, $2.0 million, $1.3 million and $1.0 million, respectively and $3.3 million thereafter.

17. Litigation

On April 9, 2003, the Connecticut Department of Environmental Protection ("DEP") issued an administrative consent order which had been agreed to by MTI, Specialty Minerals Inc. and Minteq International Inc. relating to the Canaan, Connecticut, site at which both Minteq and Specialty Minerals have operations. The order settled claims relating to an accidental discharge of machine oil alleged to have contained polychlorinated biphenyls at or above regulated levels, as well as alleged violations of requirements pertaining to stormwater and waste water discharge and to management of underground storage tanks. The order required payment of a civil penalty in the amount of $11,000 and funding of several supplemental environmental projects totaling $330,000. These amounts were paid on April 21, 2003. Cost of remediation at the site remains uncertain.

Certain of the Company's subsidiaries are among numerous defendants in a number of cases seeking damages for exposure to silica or asbestos-containing materials. Most of these claims do not provide adequate information to assess their merits, the likelihood that the Company will be found liable, or the magnitude of such liability if any. Additional claims of this nature may be made against the Company or its subsidiaries. At this time management anticipates that the amount of the Company's liability, if any, and the cost of defending such claims, will not have a material effect on its financial position or results of operations.

The Company and its subsidiaries are not party to any other material pending legal proceedings, other than ordinary routine litigation that is incidental to their businesses.

18. Stockholders' Equity

Capital Stock

The Company's authorized capital stock consists of 100 million shares of common stock, par value $0.10 per share, of which 20,491,499 shares and 20,155,787 shares were outstanding at December 31, 2003 and 2002, respectively, and 1,000,000 shares of preferred stock, none of which were issued and outstanding.

Cash Dividends

Cash dividends of $2.0 million or $0.10 per common share were paid during 2003. In January 2004, a cash dividend of approximately $1.4 million or $0.05 per share, was declared, payable in the first quarter of 2004.

Preferred Stock Purchase Rights

Under the Company's Preferred Stock Purchase Rights Plan, each share of the Company's common stock carries with it one preferred stock purchase right. Subject to the terms and conditions set forth in the plan, the rights will become exercisable if a person or group acquires beneficial ownership of 15% or more of the Company's common stock or announces a tender or exchange offer that would result in the acquisition of 30% or more thereof. If the rights become exercisable, separate certificates evidencing the rights will be distributed, and each right will entitle the holder to purchase from the Company a new series of preferred stock, designated as Series A Junior Preferred Stock, at a predefined price. The rights also entitle the holder to purchase shares in a change-of-control situation. The preferred stock, in addition to a preferred dividend and liquidation right, will entitle the holder to vote on a pro rata basis with the Company's common stock.

The rights are redeemable by the Company at a fixed price until 10 days or longer, as determined by the Board, after certain defined events or at any time prior to the expiration of the rights on September 13, 2009 if such events do not occur.

Stock and Incentive Plan

The Company has adopted a Stock Award and Incentive Plan (the "Plan"), which provides for grants of incentive and non-qualified stock options, stock appreciation rights, stock awards or performance unit awards. The Plan is administered by the Compensation Committee of the Board of Directors. Stock options granted under the Plan have a term not in excess of ten years. The exercise price for stock options will not be less than the fair market value of the common stock on the date of the grant, and each award of stock options will vest ratably over a specified period, generally three years.

In 2001, the shareholders approved an amendment to increase the number of shares of common stock available under the Plan by an additional 0.5 million.

The following table summarizes stock option activity for the Plan:

		Under Option	
	Shares Available For Grant	Shares	Weighted Average Exercise Price Per Share ($)
Balance January 1, 2001	1,252,989	2,519,214	34.23
Authorized	500,000	–	–
Granted	(252,500)	252,500	34.81
Exercised	–	(109,504)	29.04
Canceled	42,057	(42,057)	38.57
Balance December 31, 2001	1,542,546	2,620,153	34.43
Granted	(285,728)	285,728	46.92
Exercised	–	(977,363)	30.03
Canceled	20,335	(20,335)	50.83
Balance December 31, 2002	1,277,153	1,908,183	38.54
Granted	(82,435)	82,435	47.74
Exercised	–	(483,978)	32.92
Canceled	23,874	(23,874)	39.17
Balance December 31, 2003	1,218,592	1,482,766	40.85

The following table summarizes information concerning Plan options at December 31, 2003:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding at 12/31/03	Weighted Average Remaining Contractual Term (Years)	Weighted Average Exercise Price
$30.625 - 34.825	278,043	5.0	$33.00
$36.725 - 39.530	776,167	5.4	$39.52
$42.070 - 53.120	428,556	7.9	$48.40

	Options Exercisable	
Range of Exercise Prices	Number Exercisable at 12/31/03	Weighted Average Exercise Price
$30.625 - 34.825	225,773	$32.57
$36.725 - 39.530	762,667	$39.53
$42.07 - 53.120	191,685	$49.07

19. Comprehensive Income

Comprehensive income includes changes in the fair value of certain financial derivative instruments that qualify for hedge accounting to the extent they are effective, the minimum pension liability and cumulative foreign currency translation adjustments.

The following table reflects the accumulated balances of other comprehensive income (loss) (in millions):

	Currency Translation Adjustment	Minimum Pension Liability	Net Gain (Loss) On Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2001	$(43.1)	$(1.0)	$ –	$(44.1)
Current year change	(11.9)	0.5	0.2	(11.2)
Balance at December 31, 2001	(55.0)	(0.5)	0.2	(55.3)
Current year change	22.2	(0.8)	(1.1)	20.3
Balance at December 31, 2002	(32.8)	(1.3)	(0.9)	(35.0)
Current year change	39.7	(1.4)	0.5	38.8
Balance at December 31, 2003	**$ 6.9**	**$(2.7)**	**$(0.4)**	**$ 3.8**

The income tax expense (benefit) associated with items included in other comprehensive income (loss) was approximately $0.8 million, ($1.1) million, and $0.4 million for the years ended December 31, 2003, 2002 and 2001, respectively.

20. Accounting for Asset Retirement Obligations

Effective January 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes the financial accounting and reporting for obligations associated with the retirement of long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

Upon adoption, the Company recorded a non-cash, after-tax charge to earnings of approximately $3.4 million for the cumulative effect of this accounting change related to retirement obligations associated with the Company's PCC satellite facilities and its mining properties, both within the Specialty Minerals segment. As a result of this pronouncement, the Company recorded additional depreciation and accretion expenses of approximately $1.0 million for full year 2003. Such charge is included in cost of goods sold. The pro forma effect on results, assuming that SFAS No. 143 were applied retroactively, would be a non-cash, after-tax charge to earnings of approximately $0.5 million for the full year 2002.

The following is a reconciliation of asset retirement obligations as of December 31, 2003:

Thousands of Dollars	
Asset retirement liability, beginning of period	$8,953
Accretion expense	712
Payments made	(350)
Asset retirement liability, end of period	$9,315

21. Accounting for Costs Associated with Exit or Disposal Activities

Effective January 1, 2003, the Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities. During the first quarter of 2003, the Company paid approximately $660,000 of one-time termination benefits to a group of employees at the Specialty Minerals facility in the United Kingdom. Such charge is included in cost of goods sold.

22. Deferred Compensation

In July 2003, the Company granted to certain corporate officers rights to receive 27,600 shares of the Company's common stock under the Company's 2001 Stock Award and Incentive Plan (the 2001 Plan). The rights will be deferred for a specified number of years of service, subject to restrictions on transfer and other conditions. Upon issuance of the rights, a deferred compensation expense equivalent to the market value of the underlying shares on the date of the grant was charged to stockholders' equity and is being amortized over the estimated average deferral period of approximately 5 years. The compensation expense amortized with respect to the units during 2003 was approximately $135,600.

23. Segment and Related Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's operating segments are strategic business units that offer different products and serve different markets. They are managed separately and require different technology and marketing strategies.

The Company has two operating segments: Specialty Minerals and Refractories. The Specialty Minerals segment produces and sells precipitated calcium carbonate and lime, and mines, processes and sells the natural mineral products limestone and talc. This segment's products are used principally in the paper, building materials, paints and coatings, glass, ceramic, polymers, food, and pharmaceutical industries. The Refractories segment produces and markets monolithic and shaped refractory materials and services used primarily by the steel, cement and glass industries.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on the operating income of the respective business units. Depreciation expense related to corporate assets is allocated to the business segments and is included in their income from operations. However, such corporate depreciable assets are not included in the segment assets. Specialty Minerals' segment sales to International Paper Company and affiliates represented approximately 10.0%, 11.5% and 13.0% of consolidated net sales in 2003, 2002 and 2001, respectively. Intersegment sales and transfers are not significant.

Segment information for the years ended December 31, 2003, 2002 and 2001was as follows (in millions):

2003	Specialty Minerals	Refractories	Total
Net sales	$557.1	$256.6	$813.7
Income from operations	55.4	21.8	77.2
Restructuring charges	1.7	1.6	3.3
Writedown of impaired assets	2.0	1.2	3.2
Bad debt expenses	1.1	4.2	5.3
Depreciation, depletion and amortization	56.9	9.4	66.3
Segment assets	672.3	253.9	926.2
Capital expenditures	37.1	12.4	49.5

2002	Specialty Minerals	Refractories	Total
Net sales	$520.1	$232.6	$752.7
Income from operations	60.0	20.9	80.9
Bad debt expenses	3.8	2.4	6.2
Writedown of impaired assets	0.8	–	0.8
Depreciation, depletion and amortization	59.0	10.0	69.0
Segment assets	612.7	238.6	851.3
Capital expenditures	27.3	9.7	37.0

2001	Specialty Minerals	Refractories	Total
Net sales	$483.3	$201.1	$684.4
Income from operations	55.5	25.1	80.6
Restructuring charges	3.0	0.4	3.4
Bad debt expenses	0.6	3.3	3.9
Depreciation, depletion and amortization	55.9	10.6	66.5
Segment assets	587.9	231.4	819.3
Capital expenditures	54.3	8.6	62.9

A reconciliation of the totals reported for the operating segments to the applicable line items in the consolidated financial statements is as follows (in millions):

Income before provision for taxes on income and minority interests	**2003**	2002	2001
Consolidated income from operations	$ **77.2**	$ 80.9	$ 80.6
Interest income	**0.8**	1.1	0.8
Interest expense	**(5.4)**	(5.8)	(7.9)
Other deductions	**(0.3)**	(0.5)	(0.8)
Income before provision for taxes on income and minority interests	**$ 72.3**	$ 75.7	$ 72.7

Total assets	**2003**	2002	2001
Total segment assets	**$ 926.2**	$851.3	$819.3
Corporate assets	**109.3**	48.6	28.5
Consolidated total assets	**$1,035.5**	$899.9	$847.8

Capital expenditures	**2003**	2002	2001
Total segment capital expenditures	**$49.5**	$37.0	$62.9
Corporate capital expenditures	**3.2**	0.1	0.2
Consolidated total capital expenditures	**$52.7**	$37.1	$63.1

The following is a schedule of amortization expense related to goodwill by segment:

Amortization of Goodwill Thousands of Dollars	Year Ended December 31, **2003**	 2002	 2001
Specialty Minerals	**$ –**	$ –	$ 373
Refractories	**–**	–	991
Total	**$ –**	$ –	$1,364

The carrying amount of goodwill by reportable segment as of December 31, 2003 and December 31, 2002 was as follows:

Goodwill Thousands of Dollars	Year Ended December 31, **2003**	 2002
Specialty Minerals	**$15,682**	$14,637
Refractories	**37,039**	36,654
Total	**$52,721**	$51,291

The net change in goodwill since December 31, 2002 was primarily attributable to the effect of foreign exchange.

Financial information relating to the Company's operations by geographic area was as follows (in millions):

Net sales	**2003**	2002	2001
United States	**$499.9**	$482.2	$442.7
Canada/Latin America	**72.4**	68.5	63.6
Europe/Africa	**192.6**	156.0	129.6
Asia	**48.8**	46.0	48.5
Total International	**313.8**	270.5	241.7
Consolidated total net sales	**$813.7**	$752.7	$684.4

Net sales and long-lived assets are attributed to countries and geographic areas based on the location of the legal entity. No individual foreign country represents more than 10% of consolidated net sales or consolidated long-lived assets.

Long-lived assets	**2003**	2002	2001
United States	**$402.4**	$400.6	$411.1
Canada/Latin America	**24.5**	21.5	28.5
Europe/Africa	**154.7**	141.3	115.3
Asia	**37.1**	31.9	31.4
Total International	**216.3**	194.7	175.2
Consolidated total long-lived assets	**$618.7**	$595.3	$586.3

Quarterly Financial Data (unaudited)

Minerals Technologies Inc. and Subsidiary Companies 2003 Annual Report

Thousands of Dollars, Except Per Share Amounts

2003 Quarters	First	Second	Third	Fourth
Net Sales by Product Line				
PCC	$109,252	$106,587	$108,541	$111,711
Processed Minerals	28,523	30,770	30,564	31,201
Specialty Minerals Segment	137,775	137,357	139,106	142,912
Refractories Segment	63,675	65,017	59,128	68,773
Consolidated net sales	201,450	202,374	198,234	211,685
Gross profit	49,767	49,996	47,486	50,745
Income before cumulative effect of accounting change	14,917	14,283	24,251	13,202
Cumulative effect of accounting change	3,433	–	–	–
Net income	$ 11,484	$ 14,283	$ 24,251	$ 13,202
Earnings per share before accounting change:				
Basic	$ 0.74	$ 0.71	$ 1.20	$ 0.65
Diluted	$ 0.74	$ 0.70	$ 1.18	$ 0.64
Earnings per share after accounting change:				
Basic	$ 0.57	$ 0.71	$ 1.20	$ 0.65
Diluted	$ 0.57	$ 0.70	$ 1.18	$ 0.64
Market Price Range Per Share of Common Stock:				
High	$ 44.25	$ 50.20	$ 53.15	$ 60.75
Low	$ 35.45	$ 37.57	$ 47.09	$ 50.90
Close	$ 37.79	$ 48.14	$ 51.44	$ 59.25
Dividends paid per common share	$ 0.025	$ 0.025	$ 0.025	$ 0.025

In the fourth quarter of 2003, the Company recorded a $3.2 million writedown of impaired assets relating to the planned closure of the Company's operations in River Rouge, Michigan and the retirement of certain SYNSIL® product assets made obsolete by an improved manufacturing process. In addition, the Company recorded restructuring charges of $3.3 million in the fourth quarter of 2003.

The Company reversed certain tax accruals due to the expiration of the statute of limitations in the third quarter of 2003. As a result, the tax provision was decreased by $11.5 million in the third quarter and $3.5 million in the fourth quarter.

2002 Quarters	First	Second	Third	Fourth
Net Sales by Product Line				
PCC	$102,876	$103,320	$107,562	$109,230
Processed Minerals	21,439	24,380	24,546	26,726
Specialty Minerals Segment	124,315	127,700	132,108	135,956
Refractories Segment	54,685	59,128	60,026	58,762
Consolidated net sales	179,000	186,828	192,134	194,718
Gross profit	45,576	46,166	46,397	45,806
Net income	$ 13,543	$ 13,997	$ 14,213	$ 11,999
Earnings per share:				
Basic	$ 0.68	$ 0.68	$ 0.70	$ 0.60
Diluted	$ 0.66	$ 0.67	$ 0.70	$ 0.59
Market Price Range Per Share of Common Stock:				
High	$ 53.91	$ 53.84	$ 48.99	$ 46.07
Low	$ 44.06	$ 49.12	$ 33.17	$ 36.38
Close	$ 52.93	$ 49.32	$ 37.07	$ 43.15
Dividends paid per common share	$ 0.025	$ 0.025	$ 0.025	$ 0.025

In the second quarter of 2002, the Company recorded a $0.75 million write-down of impaired assets related to a satellite PCC plant at a paper mill that has ceased operations.

Independent Auditors' Report

The Board of Directors and Shareholders
Minerals Technologies Inc.:

We have audited the accompanying consolidated balance sheet of Minerals Technologies Inc. and subsidiary companies as of December 31, 2003 and 2002 and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Minerals Technologies Inc. and subsidiary companies as of December 31, 2003 and 2002 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" effective January 1, 2003 and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" effective January 1, 2002.

KPMG LLP

New York, New York
January 22, 2004

Management's Statement of Responsibility

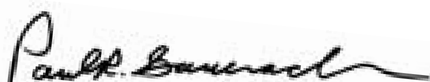
Minerals Technologies Inc. and Subsidiary Companies 2003 Annual Report

The consolidated financial statements and all related financial information herein are the responsibility of the Company's management. The financial statements, which include amounts based on judgments, have been prepared in accordance with accounting principles generally accepted in the United States of America. Other financial information in the annual report is consistent with that in the financial statements.

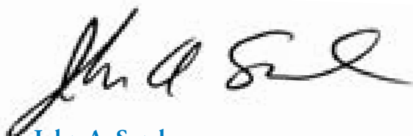
The Company maintains a system of internal control over financial reporting, which it believes provides reasonable assurance that transactions are executed in accordance with management's authorization and are properly recorded, that assets are safeguarded, and that accountability for assets is maintained. Even an effective internal control system, no matter how well designed, has inherent limitations and, therefore, can provide only reasonable assurance with respect to financial statement preparation. The system of internal control is characterized by a control-oriented environment within the Company, which includes written policies and procedures, careful selection and training of personnel, and audits by a professional staff of internal auditors.

The Company's independent accountants have audited and reported on the Company's consolidated financial statements. Their audits were performed in accordance with auditing standards generally accepted in the United States of America.

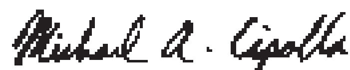
The Audit Committee of the Board of Directors is composed solely of outside directors. The Audit Committee meets periodically with our independent auditors, internal auditors and management to review accounting, auditing, internal control and financial reporting matters. Recommendations made by the independent auditors and the Company's internal auditors are considered and appropriate action is taken with respect to these recommendations. Both our independent auditors and internal auditors have free access to the Audit Committee.



Paul R. Saueracker
Chairman of the Board, President and Chief Executive Officer



John A. Sorel
Senior Vice President, Finance and Chief Financial Officer



Michael A. Cipolla
Vice President, Corporate Controller and Chief Accounting Officer

January 22, 2004

Directors, Committees and Officers

Minerals Technologies Inc. and Subsidiary Companies 2003 Annual Report

Board of Directors

Paul R. Saueracker
Chairman of the Board, President and Chief Executive Officer

John B. Curcio
Retired Chairman of the Board and Chief Executive Officer
Mack Trucks, Inc.

Duane R. Dunham
Former President and Chief Executive Officer
Bethlehem Steel Corporation

Steven J. Golub
Managing Director
Lazard Frères & Co. LLC

Kristina M. Johnson
Dean of the Edmund T. Pratt, Jr.
School of Engineering, Duke University

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Vice Chairman of the Board
Fisher Scientific International Inc.

Michael F. Pasquale
Business Consultant, Retired Executive Vice President and
Chief Operating Officer
Hershey Foods Corporation

John T. Reid
Adjunct Professor, Stern Business School
New York University

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Retired Chairman of the Board and Chief Executive Officer
Pfizer Inc

William C. Stivers
Retired Executive Vice President and Chief Financial Officer
Weyerhaeuser Company

Jean-Paul Vallès
Chairman Emeritus

Corporate Officers

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Chairman, President and Chief Executive Officer

Gordon S. Borteck ◆
Vice President, Organization & Human Resources

Alain Bouruet-Aubertot ◆
Senior Vice President and Managing Director,
Minteq International

Howard R. Crabtree ◆
Senior Vice President, Technology and Logistics

D. Randy Harrison ◆
Vice President and Managing Director,
Performance Minerals

Kenneth L. Massimine ◆
Senior Vice President and Managing Director,
Paper PCC

John A. Sorel ◆
Senior Vice President and Chief Financial Officer

S. Garrett Gray
Vice President, General Counsel and Secretary

Michael A. Cipolla
Vice President, Corporate Controller and Chief Accounting Officer

William A. Kromberg
Vice President, Taxes

Gregory P. Kelm
Treasurer

Committees of the Board

Corporate Governance Committee
John T. Reid, Chair
Duane R. Dunham
Kristina M. Johnson

Audit
Michael F. Pasquale, Chair
Kristina M. Johnson
John T. Reid
William C. Stivers

Compensation
John B. Curcio, Chair
Duane R. Dunham
Paul M. Meister

◆ *Member, Management Committee of the Company*

❖ *Resigned, effective December 31, 2003*

Investor Information

Minerals Technologies Inc. and Subsidiary Companies 2003 Annual Report

Stock Listings

Minerals Technologies Common Stock is listed on the New York Stock Exchange under the symbol MTX.

Registrar and Transfer Agent

Equiserve, Inc.
P.O. Box 43011
Providence, RI 02940-3011

Inquiries concerning transfer requirements, stock holdings, dividend checks, duplicate mailings, and change of address should be directed to:

Equiserve, Inc.
P.O. Box 43011
Providence, RI 02940-3011
Shareholder Inquiries: 1-800-426-5523
www.equiserve.com

Form 10-K

The Company, upon written request, will provide without charge to each stockholder a copy of the Company's annual report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2003, including the financial schedule thereto. The report will be available on or about March 15, 2004. Requests should be directed to:

Secretary
Minerals Technologies Inc.
The Chrysler Building
405 Lexington Avenue
New York, NY 10174-1901

Annual Meeting

The Minerals Technologies Annual Meeting will take place on Wednesday, May 26, 2004 at 2 p.m. in Room C on the eleventh floor of the J.P. Morgan Chase & Co. Building, 270 Park Avenue, New York, NY 10017.

Detailed information about the meeting is contained in the Notice of Annual Meeting and Proxy Statement sent with a copy of the Annual Report to each stockholder of record as of March 29, 2004.

Investor Relations

Security analysts and investment professionals should direct their business-related inquiries to:

Rick B. Honey
Vice President, Investor Relations/Corporate Communications
Minerals Technologies Inc.
The Chrysler Building
405 Lexington Avenue
New York, NY 10174-1901
212-878-1831
For further information on Minerals Technologies Inc. visit the Company's website at www.mineralstech.com

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