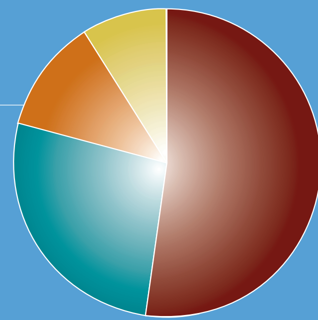
Moving with the Market: MTI's Global Presence

2006 Annual Report

2006 Net Sales by Geographic Area
(percentage/in millions of dollars)

59.3% United States $628.4
26.3% Europe/Africa $278.4
7.6% Canada/Latin America $80.7
6.8% Asia $71.8



Millions of Dollars, Except Per Share Data	December 31, 2006	December 31, 2005
Net sales	$1,059.3	$990.8
Specialty Minerals Segment	711.4	663.0
PCC Products	557.0	516.3
Processed Minerals Products	154.4	146.7
Refractories Segment	347.9	327.8
Operating income	84.9	81.0
Net income	50.0	53.3
Earnings per share:		
Basic	2.55	2.62
Diluted	2.53	2.59
Research and development expenses	30.0	29.0
Depreciation and Depletion	83.2	73.3
Capital expenditures	85.2	111.5
Net cash provided by operating activities	135.6	78.5
Number of shareholders of record	209	201
Number of employees	2,809	2,650

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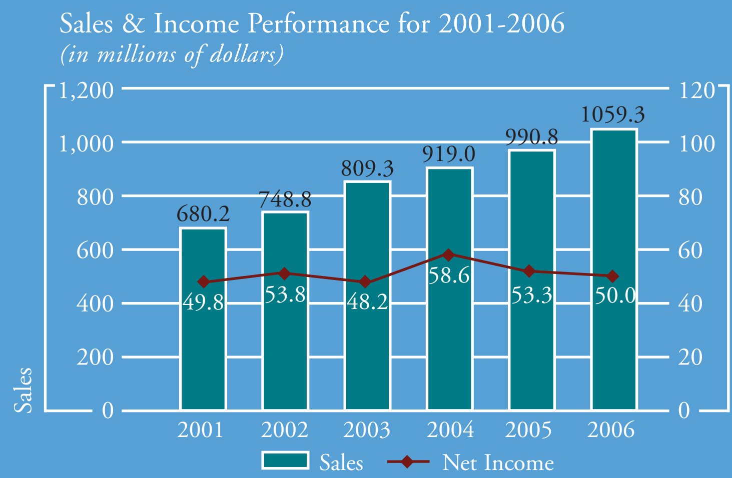


Dear Shareholders: As your new Chairman and Chief Executive Officer, I am delighted to be taking over the helm of Minerals Technologies Inc., and am excited about the potential opportunities as well as the challenges that lie ahead of the company. I, along with MTI's 2,800 associates, look forward to taking on those challenges and, over time, delivering to you improved performance, higher returns on capital and, in turn, greater shareholder value. First, I would like to give you a brief overview of the company's recent performance track, review the major challenges and opportunities as I see them today and then discuss the major areas we will focus on going forward. Let's start with performance.

Cumulatively, our total shareholder return has underperformed both the Standard & Poors 500 and the S&P Midcap 400 Materials Sector over the past five years. At the same time, our Return on Capital has dropped from 8.6 percent in 2001 to 6.0 percent today—both of which were well below the peak return years of 1998 and 1999 when the company achieved around 11 percent.

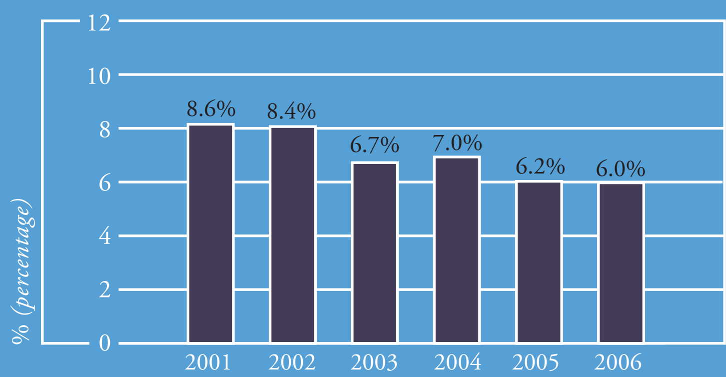
Our profitability, except for a brief spike in 2004, has remained relatively flat despite a robust compound annual growth rate of 9.3 percent in revenues over the five-year period. One of the critical issues facing our company has been the inability to leverage our sales growth into additional profits. For example, operating income increased by a compound rate of only 1 percent between 2001 and 2006, while net income remained essentially flat. We have averaged an annual increase in sales of approximately $75 million since 2001, but net income as a percentage of sales has declined from 7.3 percent in that year to 4.7 percent in 2006.

MTI's Cash Flow has been strong, generating $560.5 million from operations in the past five years. However, cumulative Capital Spending has been $464.6 million over the same period, with marginal return to the company. During this period, the company made substantial investments in PCC for paper coating in Europe, *SYNSIL®* Products and filler-fiber composite materials, which have had a significant negative impact on operating results and returns.

During the course of these five years, we have seen major changes in the industries we serve, primarily paper and steel. The worldwide paper industry has consolidated and rationalized, resulting in the closing of smaller, less efficient paper mills and the shutdown of some paper machines, most of which occurred in North America, our largest market. Since 2000, MTI has closed 10 satellite PCC plants, primarily because of industry consolidation. The steel industry has also undergone an enormous transformation with steel companies declaring bankruptcies—sometimes more than once—in the early part of the decade and undergoing consolidation that rivals that of the paper industry.

Increased globalization also occurred during this period as paper and steel companies continued to move to new areas of the world. Both paper and steel production have increased in Asia, primarily China. At the end of 2006, China was producing over 418 million metric tons of crude steel, which is more than the five next largest producing nations combined—Japan, the United States, Russia, South Korea and Germany. Contrast that with the 151 million metric tons China produced in 2001 and you get a clear picture of the magnitude of that growth. In the paper industry, China's growth in production of printing and writing paper, which affects MTI the most, has increased from 10.4 million metric tons in 2001 to 15.9 million metric tons in 2006, a more than 50-percent increase. Graphic paper production, which consists of printing and writing paper and newsprint, is expected to increase between 3 percent and 3.5 percent annually through 2020. Latin America and Eastern Europe are also expected to grow significantly in steel and paper production.

Return on Capital 2001-2006



Joseph C. Muscari
Chairman &
Chief Executive Officer

JOSEPH C. MUSCARI joins Minerals Technologies Inc. after more than 37 years at Alcoa, the world's largest producer of aluminum. His most recent position at Alcoa was Chief Financial Officer. Before becoming CFO in January 2006, he was head of Alcoa's $3.5 billion Rigid Packaging, Foil and Asia group, a position he assumed in 2004. He also had responsibility for Alcoa's businesses and growth strategy in Asia and Latin America, a role he assumed in 2001. He was named an Executive Vice President of Alcoa in 2002, and was a member of the Executive Council, the Alcoa senior leadership group that set strategic direction.

Joe Muscari began his Alcoa career in 1969 as an Industrial Engineer. During his early years there, he also held an assignment in the Corporate Secretary's Office in Pittsburgh. In 1979, he began a series of management positions first as Controller of the Forging Division in Cleveland, then for the Engineered Products Group. Mr. Muscari next became General Manager of the Powder and Pigments Division in Pittsburgh. In 1986, he was named Director of Alcoa's IT group and eventually added responsibility as Quality Director for the Finance group. In 1989, he was promoted to Group Vice President, The Stolle Corporation, a diversified Alcoa business group located in Ohio.

2006 Performance MTI's 2006 performance followed the basic track of the previous four years in terms of delivering good revenue growth without being able to leverage it into higher overall earnings and improved returns. Worldwide sales for the full year were $1.059 billion, a 7-percent increase over 2005, and the company's operating income for the full year 2006 was $84.9 million, a 5-percent increase over the $81.0 million in 2005. However, Net Income decreased by 6 percent to $50.0 million from $53.3 million in 2005 due to higher interest expense, increased minority interest provisions and liquidation costs from a discontinued operation. Return on Capital came in at 6.0 percent, slightly below that of 2005's 6.2 percent.

Sales in the Specialty Minerals segment, which consists of precipitated calcium carbonate (PCC) and Processed Minerals, increased 7 percent in 2006 to $711.4 million compared with $663.0 million for 2005. Specialty Minerals' operating income for 2006 was $52.9 million, slightly above that of 2005.

PCC revenue increased 8 percent with an underlying volume increase of 5 percent from $516.3 million in 2005 to $557.0 million in 2006. However, sales of Specialty PCC, which is used in non-paper applications, increased only 1.4 percent, from $55.6 million in 2005 to $56.4 million in 2006.

Sales of Processed Minerals products increased 5 percent to $154.4 million in 2006 from $146.7 million in 2005. Sales of *SYNSIL*® Products, a new composite mineral for the glass industry, increased 58 percent to $10.4 million in 2006 from $6.6 million in 2005 and accounted for more than half of Processed Minerals' revenue increase. Despite this growth in sales, the *SYNSIL*® Products program continues to operate at a significant loss; operating losses increased approximately $2.5 million.

The Refractories segment was a bright spot for the company in 2006 as sales were $347.9 million, a 6-percent increase over the $327.8 million in 2005 and operating income of $32.0 million, was 13-percent higher than 2005.

Looking Forward MTI has significant challenges and opportunities. The company is operating from a profitable base and has a platform for growth. We need, however, to determine how to be more profitable and to improve our returns. That's a positive challenge and it's something that I believe the company is capable of—growing profits to higher levels and at faster rates than it has in the past.

MTI is well-positioned globally to meet the rising demand we see in emerging markets—China, Latin America, Eastern Europe. Our technological expertise will enable us to quickly transfer products and solutions to new customers around the globe. At the same time, however, because of intense and increasing competition, one of my priorities will be to improve operational and global supply chain efficiencies and effectiveness, which will include a greater emphasis on cost reduction.

Consolidation in the industries we serve, and possible future consolidations, will continue to place greater pressure on our ability to price our products so that we receive fair value for the value we provide. It will be critical that we aggressively tap into MTI's DNA of Research and Development to develop and commercialize improved products and services.

There are four key areas the company will focus on as we go forward:

Profitable growth: We must improve our return on capital as we grow. We must—as quickly as possible—attain returns that are greater than our cost of capital. To do that, we will focus on making future capital spending as effective and efficient as possible. MTI will focus on working capital efficiencies, global sourcing opportunities, value pricing, and selective acquisitions that can enhance our global positions, products and technologies.

In 1992, Mr. Muscari moved to Japan as President of Alcoa Asia accountable for Operations and Business Development as well as Sales and Marketing services for the Asian region. He established Alcoa's first major operation in China and developed the company's long-term strategy there. He returned to Pittsburgh in 1997 as Vice President of Audit, and, subsequently, was elected Vice President, Environment, Health & Safety, Audit and Compliance, a new position. In 2001, he once again took on a newly created business as Group President Asia and Latin America, in charge of operations and growth projects in the two regions.

Mr. Muscari graduated cum laude in 1968 with a degree in industrial engineering from the New Jersey Institute of Technology and earned an M.B.A. degree from the University of Pittsburgh in 1969. In 1994, he received an honorary Doctor of Law degree from Salem-Teikyo University. Mr. Muscari is also a board member of CHALCO, the Aluminum Corporation of China.

Product innovation: Research and Development, which has been a core competency of the company, will need to be become better focused and more effective in developing and commercializing new products. Accelerating commercialization of our three current major innovations—*SYNSIL®* Products for glass manufacturing, PCC for paper coating and filler-fiber composites for paper filing—will continue to be key priorities for the company, but we will also emphasize new applications and improvements to our existing product lines. The Refractories segment, for example, has developed incremental product improvement as an integral part of its strategy.

Operational Excellence: Continuous improvement in all aspects of the company's operations built on a platform of process stability and control, Daily Management, TPM—Total Productive Maintenance—and the involvement of all MTI employees will be our target condition for how we operate. The relentless focus on waste elimination in delivering our products and services to our customers will be critical to achieving higher levels of return.

Customers: One of MTI's principles is: "We make money by helping our customers make money." Having an imbedded, holistic approach to continuously improving and constantly working at satisfying customers is a key ingredient to being a high-performing company. We will emphasize a clear and focused dedication to help our customers improve their profitability by bringing them new products and applications faster.

In the next several months, I will be visiting many of MTI's customers and employees to gain a clearer understanding of our processes and where they can be improved. I will place particular emphasis on research and development, capital spending, safety, cost, and productivity.

I joined the Board of Directors of Minerals Technologies two years ago, and during that time I gained a basic understanding of our businesses. I had no intention of leaving Alcoa, where I had spent my entire career, but began to consider it seriously when other members of the MTI Board approached me about running this company. I recognized that increasing shareholder value would be a challenge, but not an insurmountable one because MTI has a solid core of hard-working, dedicated people and innovative products. I also welcomed the challenge during this stage of my career to lead a company with the growth potential that MTI has through providing new product solutions to "basic" industries.

MTI's values, however, were the major factor that tipped the balance for me. I believe that solid values are a foundation for any business, that they differentiate one enterprise from the next. And, I recognized that Minerals Technologies was a very good match for both the value system I had been operating in professionally, as well as my own personal values. This strong foundation provides us the leverage to focus on improving our return to shareholders.

There is a great deal of work ahead of us, but with the support of our shareholders, customers, suppliers and employees, I am confident that we will move our fine company to the levels of profitability that it is capable of achieving.

Joseph C. Muscari
Chairman and Chief Executive Officer

Moving with the Market

A simple truth: Conditions in the North American business landscape have changed the face of MTI's client industries through bankruptcies, consolidation and erratic business cycles. The volatility of domestic steel is a long, too-familiar story. Meanwhile, the embattled U.S. paper industry for a decade has tried every means of improving operating efficiencies and propping up earnings in a culture inexorably gravitating towards electronic media. Though profits have recently stabilized, that stability has come at a high cost: bankruptcies and plant closings. The inevitable consolidations also have vested the power in fewer hands, resulting in increased buying leverage.

"The two major process industries MTI primarily serves—paper and steel—are in the midst of a shift to global production and marketing, providing as they evolve some of the most promising opportunities for business development," says Joseph C. Muscari, Chairman and Chief Executive Officer of Minerals Technologies. "For MTI, this means that continued growth and higher returns on investment depend upon successful deployment of resources to such regions as Asia, Europe, and Latin America. It also means that MTI must leverage itself across regions and countries faster and more effectively to serve customers than in the past—a significant challenge—but one the company is up to."

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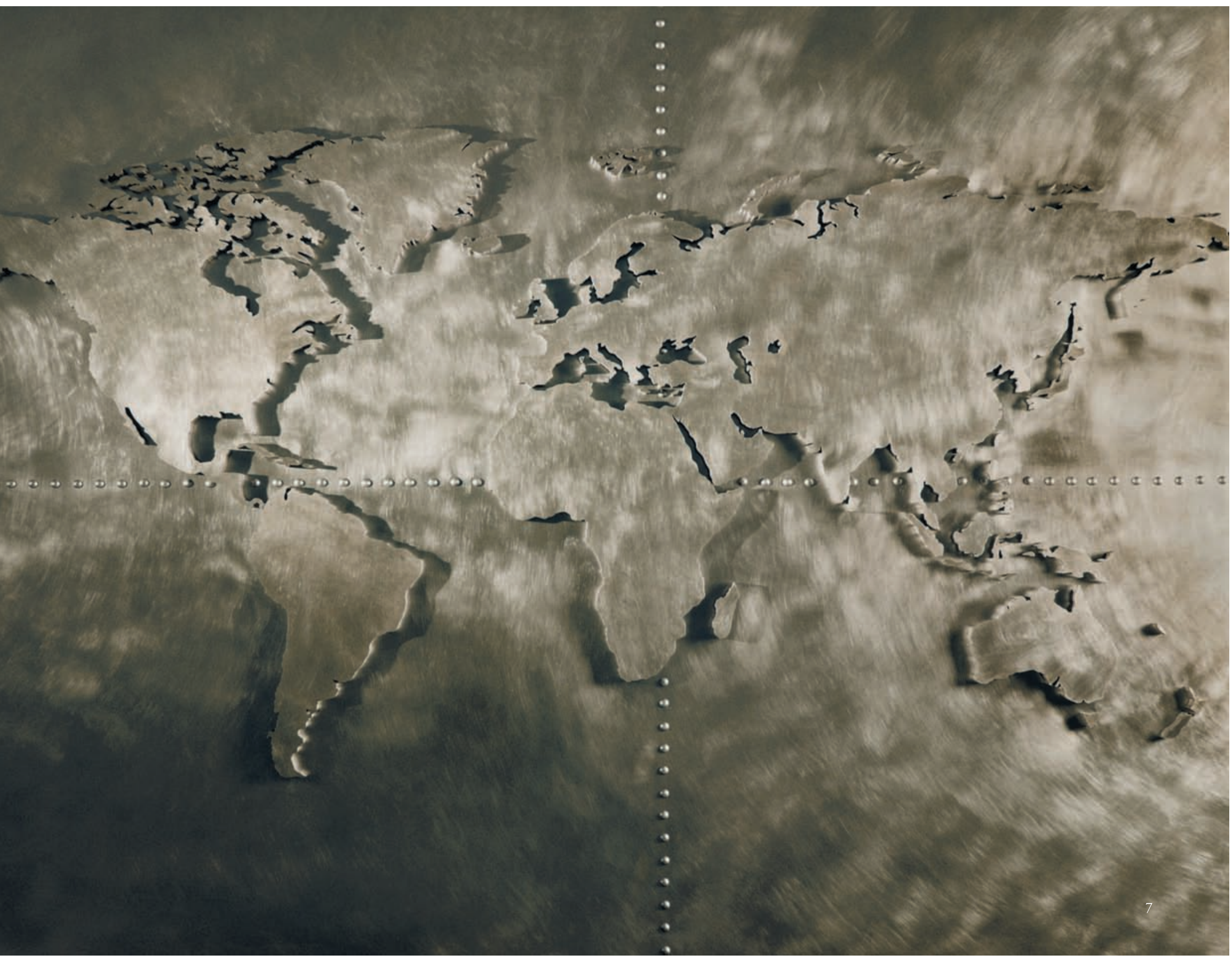

Paper PCC

There can be no overstating the explosiveness of the Chinese economy: Among major world economies, it is the fastest growing. China's GDP expanded by 10.7 percent in 2006, and is expected to be at a similar level in 2007.

Given such growth, it's no surprise that China would emerge as a key player in paper production and consumption. While elsewhere, demand for paper remains somewhat lackluster heading into 2007, the Chinese paper industry boasts year-to-year growth that parallels the brisk double-digit expansion of China's GDP. By 2010, according to RISI, an information provider for the worldwide forest products industry, papermakers in China likely will be producing more than 20 million metric tons of printing and writing paper from a 2006 base of about 16 million tons. By comparison, North America produced 29.4 million tons of printing and writing paper in 2006 and is projected to produce 29.1 million tons of the same grades in 2010, while Western Europe produced 37.7 million tons in 2006 and is projected to reach 39.9 million tons by 2010.

Hence, the rationale behind the Company's early entry into China in 1999, when it constructed its first satellite PCC plant in Dagang as part of a joint venture between Specialty Minerals Inc. (SMI) and Asia Pulp & Paper Company (China) Pte. Ltd. (APP). In 2005, the company followed the market by constructing a pair of large satellite PCC plants for APP at Suzhou and Zhenjiang. The Suzhou facility produces filler only, while the Zhenjiang plant manufactures PCC for both filler and coating. Each of these plants produces approximately four units of PCC annually, a unit representing between 25,000 and 35,000 tons. The Zhenjiang plant was designed to be expandable with APP's increasing requirements. The facilities bring SMI's total worldwide satellite network to 51 plants, and mark the Asian unveiling of the Opacarb® A40 PCC family of coating products—a premier coating-grade calcium carbonate that offers sub-micron particle size and narrow particle-size distribution. Though ground calcium carbonate (GCC) and kaolin clays hold market share in paper coatings, Opacarb offers improved brightness and gloss versus standard carbonates. This allows papermakers to reformulate their coating, thereby reducing overall coating cost while maintaining quality. This gives SMI a competitive advantage in a sector that offers dynamic growth potential: An estimated 19 million tons of mineral pigment is used in coating paper worldwide.

Looking beyond manufacturing, a technological/Research & Development presence in the region has become a competitive necessity. For the first time in 2006, China itself outspent every nation on total R&D except the U.S., investing an estimated $135 billion, narrowly edging out Japan for second place. The MTI response takes the form of its Asian Technical Center, located on the same site as the new MINTEQ refractories plant in Suzhou. This new technical facility actually is one of the outgrowths of the company's earlier major effort in R&D globalization—SMI's Technical Center in Kaarina, Finland, which services all of Europe.

"Ten years ago we had a vision: to set up a state-of-the-art research facility in Finland, whose economy is heavily dependent on paper and whose technical expertise is head of the class," says Robert Moskaitis, Vice President of Strategic Research, MTI. "At first we had a modest facility that we supported from the U.S. As that market grew, the facility grew with it. Today, Kaarina becomes the template for the Asian center. We'll continue to staff and support Asia R&D as it moves towards self-sufficiency." This "cloning" approach to R&D facilities investment allows for a lower level of investment and risk while still achieving desired results.

Adds Kenneth L. Massimine, Senior Vice President & Managing Director, Paper PCC, "We are committed to establishing a technological base, and to delivering the most advanced products with the highest customer value in these emerging markets."

Another approach to globalization the company has taken is to establish a merchant business model to serve one of the fastest growing regions for paper coating pigments. In SMI's merchant facility for the production of coating-grade PCC at Walsum, Germany, the Company has established a logistically ideal foothold in the European market for high quality publication and graphic-arts papers. Walsum's annual capacity of 125,000 tons, expandable to a potential half-million tons, brings SMI's total European presence to a dozen plants with a capacity to produce more than one million tons of various types of PCC.

"We're also focusing on opportunities in Latin America—Brazil in particular," says Massimine. "By taking these steps, we will strengthen our competitive position in areas of high-growth potential."

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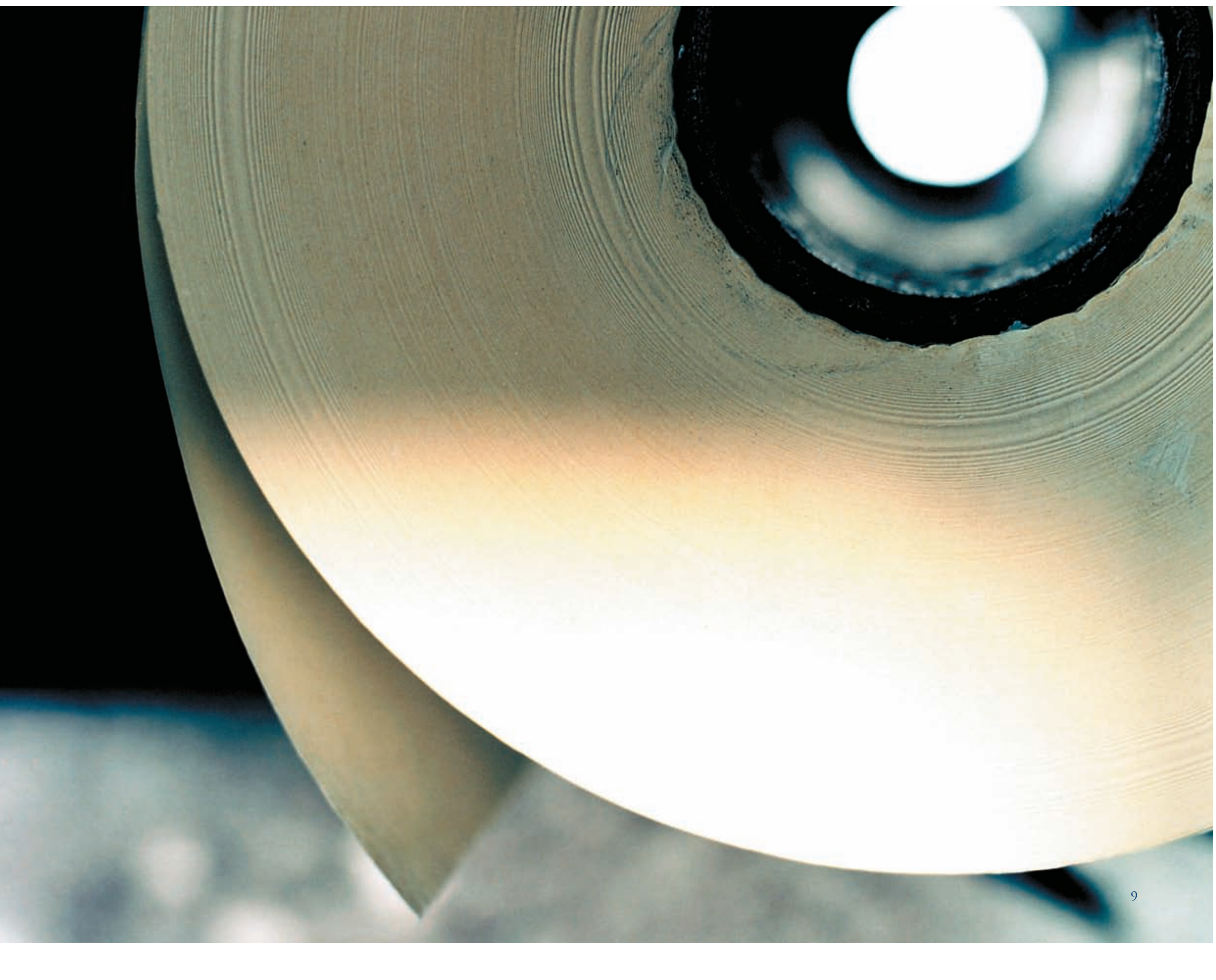

Refractories Growth Markets

Certainly, all eyes also look eastward to China when it comes to sheer breadth of marketplace potential in steel.

A story as dramatic as China's recent domination of the steel industry probably has not been written since the dawn of the Industrial Revolution itself. In 2006, China's steel production of more than 418 million tons—an increase of 65 million tons over 2005—constituted about 35 percent of the total global steel output of 1.2 billion tons. China also led the world in steel consumption, at 374 million tons, and exports, at 49.2 million tons, the latter figure about 92 percent above the previous year's. Yet, the most telling statistic may be this: There are now hundreds of steel companies doing business in China today. China will likely set the pace for the global market in this key infrastructure commodity for the foreseeable future.

And with steel accounting for more than half the refractory materials consumed worldwide, the opportunities—and strategic imperatives—are clear.

MINTEQ's most visible response is its refractory manufacturing plant at Suzhou, Jiangsu Province, now operational with a capacity to produce about 100,000 tons of monolithic refractory materials. Surrounded by a cluster of 14 modern steel mills, the plant sits just 50 miles west of where two thriving economic-development belts meet at Shanghai, also MTI's Asian headquarters.

The Asian sector as a whole abounds with possibility. Indian steel consumption is on the rise, albeit from a much lower baseline. Japan and South Korea continue to record modest growth, thanks to up ticks in ship building, cars, and industrial machinery. Steel making is accelerating once again in Eastern Europe, led by Russia, which, notably, has expanded Electric Arc Furnace capacity, with more than 70 million tons now in place.

In October, the Company completed its $30 million acquisition of ASMAS, a rapidly growing Istanbul-based producer of refractories. Though Turkey is a meaningful steel producer in its own right (22 million tons), ASMAS gives MINTEQ an immediate presence in a region that is crucial to success in tomorrow's refractories business: the Middle East and the rest of Eastern Europe. "The ASMAS acquisition is consistent with MINTEQ's strategy of direct investment into regions where the steel industry is expanding," says Alain F. Bouruet-Aubertot, Senior Vice President and Managing Director, MINTEQ International.

Adds John Damiano, Vice President of Research and Development, MINTEQ, "If you look at the growth markets from a refractory standpoint, MINTEQ offers many value-added enhancements to our customers. In effect we become their business partner, extending the technological horizons of their operations."

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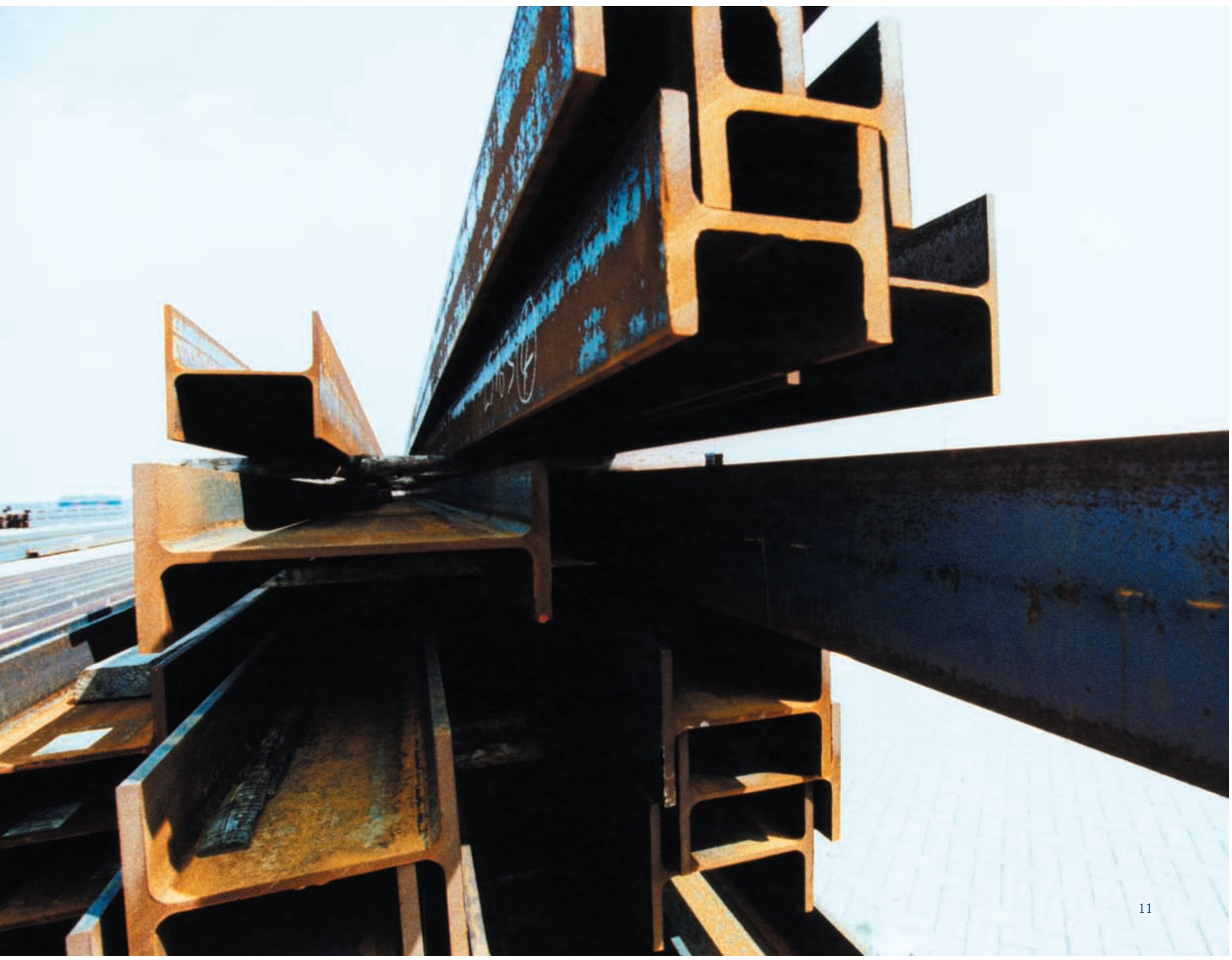

North America Remains Important

It's important to emphasize that taking full advantage of global opportunities does *not* mean abandoning North America.

"North America will always be an important marketplace for PCC," says Massimine. "We're well positioned at world-class paper mills so that when new technology is commercialized, we'll be able to move rapidly on those developments."

Similarly, in steel, while downturns in the U.S. market have depressed the total figures for North America, current projections do call for steel utilization to rise significantly in Canada and Mexico. More to the point, says Damiano, "Just because we may not see another basic oxygen furnace built in the U.S., that doesn't mean we're going to sit back and take what the status quo gives us." MINTEQ continues to develop products that drive the market by offering the customer a compelling value equation. The focus is primarily on select components, like ladles, that represent the most expensive aspects of steel making, and on safer, more sophisticated approaches to cost containment during routine maintenance. "We're selling Scantrol® laser refractory measuring system units both for ladles and the electric arc units," says Damiano. "We're still developing our hot shotcrete materials, which permit maintenance without significant downtime. We've also been given the go-ahead for innovative aluminum applications. We have proven that monolithics are a better value than bricks and we will continue our effort to supplant the use of brick through our technological strength."

Nowhere, however, is the vitality of MTI's ongoing commitment to North America clearer than in Performance Minerals' activities in the domestic auto and consumer polymers industry. "The bulk of our business is in North America," says D. Randy Harrison, Vice President and Managing Director, Performance Minerals. "For us, the movement is less about geography than shifting with the needs of our end-users, as automotive and consumer packaging applications themselves evolve and diversify."

Case in point: instrument panels and car interiors. Once bolted together out of metals and hard, unaesthetic plastics, today's interiors benefit from next-generation processes and materials. Performance Minerals' talc plays a key role here, supporting the creation of one-piece modular components for instrument panels, consoles and other interior pieces; these feature a softer, richer, more textured look, with superior durability.

The average car today contains 311 pounds of plastic, but within a few years that figure is likely to exceed 400 pounds. It's a trend driven most obviously by fuel efficiency, but no less important is the impetus to standardize and simplify multiple design options. "Metal parts do not have plastic's design possibilities," says Harrison. "You can only bend metal in a limited number of dimensions, whereas plastic can be fabricated into a myriad of shapes. We're enabling them to make that transition while also maximizing their performance and reducing costs."

Underlying all of these initiatives is an industry-leading plastics lab in Bethlehem, Pennsylvania, built from the ground up following the 2004 devastation of the original Easton, Pennsylvania, lab after Hurricane Ivan. The new lab offers twice the usable space, and greater than 80 percent of its equipment is brand new. "As a business priority, we made a major strategic investment in the lab and back it with the hiring of the best plastics people available," says Harrison. "Customers who have visited the lab have been very impressed by both the facilities and the people managing our R&D efforts."

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Vice President and Managing Director, Performance Minerals

Innovation is Key

The plastics lab embodies a core aspect of MTI that has not changed despite market dislocations. Though conditions today require that we move with our markets, an equally vital part of our business model has always been a commitment to bringing MTI's vision and technological leadership to help shape the evolution of constituent industries. We will continue to introduce products and processes that provide disruptive technologies to the industries we serve. To use just two examples:

MTI's family of SYNSIL® Products is another story of breakthrough potential that has just begun to be commercialized. There is no question that SYNSIL® belongs in a unique category: products that can potentially be industry-transforming. SYNSIL® promotes faster melting and integration of raw materials at lower temperatures, providing the glass maker with significantly increased throughput while extending furnace life, reducing energy consumption and emissions, and affording unprecedented flexibility in adjusting the once-constant variables of glass making to individual needs. New SYNSIL® Products plants in Chester, South Carolina, and Cleburne, Texas, are now operating. Each plant has the capacity to produce 200,000 tons of product annually.

Filler-fiber materials. Such materials raise the prospect of filling to significantly higher levels than achieved today—with no sacrifice in quality. The target fill-rate is above 30 percent PCC filler by weight of the paper as compared to typical current fill-rates of 15 to 18 percent in North America and 18 to 21 percent in Europe. Although the specific value proposition here will be customer-dependent, we estimate that filler-fiber composites potentially offer value to the majority of the world's uncoated free-sheet mills. As such, they are capable of dramatically reducing cost in an environment of unrelenting cost-cutting. SMI is now working with major paper companies in Europe as well as in North America to commercialize this innovative product.

"At MTI, we are committed to following our markets and positioning ourselves where the opportunities for commercial growth are strongest and deepest. At the same time, we anticipate that our existing markets will continue to offer us significant opportunities for the application of MTI's innovative new products and 'customer-value enhancing' approach to doing business," says CEO Muscari.

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– Joseph C. Muscari
Chairman & Chief Executive Officer

Management's Discussion and Analysis

Minerals Technologies Inc. and Subsidiary Companies 2006 Annual Report

Income and Expense Items as a Percentage of Net Sales

Year Ended December 31,	2006	2005	2004
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	79.1	78.8	76.9
Marketing and administrative expenses	10.0	10.1	10.1
Research and development expenses	2.9	2.9	3.1
Bad debt expenses	—	—	0.2
Restructuring charges	—	—	0.1
Acquisition termination costs	—	—	0.1
Income from operations	8.0	8.2	9.5
Income before provision for taxes on income minority interests and discontinued operations	7.5	7.8	9.0
Provision for taxes on income	2.3	2.3	2.6
Minority interests	0.3	0.2	0.2
Income from continuing operations	4.9	5.3	6.2
Income (loss) from discontinued operations	(0.2)	0.1	0.2
Net income	4.7%	5.4%	6.4%

EXECUTIVE SUMMARY

2006 proved to be a difficult year for the Company. Although we achieved many milestones such as exceeding $1 billion in sales and sold more than 4.0 million tons of PCC, we were unable to leverage our 7% increase in sales to improved operating income performance. This was primarily because of unrecovered raw material and energy cost increases, paper mill and paper machine shutdowns, and weakness in our end-use markets, particularly in the fourth quarter. At the same time, we continued to invest heavily in development programs such as PCC for paper coating in Europe, our *SYNSIL®* Products for the glass industry, and filler-fiber composites for paper filling. Worldwide net sales for 2006 grew 7% over the prior year from $991 million to $1.059 billion. Foreign exchange had a favorable impact on sales of less than 1 percentage point of growth. Operating income for the full year 2006 increased 5% to $84.9 million from $81.0 million in the prior year. Operating income represented 8.0% of sales in 2006 and was 8.2% of sales in 2005. Income from continuing operations decreased 2% to $51.6 million from $52.7 million in the prior year. Net income for the full year 2006 declined 6% to $50.0 million from $53.3 million in 2005.

Our operating income and net income has been affected by a number of factors over the past year. The positive factors affecting the operating income and net income were primarily attributable to the following:

- Increased profitability in the refractory products and systems product line, particularly in North America and Europe, due to strong demand through the first nine months of the year and lower costs achieved through product reformulations;
- Improved operations at our new satellite PCC facilities in China;
- Increased worldwide demand for PCC in all regions, and volume growth from expansions of existing PCC facilities in Europe; and
- Royalty income and reduced litigation expenses from the settlement of patent litigation. The Company will receive additional royalty income of approximately $1.1 million per annum through 2009.

This growth was partially mitigated by the following factors:

- Unrecovered cost increases in the PCC product line due to the delayed pass-through of lime cost increases;
- Paper mill and paper machine shutdowns affecting several satellite PCC facilities;
- Operating losses in our *SYNSIL®* Products line primarily due to initial startup costs associated with our manufacturing facility in South Carolina;
- Unrecovered energy cost increases and significant weakness in the end-use markets during the fourth quarter of 2006 in the Processed Minerals and Specialty PCC product lines;
- Increased compensation expense related to the adoption of SFAS No. 123R;

- Decreased margins in the metallurgical product line; and
- During the fourth quarter of 2006, we also recognized a loss from discontinued operations of approximately $1.6 million related to foreign currency translation losses arising from the liquidation of our investment in Israel.

The net effect of the aforementioned factors resulted in operating income growth of approximately 5% over 2005, and a decline in net income of approximately 6% from 2005.

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 steel making. Some of our customers may continue to experience consolidations and shutdowns;
- Consolidations in the paper and steel industries concentrate purchasing power in the hands of fewer customers, increasing pricing pressure on suppliers such as Minerals Technologies Inc.;
- Most of our Paper PCC sales are subject to long-term contracts that may be terminated pursuant to their terms, or may be renewed on terms less favorable to us;
- We are subject to cost fluctuations on raw materials, including shipping costs, particularly on magnesia and talc imported from China;
- We have experienced increased energy costs in both of our business segments that we may not be able to pass through to our customers;
- Although the *SYNSIL®* Products family has received favorable reactions from current and potential customers, this product line is not yet profitable. To date, the introduction of *SYNSIL®* technology to customers has progressed more slowly than anticipated, resulting in temporary overcapacity at our facilities. The manufacturing facilities are strategically located in major market areas for glass making, and we believe our products provide a suitable value equation for glass manufacturers. However, the commercial viability of this product line cannot be assured.
- The cost of employee benefits, particularly health coverage, has risen significantly in recent years and continues to do so; 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 risks and challenges, 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 freesheet and groundwood mills;
- Increasing our sales of PCC for paper coating, particularly from our merchant coating PCC facilities in Walsum, Germany and Hermalle, Belgium;
- Achieving commercialization of a filler-fiber composite technology for the paper industry through our continued research and development activities;
- Developing new satellite PCC opportunities;
- Achieving continued market acceptance of the *SYNSIL®* Products family of composite minerals for the glass industry;
- Continuing our penetration in emerging markets, including our new manufacturing facility in China and our recent acquisition in Turkey in the Refractories segment; and
- Increasing market penetration in the Refractories segment through development of high-performance products and equipment systems.

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

On July 19, 2005, the Company's largest customer, International Paper Company ("IP"), announced a general plan to restructure certain elements of its businesses. As a result, IP sold its coated and supercalendered papers business, including four paper mills, to Verso Paper Holdings LLC ("Verso"), an affiliate of Apollo Management LP. The Company owns and operates PCC satellite facilities at two of those paper mills, Jay, Maine, and Quinnesec, Michigan, pursuant to PCC supply contracts, which were transferred by IP to Verso in 2006. This transaction has not affected the Company's PCC satellite operations or assets.

On March 21, 2006, the Company temporarily ceased operation of a one-unit satellite PCC facility in Park Falls, Wisconsin, after the paper company shut down its mill and filed for bankruptcy protection. The Company recorded a provision for bad debt of approximately $1.0 million in the first quarter of 2006 in connection with this bankruptcy. The paper mill has since been sold to Flambeau River Papers, LLC and we resumed production pursuant to a long-term supply contract from our satellite PCC facility in the third quarter.

As expected, in April 2006, the Company ceased operation of a one-unit satellite PCC facility in Hadera, Israel.

Results of Operations

Sales

Net Sales **Dollars in millions**	**2006**	**% of Total Sales**	**Growth**	**2005**	**% of Total Sales**	**Growth**	**2004**	**% of Total Sales**
U.S.	$ 628.4	59.3%	5%	$ 600.1	60.6%	8%	$ 558.2	60.7%
International	430.9	40.7%	10%	390.7	39.4%	8%	360.8	39.3%
Net sales	$1,059.3	100.0%	7%	$ 990.8	100.0%	8%	$ 919.0	100.0%
Paper PCC	$ 500.6	47.3%	9%	$ 460.7	46.5%	7%	$ 429.3	46.7%
Specialty PCC	56.4	5.3%	1%	55.6	5.6%	10%	50.7	5.5%
PCC Products	$ 557.0	52.6%	8%	$ 516.3	52.1%	8%	$ 480.0	52.2%
Talc	$ 58.5	5.5%	8%	$ 54.2	5.4%	5%	$ 51.6	5.6%
Other Processed Minerals	85.5	8.1%	(1)%	85.9	8.7%	2%	84.0	9.1%
Synsil®	10.4	1.0%	58%	6.6	0.7%	113%	3.1	0.3%
Processed Minerals Products	$ 154.4	14.6%	5%	$ 146.7	14.8%	6%	$ 138.7	15.1%
Specialty Minerals Segment	$ 711.4	67.2%	7%	$ 663.0	66.9%	7%	$ 618.7	67.3%
Refractory Products	$ 264.6	25.0%	11%	$ 239.3	24.2%	(2)%	$ 243.0	26.4%
Metallurgical Products	83.3	7.8%	(6)%	88.5	8.9%	54%	57.3	6.3%
Refractories Segment	$ 347.9	32.8%	6%	$ 327.8	33.1%	9%	$ 300.3	32.7%
Net Sales	$1,059.3	100.0%	7%	$ 990.8	100.0%	8%	$ 919.0	100.0%

Worldwide net sales in 2006 increased 7% from the previous year to $1.059 billion. Foreign exchange had a favorable impact on sales of less than 1 percentage point of growth. Sales in the Specialty Minerals segment, which includes the PCC and Processed Minerals product lines, increased 7% to $711.4 million compared with $663.0 million for the same period in 2005. Sales in the Refractories segment grew 6% over the previous year to $347.9 million. In 2005, worldwide net sales increased 8% to $990.8 million from $919.0 million in the prior year. Specialty Minerals segment sales increased approximately 7% and Refractories segment sales increased approximately 9% in 2005.

Worldwide net sales of PCC, which is primarily used in the manufacturing process of the paper industry, increased 8% to $557.0 million from $516.3 million in the prior year. Worldwide net sales of Paper PCC increased 9% to $500.6 million from $460.7 million in the prior year. Paper PCC volumes grew 5% for the full year with volumes in excess of 4.0 million tons. In 2006, worldwide printing and writing paper production totaled approximately 115 million metric tons and increased 2.5% over 2005. Uncoated freesheet, currently our largest PCC market, increased an estimated 2.1% in 2006. Paper PCC sales growth was achieved in all regions with the largest growth occurring in Asia. This was primarily attributable to the ramp up of two new satellite PCC plants in China, which represented approximately 3 percentage points of the volume growth. Worldwide demand for uncoated freesheet and expansions of satellite PCC facilities in Europe more than offset paper mill and paper machine shutdowns affecting several satellite PCC facilities. Sales of Specialty PCC grew 1% to $56.4 million from $55.6 million in 2005.

Worldwide net sales of PCC increased 8% in 2005 to $516.3 million from $480.0 million in the prior year. Net sales of Paper PCC increased 7% to $460.7 million while Paper PCC volumes grew 4%. In 2005, sales growth was achieved in all regions, except Latin America, with the largest growth occurring in Europe and Asia where sales volumes grew 7% and 20%, respectively. Sales of Specialty PCC grew 10% in 2005 to $55.6 million from $50.7 million due to improved volumes, particularly in automotive and health care applications.

Net sales of Processed Minerals products in 2006 increased 5% to $154.4 million from $146.7 million in 2005. Talc sales increased 8% to $58.5 million from $54.2 million in the prior year. This was primarily attributable to strong global demand in plastics and health-care related markets. Other Processed Minerals products declined 1% to $85.5 million from $85.9 million in the prior year. This decline was due to weakness in the residential construction market in the second half of 2006. *SYNSIL®* Products sales increased 58% to $10.4 million due to the initial sales from our new facility in Chester, South Carolina. Processed Minerals net sales in 2005 increased 6% to $146.7 million from $138.7 million in 2004. This increase was primarily attributable to strong demand in the residential construction markets.

Net sales in the Refractories segment in 2006 increased 6% to $347.9 million from $327.8 million in the prior year. Sales of refractory products and systems to steel and other industrial applications increased 11% to $264.6 million from $239.3 million in the prior year. This growth was attributable primarily to increased volume in North America during the first nine months of 2006 and in Europe throughout the year. In addition, approximately 3 percentage points of growth was due to the recent acquisition of a refractory producer in Turkey. Sales of metallurgical products within the Refractories segment decreased 6% to $83.3 million from $88.5 million in the prior year. This decline was due to lower selling prices as raw material cost reductions were passed on to customers. Volumes also declined, particularly in the fourth quarter in North America, due to weakness in the steel industry.

Net sales in the Refractories segment in 2005 increased 9% to $327.8 million from $300.3 million in the prior year. Foreign exchange represented approximately 1 percentage point of the sales growth. The sales growth was driven globally by the metallurgical product line in which sales grew 54% to $88.5 million from $57.3 million. This increase was attributable to a combination of price increases, due to the substantial escalation in the cost of raw materials for this product line, as well as volume growth. Sales of refractory products and systems to steel and other industrial applications decreased 2% to $239.3 million from $243.0 million.

Net sales in the United States increased approximately 5% to $628.4 million in 2006 and represented approximately 60% of consolidated net sales. International sales increased approximately 10% to $430.9 million. This increase was primarily attributable to volume growth in both segments. In 2005, both domestic and international sales increased 8%.

Operating Costs and Expenses

Dollars in millions	2006	Growth	2005	Growth	2004
Cost of goods sold	$838.0	7%	$780.6	11%	$706.3
Marketing and administrative	$106.0	6%	$100.4	8%	$ 92.8
Research and development	$ 30.0	3%	$ 29.1	—%	$ 29.0
Bad debt expenses	$ 0.4	*%	$ (0.5)	*%	$ 1.6
Acquisition termination costs	$ —	*%	$ —	*%	$ 1.0
Restructuring charges	$ —	*%	$ —	*%	$ 1.1
Write-down of impaired assets	$ —	*%	$ 0.3	*%	$ —

* *Percentage not meaningful*

Cost of goods sold in 2006 was 79.1% of sales compared with 78.8% in the prior year. Our cost of goods sold grew 7% which had a slightly unfavorable leveraging impact on our sales growth resulting in a 5% increase in production margin. This unfavorable leveraging occurred in the Specialty Minerals segment where production margins increased 1% as compared with 7% sales growth. Margins in this segment were affected by several factors:

- Unrecovered lime cost increases in the PCC product line;
- Paper machine and paper mill shutdowns;
- Production losses in our *SYNSIL®* Products line primarily due to initial startup costs associated with our new facility in South Carolina; and
- Unrecovered energy cost increases in the Processed Minerals product line.

Collectively, these factors had an adverse impact on production margin and operating income, as compared with the prior year, by approximately $15 million.

These negative factors largely offset the improvements in each of the following areas:

- Ramp-up of our two new satellite PCC facilities in China;
- Increased demand for PCC, particularly in North America;
- Cost reduction initiatives; and
- Expansions of satellite PCC facilities in Europe.

In the Refractories segment, production margin increased 12% over the prior year as compared with 6% sales growth. This was primarily due to improved steel industry operating conditions in our primary markets during the first nine months and cost reduction initiatives through the reformulation of refractory products.

Cost of goods sold in 2005 was 78.8% of sales compared with 76.9% in 2004. Our cost of goods sold grew 11% which had an unfavorable leveraging impact on our sales growth resulting in a 1% decrease in production margin. This unfavorable leveraging occurred in both reporting segments. In the Specialty Minerals segment, production margins declined 3% as compared with 7% sales growth. Margins in this segment were affected by several factors:

- Start-up and ramp-up costs related to the European coating market development program;
- The effects of continuing paper industry capacity rationalization, which lowered demand at several satellite plants;
- Unrecovered raw material and energy costs; and
- Start-up and ramp-up costs at two new facilities in China.

Marketing and administrative costs increased 6% in 2006 to $106.0 million and represented 10.0% of net sales. This was primarily due to increased worldwide infrastructure costs and other employee benefits, including increased stock option expense of approximately $2.3 million relating to the adoption of SFAS No. 123R. We also experienced a reduction in litigation expenses in 2006 of approximately $3.7 million. In 2005, marketing and administrative costs increased 8% over 2004 to $100.4 million and represented 10.1% of sales. We incurred higher litigation costs in 2005 to protect our intellectual property. This litigation was settled in the fourth quarter of 2005 resulting in non-operating income of $2.1 million, while the costs of such litigation were included in marketing and administrative expenses.

Research and development expenses increased 3% in 2006 to $30.0 million and represented 2.9% of net sales. In 2005, research and development expenses remained flat at $29.0 million and also represented 2.9% of net sales.

We recorded bad debt expenses (recoveries) of $0.4 million, $(0.5) million and $1.6 million in 2006, 2005 and 2004, respectively. In 2006, bad debt expenses increased due to additional customer bankruptcies. In 2005, the reduction in bad debt charges was primarily related to recoveries of bad debt in excess of provisions. In 2004, the provision for bad debt was net of recoveries of approximately $2.3 million related to steel company bankruptcies, in which we had previously written off the related accounts receivable.

During the fourth quarter of 2005, we recorded a write-down of impaired assets of $0.3 million. The impairment related to the closure in the first quarter of our satellite facility in Cornwall, Ontario, resulting from the paper mill shutdown.

In the fourth quarter of 2004, the Company recognized $1.0 million in pre-tax corporate charges related to due diligence costs from a terminated acquisition effort.

During the fourth quarter of 2003, we restructured our operations to reduce operating costs and improve efficiency. This resulted in a 2003 restructuring charge of $3.3 million. As part of that restructuring program, we recorded $1.1 million in additional charges in 2004. The restructuring charges relate to workforce reductions from all business units throughout our worldwide operations and the termination of certain leases. There were no restructuring costs in 2005 or 2006.

Income from Operations

Dollars in millions	2006	Growth	2005	Growth	2004
Income from operations	$84.9	5%	$81.0	(7)%	$87.1

Income from operations in 2006 increased 5% to $84.9 million from $81.0 million in 2005 and was 8.0% of sales as compared with 8.2% of sales in 2005. Income from operations in 2005 decreased 7% to $81.0 million from $87.1 million in 2004 and was 8.2% of sales as compared with 9.5% of sales in 2004.

Income from operations for the Specialty Minerals segment increased slightly to $52.9 million and was 7.4% of its net sales. Unfavorable leveraging to operating income for this segment was primarily due to the aforementioned factors affecting production margin. Operating income for the Refractories segment increased 13% to $32.0 million and was 9.2% of its net sales. This was primarily attributable to increased profitability of refractories products and systems partially offset by a reduction in profitability in metallurgical products. In addition, this segment benefited from a pension settlement and curtailment gain of approximately $0.8 million in Asia.

In 2005, income from operations for the Specialty Minerals segment decreased 9% to $52.7 million and was 7.9% of its net sales. Operating income for the Refractories segment decreased 7% to $28.3 million and was 8.6% of its net sales.

Non-Operating Deductions

Dollars in millions	2006	Growth	2005	Growth	2004
Non-operating deductions, net	$5.3	47%	$3.6	(20)%	$4.5

Non-operating deductions increased 47% from the prior year. This increase was primarily due to increased interest expense of $1.9 million over 2005 due to increased borrowings. In addition, in 2006 we recognized an insurance settlement gain of approximately $1.8 million for property damage sustained at one of our facilities. In 2005, we recognized a litigation settlement gain of $2.1 million.

Provision for Taxes on Income

Dollars in millions	2006	Growth	2005	Growth	2004
Provision for taxes on income	$24.6	7%	$23.0	(3)%	$23.6

The effective tax rate increased to 30.9% in 2006 as compared with 29.7% in 2005. This increase was primarily related to a change in the mix of earnings, an increase in the valuation allowance due to Ohio tax reform legislation and the impact of FAS 123R.

Minority Interests

Dollars in millions	2006	Growth	2005	Growth	2004
Minority interests	$3.4	100%	$1.7	—%	$1.7

The increase in the provision for minority interests was due to improved profitability from our consolidated joint ventures in China.

Income from Continuing Operations

Dollars in millions	2006	Growth	2005	Growth	2004
Income from continuing operations	$51.6	(2)%	$52.7	(8)%	$57.3

Income from continuing operations decreased 2% in 2006 to $51.6 million. Diluted earnings per common share from continuing operations increased 2% to $2.61 in 2006 as compared with $2.56 in the prior year.

In 2005, income from continuing operations decreased 8% to $52.7 million. Diluted earnings per common share from continuing operations decreased 7% to $2.56 in 2005 as compared with $2.76 in the prior year.

Income (Loss) from Discontinued Operations

Dollars in millions	**2006**	**Growth**	**2005**	**Growth**	**2004**
Income (loss) from discontinued operations	$(1.6)	*%	$0.6	(54)%	$1.3

* *Percentage not meaningful*

During the fourth quarter, the Company liquidated its wholly-owned subsidiary in Hadera, Israel, and classified such business as a discontinued operation. The Company had previously operated a one-unit satellite PCC facility at this location. The loss from discontinued operations in 2006 of $1.6 million or $0.08 per share was predominantly related to foreign currency translation losses recognized upon liquidation of the Company's investment in Israel.

Net Income

Dollars in millions	**2006**	**Growth**	**2005**	**Growth**	**2004**
Net income	$50.0	(6)%	$53.3	(9)%	$58.6

Net income decreased 6% in 2006 to $50.0 million. Earnings per share on a diluted basis decreased 2% to $2.53 per share in 2006 as compared with $2.59 per share in the prior year.

OUTLOOK

We are presently experiencing weakness in the primary industries we serve — paper, construction and steel. There were several paper machine shutdowns that affect our satellite PCC product line as the paper industry continues to consolidate and rationalize capacity. There is continued softening in the residential construction and automotive markets and we are faced with low steel-capacity utilization rates in the United States, our largest market. We expect this weakness to continue into the first half of 2007.

In 2007, we plan to focus on the following growth strategies:

- Expand regionally into emerging markets where we have a limited presence.
- Increase our presence in regional markets where the manufacturing of paper and steel is shifting, particularly China and Eastern Europe.
- Increase market penetration of PCC in paper filling at both freesheet and groundwood mills.
- Increase penetration of PCC into the paper coating market.
- Continue research and development activities for new products, including commercialization of a filler-fiber composite technology for the paper industry.
- Emphasize higher value specialty products and application systems to increase market penetration in the Refractories segment.
- Continue research and development and marketing efforts for new and existing products, including the *SYNSIL*® Products' family of composite minerals.
- Continue to improve our cost competitiveness.
- Continue selective acquisitions to complement our existing businesses.

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

The following are notable events that may impact our 2007 performance:

We began operations from our new *SYNSIL*® Products production facility in the first quarter of 2006 and our operating losses for this product line increased $2.5 million in 2006, primarily as a result of low volume and start-up costs. We expect to commence production from a second facility in Cleburne, Texas, in the first quarter of 2007. The introduction of *SYNSIL*® technology to consumers has progressed more slowly than anticipated, resulting in temporary overcapacity at our facilities. The manufacturing facilities are strategically located in major market areas for glass making, and we believe our products provide a suitable value equation for glass manufacturers. However, this product line continues to operate at a significant loss which is expected to continue into 2007 until volumes at our two new facilities increase. The net book value of the long-lived assets at the *SYNSIL*® facilities were approximately $43.5 million as of December 31, 2006.

In 2006, we expected a significant acceleration of our coating program with improved volumes from our merchant paper coating PCC facilities in Walsum, Germany and Hermalle, Belgium. While volumes improved, they were well short of the Company's expectations and the coating development program in Europe continues to operate at a significant loss. We expect these operations to improve in 2007. The net book value of the long-lived assets at these facilities were approximately $50 million as of December 31, 2006.

We began operation of a 100,000-ton capacity refractory manufacturing facility in China during the third quarter of 2006. We expect this facility to ramp-up in 2007.

In October 2006, we acquired ASMAS, an Istanbul-based Turkish producer of refractories based in Istanbul, Turkey. This acquisition provides our Refractories segment with an experienced organization and a strong market position in Turkey, as well as excellent manufacturing capabilities and internal access to our key raw material, magnesia. This acquisition will enable us to service the rapidly growing markets in the Middle East and Eastern Europe.

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, 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 evergreen contracts, initially about ten years in length, with paper companies at whose mills we operate satellite PCC plants. The terms of many of these agreements generally 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 sales growth rate to differ materially from our historical growth rate and, if not renewed, could also result in impairment of the assets associated with the PCC plant.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows in 2006 were provided from operations and long-term and short-term financing and were used principally to fund $85.2 million of capital expenditures, an acquisition of a refractories business for approximately $32.4 million, and $53.4 million for purchases of common shares for treasury. Cash provided from operating activities amounted to $135.6 million in 2006 as compared with $78.5 million in 2005. The increase in cash from operating activities was primarily due to an improvement of working capital, as compared to the prior year. Our accounts receivables grew at a lower rate than sales and our days of sales outstanding decreased to 59 days from 60 days in the prior year. Growth in inventories were primarily attributable to the timing of raw materials purchases and increased inventories resulting from our recent acquisition. Included in cash flow from operations was pension plan funding of approximately $22.3 million, $12.9 million and $17.6 million for the years ended December 31, 2006, 2005 and 2004, respectively.

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

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. As of May 21, 2006, the Company had repurchased 1,286,828 shares under this program at an average price of $58.28 per share.

On October 26, 2005, our Company's Board of Directors authorized the Company's Management Committee, at its discretion, to repurchase up to $75 million in additional shares over the next three-year period. As of December 31, 2006, the Company had repurchased 798,672 shares under this program at an average price of approximately $52.86 per share.

On January 24, 2007, our Board of Directors declared a regular quarterly dividend on our common stock of $0.05 per share. No dividend will be payable unless declared by the Board and unless funds are legally available for payment.

At December 31, 2005, we had $50 million in Guaranteed Senior Notes that matured on July 24, 2006. On October 5, 2006, the Company issued and sold $75 million aggregate principal of Senior Notes due October 5, 2013, consisting of (a) $50 million aggregate principal amount 5.53% Series 2006- A Senior Notes; and (b) $25 million aggregate principal amount Floating Rate Series 2006-A Senior Notes.

We have $186.9 million in uncommitted short-term bank credit lines, of which $73.4 million was in use at December 31, 2006. In addition, we have an $8.5 million committed short-term bank credit line, all of which was in use at December 31, 2006. We anticipate that capital expenditures for 2007 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 other 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: 2007 - $2.1 million; 2008 - $7.1 million; 2009 - $4.0 million; 2010 - $4.6 million; 2011 - $nil; thereafter - $97.6 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 U.S. generally accepted accounting principles. 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-term 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. There were no significant revenue adjustments in the fourth quarter of 2006 and 2005, respectively. We have consignment arrangements with certain customers in our Refractories segment. Revenues for these transactions are recorded when the consigned products are consumed by the customer. Revenues from sales of equipment are recorded upon completion of installation and receipt of customer acceptance. Revenues from services are recorded when the services are performed.

- 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 (recoveries) of $0.4 million, $(0.5) million and $1.6 million in 2006, 2005 and 2004, respectively. The $1.6 million provision in 2004 was net of $2.3 million of bad debt recoveries related to steel customer bankruptcies for previously written off accounts receivable. The charges in 2004 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 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 adjusted.
- Property, plant and equipment, goodwill, intangible and other long-lived assets: Property, plant and equipment are depreciated 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 predominately pursuant to long-term evergreen 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. Failure of a PCC customer to renew an agreement or continue to purchase PCC from our facility could result in an impairment of assets or accelerated depreciation at such facility.
- Valuation of long-lived assets, goodwill and other intangible assets: We assess the possible impairment of long-lived assets and identifiable amortizable 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 principally 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 $736.4 million as of December 31, 2006.
- 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 current tax expense 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 Consolidated Statements of Income.
- Pension Benefits: We sponsor pension and other retirement plans in various forms covering the majority of employees who meet eligibility requirements. Several statistical and actuarial models which attempt to estimate future events are used in calculating the expense and liability related to the plans. These models 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 judgment regarding future expectations. In addition, our actuarial consultants also use subjective factors such as withdrawal and mortality

rates to estimate these assumptions. 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 follows:

A one percentage point change in our major assumptions would have the following effects:

Effect on Expense

Dollars in millions	Discount Rate	Salary Scale	Return on Asset
1% increase	$(1.3)	$ 0.3	$(1.4)
1% decrease	$ 1.5	$(0.3)	$ 1.4

Effect on Projected Benefit Obligation

	Discount Rate	Salary Scale
1% increase	$(13.5)	$ 1.9
1% decrease	$ 16.0	$(1.7)

• Asset Retirement Obligations: We currently record the obligation for estimated asset retirement costs at a fair value in the period incurred. Factors such as expected costs and expected timing of settlement can affect the fair value of the obligations. A revision to the estimated costs or expected timing of settlement could result in an increase or decrease in the total obligation which would change the amount of amortization and accretion expense recognized in earnings over time.

A one-percent increase or decrease in the discount rate would change the total obligation by approximately $0.1 million.

A one-percent increase or decrease in the inflation rate would change the total obligation by approximately $0.3 million.

• Accounting for Stock-Based Compensation: Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, using the modified prospective method. Under this transition method, stock-based compensation expense was recognized in the consolidated financial statements for stock options granted on and subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R, and the estimated expense for the portion vesting in the period for options granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123. As provided under the modified prospective method, results for prior periods have not been restated.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options on their date of grant. This model is based upon assumptions relating to the volatility of the stock price, the life of the option, risk-free interest rate and dividend yield. Of these, stock price volatility and option life require greater levels of judgment and are therefore critical accounting estimates.

We used a stock price volatility assumption based upon the historical implied volatility of the Company's stock. We believe this is a good indicator of future, actual and implied volatilities. For stock options granted in the period ended December 31, 2006, the Company used a volatility of 24.78%.

The expected life calculation was based upon the observed and expected time to post-vesting forfeiture and exercise. For stock options granted during the fiscal year ended December 31, 2006, the Company used a 6.4 year life.

The Company believes the above critical estimates are based upon outcomes most likely to occur, however, were we to simultaneously increase or decrease the option life by one year and the volatility by 100 basis points, recognized compensation expense would change approximately $0.1 million in either direction for the year ended December 31, 2006.

For a detailed discussion on the application of these and other accounting policies, see "Summary of Significant Accounting Policies" in the "Notes to the Consolidated Financial Statements" of this Annual Report, beginning on page 34. 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 SEC 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 our anticipated results based on management's plans and assumptions. Words such as "expects," "plans," "anticipates," 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 the accuracy of 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 in Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K.

INFLATION

Historically, inflation has not had a material adverse effect on us. However, in recent years both business segments have been affected by rapidly rising raw material and energy costs. The Company and its customers will typically negotiate reasonable price adjustments in order to recover a portion of these rapidly escalating costs. As the contracts pursuant to which we construct and operate our satellite PCC plants generally adjust pricing to reflect increases in costs resulting from inflation, there is a time lag before such price adjustments can be implemented.

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. 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. 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 September 2006, the FASB issued Statement No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement will apply to all other accounting pronouncements that require fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently completing an analysis of the ultimate impact the new pronouncement will have on its financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income

Taxes." FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continued to be recognized upon adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48 should be reported as an adjustment to the opening balance of retained earnings for that fiscal year. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. We are presently evaluating the impact of the adoption of FIN 48 on our consolidated financial statements.

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 foreign currency and interest 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 change in the value of foreign currencies would not have a material adverse effect on our financial condition and results of operations. Approximately 70% of our bank debt bears 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% change in interest rates would not have a material effect on our results of operations over the next fiscal year.

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 had open forward exchange contracts to purchase approximately $4.7 million and $4.2 million of foreign currencies as of December 31, 2006 and 2005, respectively. These contracts mature between February and July of 2007. The fair value of these instruments at December 31, 2006 and December 31, 2005 was a liability of $0.1 million and $0.2 million, respectively.

Selected Financial Data

Minerals Technologies Inc. and Subsidiary Companies 2006 Annual Report

Thousands, Except Per Share Data	2006	2005	2004	2003	2002
Income Statement Data					
Net sales	$1,059,307	$ 990,751	$ 918,952	$ 809,306	$ 748,792
Cost of goods sold	838,015	780,553	706,298	613,118	565,650
Marketing and administrative expenses	106,016	100,363	92,811	83,797	74,143
Research and development expenses	30,016	29,062	28,996	25,149	22,695
Bad debt expenses (recoveries)	377	(518)	1,576	5,307	6,214
Restructuring charges	—	—	1,145	3,323	—
Acquisition termination costs	—	—	997	—	—
Write-down of impaired assets	—	265	—	3,202	750
Income from operations	84,883	81,026	87,129	75,410	79,340
Income before provision for taxes on income, minority interests and discontinued operations	79,579	77,392	82,625	70,535	74,182
Provision for taxes on income	24,588	22,985	23,637	18,501	19,692
Minority interests	3,441	1,732	1,710	1,575	1,762
Income from continuing operations	51,550	52,675	57,278	50,459	52,728
Income (loss) from discontinued operations, net of tax	(1,599)	589	1,285	1,160	1,024
Cumulative effect of accounting change	—	—	—	(3,399)	—
Net income	$ 49,951	$ 53,264	$ 58,563	$ 48,220	$ 53,752
Earnings Per Share					
Basic:					
Earnings per share from continuing operations	$ 2.63	$ 2.59	$ 2.79	$ 2.50	$ 2.61
Earnings (loss) per share from discontinued operations	(0.08)	0.03	0.06	0.06	0.05
Cumulative effect of accounting change	—	—	—	(0.17)	—
Basic earnings per share	$ 2.55	$ 2.62	$ 2.85	$ 2.39	$ 2.66
Diluted:					
Earnings per share from continuing operations	$ 2.61	$ 2.56	$ 2.76	$ 2.47	$ 2.56
Earnings (loss) per share from discontinued operations	(0.08)	0.03	0.06	0.06	0.05
Cumulative effect of accounting change	—	—	—	(0.17)	—
Diluted earnings per share	$ 2.53	$ 2.59	$ 2.82	$ 2.36	$ 2.61
Weighted average number of common shares outstanding:					
Basic	19,600	20,345	20,530	20,208	20,199
Diluted	19,738	20,567	20,769	20,431	20,569
Dividends declared per common share	$ 0.20	$ 0.20	$ 0.20	$ 0.10	$ 0.10
Balance Sheet Data					
Working capital	$ 199,699	$ 145,948	$ 242,818	$ 216,795	$ 167,028
Total assets	1,193,124	1,156,303	1,154,902	1,035,690	899,877
Long-term debt	113,351	40,306	94,811	98,159	89,020
Total debt	203,058	156,851	128,728	131,681	120,351
Total shareholders' equity	752,557	771,162	799,313	707,381	594,157

Consolidated Balance Sheets

Minerals Technologies Inc. and Subsidiary Companies 2006 Annual Report

Thousands of Dollars	December 31, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 67,929	$ 51,100
Short-term investments, at cost which approximates market	8,380	2,350
Accounts receivable, less allowance for doubtful accounts:		
2006 - $4,550; 2005 - $5,818	188,784	184,272
Inventories	129,894	118,895
Prepaid expenses and other current assets	16,775	20,583
Total current assets	411,762	377,200
Property, plant and equipment, less accumulated depreciation and depletion	652,797	628,745
Goodwill	68,977	53,612
Prepaid pension costs (Note 17)	25,717	67,795
Other assets and deferred charges	33,871	28,951
Total assets	$1,193,124	$1,156,303
Liabilities & Shareholders' Equity		
Current liabilities:		
Short-term debt	$ 87,644	$ 62,847
Current maturities of long-term debt	2,063	53,698
Accounts payable	60,963	61,323
Income taxes payable	9,425	6,409
Accrued compensation and related items	22,569	14,956
Other current liabilities	29,399	32,019
Total current liabilities	212,063	231,252
Long-term debt	113,351	40,306
Accrued pension and postretirement benefits (Note 17)	55,419	23,214
Deferred taxes on income	18,605	49,374
Other noncurrent liabilities	41,129	40,995
Total liabilities	440,567	385,141
Commitments and contingent liabilities (Note 19)		
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 28,102,001 shares in 2006 and 28,001,874 shares in 2005	2,810	2,800
Additional paid-in capital	269,101	261,159
Deferred compensation	—	(3,263)
Retained earnings	867,512	828,591
Accumulated other comprehensive income (loss)	(21,248)	(5,879)
Less common stock held in treasury, at cost; 9,016,473 shares in		
2006 and 8,015,073 shares in 2005	(365,618)	(312,246)
Total shareholders' equity	752,557	771,162
Total liabilities and shareholders' equity	$1,193,124	$1,156,303

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

Consolidated Statements of Income

Minerals Technologies Inc. and Subsidiary Companies 2006 Annual Report

Thousands of Dollars, Except Per Share Data	Year Ended December 31, 2006	2005	2004
Net sales	$1,059,307	$990,751	$918,952
Operating costs and expenses:			
Cost of goods sold	838,015	780,553	706,298
Marketing and administrative expenses	106,016	100,363	92,811
Research and development expenses	30,016	29,062	28,996
Bad debt expenses (recoveries)	377	(518)	1,576
Restructuring charges	—	—	1,145
Acquisition termination costs	—	—	997
Write-down of impaired assets	—	265	—
Income from operations	84,883	81,026	87,129
Interest income	1,762	1,384	1,589
Interest expense	(7,753)	(5,847)	(4,130)
Foreign exchange gains (losses)	(268)	(450)	(564)
Other income (deductions)	955	1,279	(1,399)
Non-operating deductions, net	(5,304)	(3,634)	(4,504)
Income before provision for taxes on income and minority interests and discontinued operations	79,579	77,392	82,625
Provision for taxes on income	24,588	22,985	23,637
Minority interests	3,441	1,732	1,710
Income from continuing operations	51,550	52,675	57,278
Income (loss) from discontinued operations, net of tax	(1,599)	589	1,285
Net income	$ 49,951	$ 53,264	$ 58,563
Earnings Per Share:			
Basic:			
Income from continuing operations	$ 2.63	$ 2.59	$ 2.79
Income (loss) from discontinued operations	(0.08)	0.03	0.06
Basic earnings per share	$ 2.55	$ 2.62	$ 2.85
Diluted:			
Income from continuing operations	$ 2.61	$ 2.56	$ 2.76
Income (loss) from discontinued operations	(0.08)	0.03	0.06
Diluted earnings per share	$ 2.53	$ 2.59	$ 2.82

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

Consolidated Statements of Cash Flow

Minerals Technologies Inc. and Subsidiary Companies 2006 Annual Report

	Year Ended December 31,		
Thousands of Dollars	**2006**	**2005**	**2004**
Operating Activities			
Net income	$ 49,951	$ 53,264	$ 58,563
Income (loss) from discontinued operations	(1,599)	589	1,285
Income from continuing operations	51,550	52,675	57,278
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	83,204	73,253	70,083
Write-down of impaired assets	—	265	—
Loss on disposal of property, plant and equipment	918	1,220	1,281
Deferred income taxes	4,345	6,392	(7,965)
Provisions for bad debts	377	(518)	3,876
Other	3,475	2,124	1,495
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	5,916	(34,646)	(3,175)
Inventories	(6,679)	(16,839)	(17,495)
Prepaid expenses and other current assets	2,951	280	(2,077)
Pension plan funding	(22,348)	(12,874)	(17,579)
Accounts payable	(5,059)	7,867	11,211
Income taxes payable	3,040	(6,080)	8,638
Tax benefits related to stock incentive programs	590	2,138	7,220
Other	12,900	1,587	15,461
Net cash provided by continuing operations	135,180	76,844	128,252
Net cash provided by discontinued operations	419	1,673	971
Net cash provided by operations	135,599	78,517	129,223
Investing Activities			
Purchases of property, plant and equipment	(85,159)	(111,539)	(106,423)
Purchases of short-term investments	(12,590)	(2,350)	(12,875)
Proceeds from sales of short-term investments	6,440	7,200	5,675
Proceeds from disposal of property, plant and equipment	675	311	1,655
Proceeds from insurance settlement	2,398	—	—
Acquisition of businesses, net of cash acquired	(32,416)	(3,170)	—
Net cash used in investing activities	(120,652)	(109,548)	(111,968)
Financing Activities			
Proceeds from issuance of long-term debt	75,000	—	—
Repayment of long-term debt	(53,754)	(3,825)	(2,757)
Net proceeds from issuance (repayment) of short-term debt	24,797	32,847	(831)
Purchase of common shares for treasury	(53,372)	(47,618)	(16,225)
Cash dividends paid	(3,911)	(4,070)	(4,102)
Proceeds from issuance of stock under option plan	3,741	8,747	14,173
Excess tax benefits related to stock incentive programs	152	—	—
Indemnification proceeds from former parent company	4,500	—	—
Debt issuance costs	(190)	—	—
Net cash used in financing activities	(3,037)	(13,919)	(9,742)
Effect of exchange rate changes on cash and cash equivalents	4,919	(9,717)	7,739
Net increase (decrease) in cash and cash equivalents	16,829	(54,667)	15,252
Cash and cash equivalents at beginning of year	51,100	105,767	90,515
Cash and cash equivalents at end of year	$ 67,929	$ 51,100	$ 105,767
Non-cash Investing and Financing Activities			
Tax liability on indemnification proceeds from former parent company	$ 1,782	$ —	$ —
Property, plant and equipment additions related to asset retirement obligations	$ —	$ 839	$ —

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

Consolidated Statements of Shareholders' Equity

Minerals Technologies Inc. and Subsidiary Companies 2006 Annual Report

In Thousands	Common Stock Par Value	Additional Paid-in Capital	Deferred Com-pensation	Retained Earnings	Accumulated Other Com-prehensive Income (Loss)	Treasury Stock Cost	Total
Balance as of January 1, 2004	$2,742	$225,512	$(1,220)	$724,936	$ 3,814	$(248,403)	$707,381
Comprehensive income:							
Net income	—	—	—	58,563	—	—	58,563
Currency translation adjustment	—	—	—	—	33,974	—	33,974
Minimum pension liability adjustment	—	—	—	—	(2,246)	—	(2,246)
Cash flow hedges:							
Net derivative losses arising during the year	—	—	—	—	150	—	150
Reclassification adjustment	—	—	—	—	(68)	—	(68)
Total comprehensive income	—	—	—	58,563	31,810	—	90,373
Dividends declared	—	—	—	(4,102)	—	—	(4,102)
Employee Benefit transactions	36	14,137	—	—	—	—	14,173
Income tax benefit arising from employee stock option plans	—	7,220	—	—	—	—	7,220
Issuance of restricted stock	—	1,361	(1,361)	—	—	—	—
Amortization of restricted stock	—	—	493	—	—	—	493
Purchase of common stock for treasury	—	—	—	—	—	(16,225)	(16,225)
Balance as of December 31, 2004	2,778	248,230	(2,088)	779,397	35,624	(264,628)	799,313
Comprehensive Income:							
Net income	—	—	—	53,264	—	—	53,264
Currency translation adjustment	—	—	—	—	(43,648)	—	(43,648)
Minimum pension liability adjustment	—	—	—	—	1,901	—	1,901
Cash flow hedge:							
Net derivative losses arising during the year	—	—	—	—	(118)	—	(118)
Reclassification adjustment	—	—	—	—	362	—	362
Total comprehensive income	—	—	—	53,264	(41,503)	—	11,761
Dividends declared	—	—	—	(4,070)	—	—	(4,070)
Employee Benefit transactions	22	8,725	—	—	—	—	8,747
Income tax benefit arising from employee stock option plans	—	2,138	—	—	—	—	2,138
Issuance of restricted stock	—	2,066	(2,066)	—	—	—	—
Amortization of restricted stock	—	—	891	—	—	—	891
Purchase of common stock for treasury	—	—	—	—	—	(47,618)	(47,618)
Balance as of December 31, 2005	2,800	261,159	(3,263)	828,591	(5,879)	(312,246)	771,162
Comprehensive Income:							
Net income	—	—	—	49,951	—	—	49,951
Currency translation adjustment	—	—	—	—	35,924	—	35,924
Additional minimum liability	—	—	—	—	2,988	—	2,988
Cash flow hedge:							
Net derivative losses arising during the year	—	—	—	—	(62)	—	(62)
Reclassification adjustment	—	—	—	—	124	—	124
Total comprehensive income	—	—	—	49,951	38,974	—	88,925
Dividends declared	—	—	—	(3,911)	—	—	(3,911)
Opening retained earnings adjustment due to adoption of EITF 04-06 (Note 23)	—	—	—	(7,119)	—	—	(7,119)
Employee Benefit transactions	10	3,731	—	—	—	—	3,741
Income tax benefit arising from employee stock option plans	—	741	—	—	—	—	741
Reclassification of unearned compensation	—	(3,263)	3,263	—	—	—	—
Amortization of restricted stock	—	1,679	—	—	—	—	1,679
Indemnity proceeds, net of tax (Note 25)	—	2,718	—	—	—	—	2,718
Adjustment to initially apply SFAS 158, net of tax	—	—	—	—	(54,343)	—	(54,343)
Stock option expenses	—	2,336	—	—	—	—	2,336
Purchase of common stock for treasury	—	—	—	—	—	(53,372)	(53,372)
Balance as of December 31, 2006	$2,810	$269,101	$ —	$867,512	$(21,248)	$(365,618)	$752,557

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

NOTE 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 U.S. generally accepted accounting principles 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 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 and Short-term Investments The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents amounted to $4.0 million at December 31, 2006. Short-term investments consist of financial instruments with original maturities beyond three months. Short-term investments amounted to $8.4 million and $2.4 million at December 31, 2006 and 2005, respectively.

Trade Accounts Receivable Trade accounts receivables 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. The Company reviews its allowance for doubtful accounts monthly. Past due balances over 90 days based on payment terms are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

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

Effective January 1, 2006, the Company has adopted SFAS No. 151, "Inventory Costs - an Amendment of ARB No. 43, Chapter 4." As required by this statement, items such as idle facility expense, excessive spoilage, freight handling costs and re-handling costs are recognized as current period charges. In addition, the allocation of fixed production overheads to the costs of conversion should be based upon the normal capacity of the production facility. Fixed overhead costs associated with idle capacity are expensed as incurred. SFAS No. 151 did not have a material impact on our results of operations during the year ended December 31, 2006.

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. The estimated useful lives of our PCC production facilities and machinery and equipment pertaining to our natural stone mining and processing plants and our chemical plants are 15 years.

Property, plant and equipment are depreciated 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 evergreen 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. 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 or accelerated depreciation at such facility.

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

Stripping Costs Incurred During Production As further discussed in Note 23, effective January 1, 2006, the Company has adopted the consensus of Emerging Issues Task Force ("EITF") Issue No. 04-06, "Accounting for Stripping Costs Incurred During Production in the Mining Industry." Stripping costs are those costs incurred for the removal of waste materials for the purpose of accessing ore body that will be produced commercially. Stripping costs incurred during the production phase of a mine are variable costs that are included in the costs of inventory produced during the period that the stripping costs are incurred.

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," and EITF 04-3, "Mining Assets: Impairment and Business Combinations." 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 carrying 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. The Company accounts for goodwill and other intangible assets under 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 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 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 unit 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.

Accounting for Asset Retirement Obligations The Company accounts for asset retirement obligations in accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations" and under the provisions of FASB Interpretation No. 47, "Accounting for Conditional 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. FASB Interpretation No. 47 includes legal obligations to perform asset retirement activities where timing or method of settlement are conditional on future events.

Fair Value of Financial Instruments The recorded amounts of cash and cash equivalents, receivables, short-term borrowings, accounts payable, accrued interest, and variable-rate long-term debt approximate fair value because of the short maturity of those instruments or the variable nature of underlying interest rates. Short-term investments are recorded at cost, which approximates fair market value.

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 Concentrations 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. We have consignment arrangements with certain customers in our Refractories segment. Revenues for these transactions are recorded when the consigned products are consumed by the customer.

Revenues from sales of equipment are recorded upon completion of installation and receipt of customer acceptance. Revenues from services are recorded when the services have been performed.

Foreign Currency The assets and liabilities 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 income (loss) in shareholders' equity. Income statement items are generally translated at monthly 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 non-monetary assets at historical rates, while net monetary assets are translated at current rates, with the resulting translation adjustments included in net income. At December 31, 2006, the Company had no international subsidiaries operating in highly inflationary economies.

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 Company operates in multiple taxing jurisdictions, both within the U.S. and outside the U.S. In certain situations, a taxing authority may challenge positions that the Company has adopted in its income tax filings. The Company regularly assesses its tax position for such transactions and includes reserves for those differences in position. The reserves are utilized or reversed once the statute of limitations has expired or the matter is otherwise resolved.

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

Research and Development Expenses Research and development expenses are expensed as incurred.

Accounting for Stock-Based Compensation As further discussed in Note 2, effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, "Share-Based Payment," using the modified prospective method. Under this transition method, stock-based compensation expense was recognized in the consolidated financial statements for stock options granted on and subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R, and the estimated expense for the portion vesting in the period for options granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123,"Accounting for Stock-Based Compensation." As provided under the modified prospective method, results for prior periods have not been restated. Prior to its adoption of SFAS No. 123R, the Company accounted for stock-based compensation using the intrinsic value method in APB Opinion No. 25 and recognized no compensation expense in its financial statements. As permitted by SFAS No. 123, stock-based compensation was included as a pro-forma disclosure in the notes to the consolidated financial statements.

Pension and Post-retirement Benefits The Company has defined benefit pension plans covering the majority of its employees. The benefits are generally based on years of service and an employee's modified career earnings.

The Company also provides post-retirement healthcare benefits for the majority of its 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.

Environmental Expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when it is probable the Company will be obligated to pay amounts for environmental site evaluation, remediation or related costs, and such amounts can be reasonably estimated.

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 potentially dilutive common shares outstanding.

Reclassifications Certain reclassifications were made to prior year amounts to conform with the current year presentation.

NOTE 2. STOCK-BASED COMPENSATION

The Company has a 2001 Stock Award and Incentive Plan (the "Plan"), which provides for grants of incentive and non-qualified stock options, restricted stock, 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 generally have a ten year term. The exercise price for stock options are at prices at or above 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.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, "Share-Based Payments," using the modified prospective method. Under this transition method, stock-based compensation expense was recognized in the consolidated financial statements for stock options granted on and subsequent to January 1, 2006 based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R, and the estimated expense for the portion vesting in the period for options granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123. As provided under the modified prospective method, results for prior periods have not been restated. The cumulative effect of the adoption of SFAS No. 123R did not have a significant impact on the financial statements.

Net income for 2006 includes $2.3 million pretax compensation costs related to stock option expense as a component of marketing and administrative expenses. All stock option expense is recognized in income. The related tax benefit on the non-qualified stock options is $0.5 million for 2006.

Prior to the adoption of SFAS No. 123R, all income tax benefits resulting from the exercise of stock options were presented as operating cash inflows in the consolidated statements of cash flows. As required under SFAS No. 123R, the benefits of tax deductions in excess of the tax benefit of compensation costs recognized or would have been recognized under SFAS No. 123 for those options are classified as financing inflows on the consolidated statement of cash flows.

The following table shows the pro forma effects on net income and earnings per share for the years ended December 31, 2005 and 2004 had compensation cost been recognized in accordance with SFAS No. 123, as amended by SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure."

Millions of Dollars, except per share amounts	**Dec. 31, 2005**	**Dec. 31, 2004**
Net income, as reported	$53.3	$58.6
Add: Stock-based employee compensation included in reported net income, net of related tax effects	0.6	0.3
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2.1)	(2.7)
Pro forma net income	$51.8	$56.2
Basic EPS		
Net income, as reported	$2.62	$2.85
Pro forma net income	$2.54	$2.73
Diluted EPS		
Net income, as reported	$2.59	$2.82
Pro forma net income	$2.52	$2.72

Disclosures for the period ended December 31, 2006 are not presented because the amounts are recognized in the consolidated financial statements.

Stock Options The fair value of options granted is estimated on the date of grant using the Black-Scholes valuation model. Compensation expense is recognized only for those options expected to vest, with forfeitures estimated at the date of grant based on the Company's historical experience and future expectations. The forfeiture rate assumption used for the period ended December 31, 2006 was approximately 8%.

The weighted average grant date fair value for stock options granted during the years ended December 31, 2006, 2005 and 2004 was $18.97, $24.13 and $20.73, respectively. The weighted average grant date fair value for stock options vested during 2006 was $20.83. The total intrinsic value of stock options exercised during the year ended December 31, 2006 was $1.8 million.

The fair value for stock awards was estimated at the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions for the years ended December 31, 2006, 2005 and 2004:

	2006	2005 (pro forma)	2004 (pro forma)
Expected life (years)	6.4	7.0	7.0
Interest rate	4.63%	4.36%	3.94%
Volatility	24.78%	28.72%	29.58%
Expected dividend yield	0.37%	0.32%	0.37%

The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, based upon contractual terms, vesting schedules, and expectations of future employee behavior. The expected stock-price volatility is based upon the historical volatility of the Company's stock. The interest rate is based upon the implied yield on U.S. Treasury bills with an equivalent remaining term. Estimated dividend yield is based upon historical dividends paid by the Company.

The following table summarizes stock option activity for the year ended December 31, 2006:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Balance January 1, 2006	1,185,765	$45.15		
Granted	79,200	54.82		
Exercised	(103,392)	39.02		
Canceled	(9,504)	35.80		
Balance December 31, 2006	1,152,069	$46.44	4.78	$14,228
Exercisable, December 31, 2006	925,180	$44.22	3.20	$13,480

The aggregate intrinsic value above is before applicable income taxes, based on the Company's closing stock price of $58.79 as of the last business day of the period ended December 31, 2006 had all options been exercised on that date. The weighted average intrinsic value of the options exercised during 2006 was $17.48. As of December 31, 2006, total unrecognized stock-based compensation expense related to nonvested stock options was approximately $2.8 million, which is expected to be recognized over a weighted average period of approximately three years.

The Company issues new shares of common stock upon the exercise of stock options.

Non-vested stock option activity for the year ended December 31, 2006 is as follows:

	Shares	Weighted Average Exercise Price Per Share
Nonvested options outstanding at December 31, 2005	260,846	$55.00
Options granted	79,200	54.82
Options vested	(112,221)	53.87
Options forfeited	(936)	53.89
Nonvested options outstanding, December 31, 2006	226,889	$55.50

The following table summarizes additional information concerning options outstanding at December 31, 2006:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/06	Weighted Average Remaining Contractual Term (Years)	Weighted Average Exercise Price	Number Exercisable at 12/31/06	Weighted Average Exercise Price
$34.825 - $44.156	513,425	2.5	$38.85	513,425	$38.85
$46.625 - $54.225	568,144	6.4	$51.46	388,851	$50.28
$55.840 - $66.000	70,500	8.3	$61.22	22,904	$61.43
$34.825 - $66.000	1,152,069	4.8	$46.44	925,180	$44.22

Restricted Stock The Company has granted certain corporate officers rights to receive shares of the Company's common stock under the Company's 2001 Stock Award and Incentive Plan (the "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 was being amortized over the estimated average deferral period of approximately five years. Under the provisions of SFAS No. 123R, the recognition of unearned compensation is no longer required. Accordingly, in the first quarter of 2006, the balance of Deferred Equity Compensation was reversed into Additional Paid-in Capital on the Company's balance sheet. The Company granted 50,300 shares and 36,100 shares for the periods ended December 31, 2006 and 2005, respectively. The fair value was determined based on the market value of unrestricted shares. The discount for the restriction was not significant. As of December 31, 2006, there was unrecognized stock-based compensation related to restricted stock of $4.3 million, which will be recognized over approximately the next four years. The compensation expense amortized with respect to all units was approximately $1.7 million and $0.9 million for the periods ended December 31, 2006 and 2005, respectively. Such costs are included in marketing and administrative expenses. 255 restricted stock shares were vested as of December 31, 2006.

The following table summarizes the restricted stock activity for the Plan:

	Shares	Weighted Average Grant Date Fair Value
Unvested balance at December 31, 2005	84,755	$54.20
Granted	50,300	$54.91
Vested	(255)	$39.30
Canceled	—	$ —
Unvested balance at December 31, 2006	134,800	$55.61

NOTE 3. EARNINGS PER SHARE (EPS)

Thousand of Dollars, except per share amounts	2006	2005	2004
Basic EPS			
Income from continuing operations	$51,550	$52,675	$57,278
Income (loss) from discontinued operations	(1,599)	589	1,285
Net income	$49,951	$53,264	$58,563
Weighted average shares outstanding	19,600	20,345	20,530
Basic earnings per share from continuing operations	$ 2.63	$ 2.59	$ 2.79
Basic earnings (loss) per share from discontinued operations	(0.08)	0.03	0.06
Basic earnings per share	$ 2.55	$ 2.62	$ 2.85

Diluted EPS	2006	2005	2004
Income from continuing operations	$51,550	$52,675	$57,278
Income (loss) from discontinued operations	(1,599)	589	1,285
Net income	$49,951	$53,264	$58,563
Weighted average shares outstanding	19,600	20,345	20,530
Dilutive effect of stock options	138	222	239
Weighted average shares outstanding, adjusted	19,738	20,567	20,769
Diluted earnings per share from continuing operations	$ 2.61	$ 2.56	$ 2.76
Diluted earnings (loss) per share from discontinued operations	(0.08)	0.03	0.06
Diluted earnings per share	$ 2.53	$ 2.59	$ 2.82

The weighted average diluted common shares outstanding for the years ended December 31, 2006 and December 31, 2005 exclude the dilutive effect of 371,587 options and 56,700 options, respectively, since such options had an exercise price in excess of the average market value of the Company's common stock during such year.

The weighted average diluted common shares outstanding for the year ended December 31, 2006 includes the effect of average unearned compensation as required under SFAS No. 123R.

NOTE 4. DISCONTINUED OPERATIONS

In April 2006, the Company ceased operation at its one-unit satellite PCC facility in Hadera, Israel. In the fourth quarter, the Company recorded a loss from discontinued operations of approximately $1.7 million upon liquidation of its investment in Israel. This loss was predominantly related to the recognition of foreign currency translation losses previously recognized in accumulated other comprehensive income (loss).

The following table details selected financial information for the discontinued operation in the consolidated statements of income:

Thousand of Dollars	2006	2005	2004
Net sales	$ 1,468	$5,087	$4,715
Income from operations	$ 77	$ 804	$1,948
Foreign currency translation loss upon liquidation	$ (1,563)	$ —	$ —
Provision for taxes on income	$ 79	$ 304	$ 662
Income (loss) from discontinued operations, net of tax	$ (1,599)	$ 589	$1,285

NOTE 5. INCOME TAXES

Income before provision for taxes, minority interests, and discontinued operations by domestic and foreign source is as follows:

Thousands of Dollars	2006	2005	2004
Domestic	$41,095	$40,468	$42,070
Foreign	38,484	36,924	40,555
Total income before provision for income taxes	$79,579	$77,392	$82,625

The provision for taxes on income consists of the following:

Thousands of Dollars	2006	2005	2004
Domestic			
Taxes currently payable			
Domestic			
Federal	$6,205	$5,561	$13,406
State and local	2,877	876	3,483
Deferred income taxes	5,044	7,144	(3,890)
Domestic tax provision	14,126	13,581	12,999
Foreign			
Taxes currently payable	11,161	10,220	14,717
Deferred income taxes	(699)	(816)	(4,079)
Foreign tax provision	10,462	9,404	10,638
Total tax provision	$24,588	$22,985	$23,637

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	2006	2005	2004
U.S. statutory tax rate	35.0%	35.0%	35.0%
Depletion	(5.3)	(4.9)	(4.1)
Difference between tax provided on foreign earnings and the U.S. statutory rate	(3.8)	(4.5)	(3.5)
State and local taxes, net of Federal tax benefit	2.4	1.9	1.0
Tax credits and foreign dividends	0.9	2.3	(0.1)
Increase in valuation allowance	1.4	—	—
Other	0.3	(0.1)	0.4
Consolidated effective tax rate	30.9%	29.7%	28.7%

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	**2006**	**2005**
Deferred tax assets:		
State and local taxes	$ 2,593	$ 4,324
Accrued expenses	8,771	10,214
Deferred expenses	1,399	3,037
Net operating loss carry forwards	13,236	15,204
Pension and post-retirement benefits costs	15,268	—
Other	11,107	6,852
Total deferred tax assets	$52,374	$39,631

Thousands of Dollars	**2006**	**2005**
Deferred tax liabilities:		
Plant and equipment, principally due to differences in depreciation	$56,628	$62,803
Pension and post-retirement benefits cost deducted for tax purposes in excess of amounts reported for financial statements	—	14,673
Other	11,538	6,563
Total deferred tax liabilities	68,166	84,039
Net deferred tax liabilities	$15,792	$44,408

The current and long-term portion of net deferred tax (assets) liabilities is as follows:

Thousands of Dollars	**2006**	**2005**
Net deferred tax assets, current	$(2,813)	$(4,966)
Net deferred tax liabilities, long-term	18,605	49,374
	$15,792	$44,408

The current portion of the net deferred tax assets is included in prepaid expenses and other current assets.

The Company established a valuation allowance of approximately $0.9 million as of December 31, 2006. This valuation allowance relates to net operating loss carryforwards in the state of Ohio where there is an uncertainty regarding their realizability. There was no valuation allowance as of December 31, 2005.

The Company recorded $13.2 million of deferred tax assets arising from tax loss carry forwards which will be realized through future operations. Carry forwards of approximately $1.8 million expire over the next 15 years, and $11.4 million can be utilized over an indefinite period.

The Company operates in multiple taxing jurisdictions, both within the U.S. and outside the U.S. In certain situations, a taxing authority may challenge positions that the Company has adopted in its income tax filings. The Company regularly assesses its tax position for such transactions and includes reserves for those differences in position. The reserves are utilized or reversed once the statute of limitations has expired or the matter is otherwise resolved.

Net cash paid for income taxes were $18.0 million, $21.2 million and $15.3 million for the years ended December 31, 2006, 2005 and 2004, respectively.

In December 2004, the FASB issued SFAS No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004," which provides relief concerning the timing of the SFAS No. 109 requirement to accrue deferred taxes for unremitted earnings of foreign subsidiaries. On October 22, 2004, the American Jobs Act Creation Act of 2004 ("AJCA") was signed into law. The AJCA includes a special, one-time, 85% dividends received deduction for certain foreign earnings that are repatriated. The Company repatriated $18.5 million in 2005 under this Act, which resulted in a tax liability of approximately $1.2 million and increased the effective tax rate by 1.5%.

NOTE 6. FOREIGN OPERATIONS

The Company has not provided for U.S. federal and foreign withholding taxes on $139.2 million of foreign subsidiaries' undistributed earnings as of December 31, 2006 because such earnings are intended to be permanently 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. However, in the event that the entire $139.2 million of foreign earnings were to be repatriated, incremental taxes may be incurred. We do not believe this amount would be greater than $12.2 million.

Net foreign currency exchange (losses) gains, included in non-operating deductions in the Consolidated Statements of Income, were $(268,000), $(450,000), and $(564,000) for the years ended December 31, 2006, 2005 and 2004, respectively.

NOTE 7. INVENTORIES

The following is a summary of inventories by major category:

Thousands of Dollars	2006	2005
Raw materials	$ 60,013	$ 54,471
Work in process	8,321	7,727
Finished goods	38,911	36,264
Packaging and supplies	22,649	20,433
Total inventories	$129,894	$118,895

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

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

Thousands of Dollars	2006	2005
Land	$ 24,087	$ 19,433
Quarries/mining properties	39,123	50,543
Buildings	173,815	157,038
Machinery and equipment	1,071,046	969,537
Construction in progress	52,107	75,852
Furniture and fixtures and other	118,744	107,895
	1,478,922	1,380,298
Less: Accumulated depreciation and depletion	(826,125)	(751,553)
Property, plant and equipment, net	$ 652,797	$ 628,745

Approximately 40% of the balance in construction in progress as of December 31, 2006 relates to the construction of a new facility for the *SYNSIL®* product line.

Depreciation and depletion expense for the years ended December 31, 2006, 2005 and 2004 was $79.8 million, $70.9 million, and $69.6 million, respectively.

NOTE 9. 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 Company recorded a pre-tax restructuring charge of $3.3 million in the fourth quarter of 2003 to reflect these actions, consisting of severance, other employee benefits, and lease termination costs. During 2004, additional costs related to this program of $1.1 million were recorded. As of December 31, 2006, all employees identified in the workforce reduction were terminated and no liability remains to be paid.

NOTE 10. ACQUISITIONS

In October 2006, the Company acquired all of the outstanding stock of ASMAS, an Istanbul-based Turkish producer of refractories for approximately $32.4 million in cash. The terms of the acquisition provides for an additional purchase price of up to $5 million to be paid in 2009 based upon performance criteria through 2008. The operations of this entity have been included in the Refractories segment of the Company's financial statements since the date of the acquisition. This acquisition will allow the Company to service the growing steel industries in Eastern Europe and the Middle East, and to provide vertical integration through its own kilns and sources of magnesite.

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

Millions of Dollars	2006
Current assets	$ 5.1
Property, plant and equipment	13.5
Intangible assets	8.6
Goodwill	13.8
Total assets acquired	41.0
Liabilities assumed	8.6
Net cash paid	$32.4

The purchase price allocation has not been finalized as of December 31, 2006.

The weighted average amortization period for the acquired intangible assets subject to amortization is approximately 13.5 years. Goodwill associated with this transaction is not tax deductible.

Pro forma financial information has not been presented since this business combination was not material to the Company's total assets or results of operations.

In the fourth quarter of 2005, the Company made a cash acquisition of the metallurgical measurement technology/digital electrode control system product line of ET Electrotechnology GmbH for approximately $3.2 million. This acquisition and related technology offers a power consumption system in electric steelmaking and ladle furnaces. The Company recorded tax-deductible goodwill of approximately $1.3 million in connection with this acquisition.

In the fourth quarter of 2004, the Company recognized pre-tax corporate charges of $1.0 million expense related to due diligence for a terminated acquisition effort.

NOTE 11. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill was $69.0 million and $53.6 million as of December 31, 2006 and December 31, 2005, respectively. The net change in goodwill since December 31, 2005 was primarily attributable to the acquisition of ASMAS and the effect of foreign exchange.

Acquired intangible assets included in other assets and deferred charges subject to amortization as of December 31, 2006 and December 31, 2005 were as follows:

	December 31, 2006		December 31, 2005	
Millions of Dollars	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents and trademarks	$ 7.2	$1.8	$6.0	$1.4
Customer lists	10.0	0.8	2.9	0.4
Other	0.1	—	—	—
	$17.3	$2.6	$8.9	$1.8

The weighted average amortization period for acquired intangible assets subject to amortization is approximately 15 years. Amortization expense was approximately $0.8 million, $0.3 million and $0.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. The estimated amortization expense is $1.2 million for each of the next five years through 2011.

Included in other assets and deferred charges is an additional intangible asset of approximately $7.3 million which represents the non-current unamortized amount paid to a customer in connection with contract extensions at eight satellite PCC 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 $1.8 million was amortized in 2006. Estimated amortization as a reduction of sales is as follows: 2007 - $1.8 million; 2008 - $1.8 million; 2009 - $1.5 million; 2010 - $1.2 million; 2011 - $0.9 million; with smaller reductions thereafter over the remaining lives of the contracts.

NOTE 12. 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 2005, the Company recorded a writedown of impaired assets of $0.3 million for the closure of our satellite facility at Cornwall, Canada in the first quarter of 2006.

NOTE 13. DERIVATIVE FINANCIAL 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 its 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 currencies, 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 cash flow hedges. During 2001, the Company entered into three-year interest rate swap agreements with notional amounts totaling $30 million that expired in January 2005. These agreements effectively converted 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's designated as cash flow hedges to protect against foreign currency exchange rate risks inherent in its forecasted inventory purchases. The Company had 12 open foreign exchange contracts as of December 31, 2006.

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 (loss) as a separate component of shareholders' 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 are recognized into cost of sales. Gains and losses and hedge ineffectiveness associated with these derivatives were not significant.

NOTE 14. SHORT-TERM INVESTMENTS

The composition of the Company's short-term investments are as follows:

Thousands of Dollars	2006	2005
Short-term Investments		
Available for Sale Securities:		
Short-term bank deposits	$8,380	$2,350

There were no unrealized holding gains and losses on the short-term bank deposits held at December 31, 2006 since the carrying amount approximates fair market value.

NOTE 15. 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, short-term investments, accounts receivable and payable: 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 offset losses and gains on the assets, liabilities and transactions being hedged. At December 31, 2006, the Company had open foreign exchange contracts with a financial institution to purchase approximately $4.7 million of foreign currencies. These contracts range in maturity from February 9, 2007 to July 10, 2007. The fair value of these instruments was a liability of $0.1 million at December 31, 2006. The fair value of the open foreign exchange contracts at December 31, 2005 was a liability of $0.2 million.

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 contracts. 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 (recoveries) for the years ended December 31, 2006, 2005 and 2004 was $0.4 million, $(0.5) million and $1.6 million, respectively.

NOTE 16. LONG-TERM DEBT AND COMMITMENTS

The following is a summary of long-term debt:

Thousands of Dollars	Dec. 31, 2006	Dec. 31, 2005
5.53% Series 2006A Senior Notes Due October 5, 2013	$ 50,000	$ —
Floating Rate Series 2006A Senior Notes Due October 5, 2013	25,000	—
7.49% Guaranteed Senior Notes Due July 24, 2006	—	50,000
Yen-denominated Guaranteed Credit Agreement Due March 31, 2007	605	3,062
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	8,812	9,700
Other borrowings	1,197	1,442
Total	115,414	94,004
Less: Current maturities	2,063	53,698
Long-term debt	$113,351	$40,306

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. These notes matured and were paid on July 24, 2006.

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 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 3.14% and 2.51% for the years ended December 31, 2006 and 2005, 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 3.14% and 2.51% for the years ended December 31, 2006 and 2005, 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 3.14% and 2.51% for the years ended December 31, 2006 and 2005, 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 3.14% and 2.51% for the years ended December 31, 2006 and 2005, 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 Brookhaven, Mississippi. The Company has selected the variable rate option for this borrowing and the average interest rate was approximately 5.65% and 3.82% for the years ended December 31, 2006 and 2005, 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 interest rate on this obligation is approximately 4.25%. For the year ending December 31, 2006, $0.9 million of principal was paid on this debt. Principal payments are as follows: 2007 - $0.9 million; 2008 - $6.5 million; 2013 - $1.4 million.

On October 5, 2006, the Company, through private placement, entered into a Note Purchase Agreement and issued $75 million aggregate principal amount unsecured senior notes. These notes consist of two tranches: $50 million aggregate principal amount 5.53% Series 2006A Senior Notes (Tranche 1 Notes); and $25 million aggregate principal amount Floating Rate Series 2006A Senior Notes (Tranche 2 Notes). Tranche 1 Notes bear interest of 5.53% per annum, payable semi-annually. Tranche 2 Notes bear floating rate interest, payable quarterly. The average interest rate for the year ended December 31, 2006 was 5.82%. The principal payment for both tranches is due on October 5, 2013.

The aggregate maturities of long-term debt are as follows: 2007 - $2.1 million; 2008 - $7.1 million; 2009 - $4.0 million; 2010 - $4.6 million; 2011 - $ nil; thereafter - $97.6 million.

The Company had available approximately $186.9 million in uncommitted, short-term bank credit lines, of which $73.4 million was in use at December 31, 2006. The Company also has available an $8.5 million committed, short-term bank credit line, all of which was in use at December 31, 2006.

Short-term borrowings as of December 31, 2006 and 2005 were $87.6 million and $62.8 million, respectively. The weighted average interest rate on short-term borrowings outstanding as of December 31, 2006 and 2005 was 5.57% and 4.54%, respectively.

During 2006, 2005 and 2004, respectively, the Company incurred interest costs of $8.9 million, $7.2 million and $6.3 million including $1.1 million, $1.3 million and $2.1 million, respectively, which were capitalized. Interest paid approximated the incurred interest cost.

NOTE 17. BENEFIT PLANS

Pension Plans and Other Postretirement Benefit Plans The Company and its subsidiaries have pension plans covering the majority of 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 generally become fully vested after five years.

The Company provides postretirement health care and life insurance benefits for the majority 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.

Effective December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans – An Amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS 158 requires an employer to recognize the funded status of its defined benefit plans as an asset or liability on the balance sheet and to recognize changes in the funded status through comprehensive income.

The following table reflects the incremental effects of applying the provisions of SFAS 158 on the individual line items of the consolidated balance sheet, based on the funded status of our plans:

	December 31, 2006		
Millions of Dollars	Pension and Post-retirement Prior to Adopting SFAS 158	SFAS 158 Adjustments	Pension and Post-retirement After Adopting SFAS 158
Intangible assets	$ 15.5	$ (0.8)	$ 14.7
Prepaid pension costs	83.6	(57.9)	25.7
Total assets	1,251.8	(58.7)	1,193.1
Current liabilities	209.1	2.4	212.1
Accrued pension and post-retirement benefits	33.8	21.6	55.4
Deferred taxes	50.0	(31.4)	18.6
Total liabilities	448.0	(7.4)	440.6
Accumulated other comprehensive income	30.2	(51.3)	(21.2)
Total shareholders' equity	804.0	(51.3)	752.6
Total liabilities and shareholders' equity	$1,251.8	$(58.7)	$1,193.1

Our adoption of SFAS 158 had no impact on our earnings for the year ended December 31, 2006 and will not affect the Company's consolidated statements of income in future periods.

The funded status of the Company's pension plans and other postretirement benefit plans at December 31, 2006 and 2005 is as follows:

Obligations and Funded Status

	Pension Benefits		Other Benefits	
Millions of Dollars	**2006**	**2005**	**2006**	**2005**
Change in benefit obligation				
Benefit obligation at beginning of year	$177.6	$156.4	$36.1	$31.7
Service cost	7.9	7.2	2.1	1.7
Interest cost	10.1	8.9	2.2	2.0
Actuarial loss	12.3	17.6	3.1	3.5
Benefits paid	(6.4)	(9.5)	(2.5)	(3.1)
Plan amendments	9.0	—	3.0	—
Other	4.0	(3.0)	—	0.3
Benefit obligation at end of year	$214.5	$177.6	$44.0	$36.1

Millions of Dollars	Pension Benefits 2006	Pension Benefits 2005	Other Benefits 2006	Other Benefits 2005
Change in plan assets				
Fair value of plan assets beginning of year	$186.3	$173.9	$ —	$ —
Actual return on plan assets	21.6	12.1	—	—
Employer contributions	22.3	12.9	2.5	3.1
Plan participants' contributions	0.4	0.2	—	—
Benefits paid	(6.4)	(9.5)	(2.5)	(3.1)
Other	2.1	(3.3)	—	—
Fair value of plan assets at end of year	$226.3	$186.3	$ —	$ —
Funded status	$ 11.8	$ 8.7	$(44.0)	$(36.1)
Unrecognized transition amount	—	—	—	0.1
Unrecognized net actuarial loss	—	51.8	—	12.8
Unrecognized prior service cost	—	3.4	—	—
Prepaid (accrued) benefit cost	$ —	$ 63.9	$ —	$(23.2)

Amounts recognized in the consolidated balance sheet consist of:

Millions of Dollars	Pension Benefits 2006	Pension Benefits 2005	Other Benefits 2006	Other Benefits 2005
Pension asset	$ 25.7	$ —	$ —	$ —
Pension liability	(13.9)	—	(44.0)	—
Prepaid benefit costs	—	67.8	—	—
Accrued benefit liabilities	—	(9.0)	—	(23.2)
Intangible asset	—	0.8	—	—
Accumulated other comprehensive loss	43.6	4.3	10.7	—
Net amount recognized	$ 55.4	$ 63.9	$ (33.3)	$ (23.2)

Included in accrued compensation and related items is the current portion of pension liabilities of approximately $2.5 million as of December 31, 2006.

The components of net periodic benefit costs are as follows:

Millions of Dollars	Pension Benefits 2006	Pension Benefits 2005	Pension Benefits 2004	Other Benefits 2006	Other Benefits 2005	Other Benefits 2004
Service cost	$ 7.9	$ 7.2	$ 6.4	$2.1	$1.7	$1.4
Interest cost	10.1	8.9	8.5	2.2	2.0	1.8
Expected return on plan assets	(15.4)	(13.9)	(12.5)	—	—	—
Amortization of transition amount	—	—	0.1	—	—	—
Amortization of prior service cost	1.0	1.1	0.7	1.0	0.8	—
Recognized net actuarial loss	3.2	1.8	1.7	0.2	—	0.5
SFAS No. 88 curtailment (gain) loss	(0.8)	0.3	0.6	—	—	—
Net periodic benefit cost	$ 6.0	$ 5.4	$ 5.5	$5.5	$4.5	$3.7

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 terminations, resulted in a plan curtailment of one of the Company's pension plans and also caused partial settlement of such plan. As a result, there was a curtailment gain in income from operations of $0.8 million in 2006.

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 $0.3 million and $0.6 million in 2005 and 2004, respectively.

The Company's funding policy for U.S. plans generally is to contribute annually into trust funds at a rate that provides for future plan benefits and maintains appropriate funded percentages. Annual contributions to the U.S. qualified plans are at least sufficient to satisfy regulatory funding standards and are not more than the maximum amount deductible for income tax purposes. The funding policies for the international plans conform to local governmental and tax requirements. The plans' assets are invested primarily in stocks and bonds.

Amounts recognized in accumulated other comprehensive income consist of:

	December 31, 2006	
Millions of Dollars	**Pension Benefits**	**Post-retirement**
Net actuarial loss	$36.5	$ 9.0
Net prior service cost	7.1	1.7
Net amount recognized	$43.6	$10.7

The accumulated benefit obligation for all defined benefit pension plans was $197.9 million and $161.6 million at December 31, 2006 and 2005, respectively.

The 2007 estimated amortization of amounts in other comprehensive income are as follows:

Millions of Dollars	**Pension Benefits**	**Post-retirement**
Amortization of prior service cost	$3.6	$1.0
Amortization of net loss	1.5	0.5
Total costs be recognized	$5.1	$1.5

Additional Information The weighted average assumptions used to determine net periodic benefit cost in the accounting for the pension benefit plans and other benefit plans for the years ended December 31, 2006, 2005 and 2004 are as follows:

	2006	**2005**	**2004**
Discount rate	5.75%	6.00%	6.25%
Expected return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	3.50%	3.50%	3.50%

The weighted average assumptions used to determine benefit obligations for the pension benefit plans and other benefit plans at December 31, 2006, 2005 and 2004 are as follows:

	2006	**2005**	**2004**
Discount rate	5.75%	5.75%	6.00%
Rate of compensation increase	3.50%	3.50%	3.50%

The Company considers a number of factors to determine its expected rate of return on plan assets assumptions, 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 1994 to 2004), the results of which exceed the 8.50% rate of return assumption that the Company ultimately selected for domestic plans. The Company also considered plan portfolio 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 8.50% 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 2006. These trend rates were assumed to decrease gradually to 5.0% for 2011 and remain at that level thereafter. However, the Company will only absorb a 5% increase.

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	$ —	$ (2)
Effect on postretirement benefit obligations	$ —	$(2,727)

Plan Assets The Company's pension plan weighted average asset allocations at December 31, 2006 and 2005 by asset category are as follows:

Asset Category	2006	2005
Equity securities	66.4%	66.2%
Fixed income securities	31.5%	31.4%
Real estate	0.3%	0.4%
Other	1.8%	2.0%
Total	100%	100%

The following table presents domestic and foreign pension plan assets information at December 31, 2006, 2005 and 2004 (the measurement date of pension plan assets):

	U.S. Plans			International Plans		
Millions of Dollars	2006	2005	2004	2006	2005	2004
Fair value of plan assets	$177.9	$149.7	$139.3	$48.4	$36.6	$34.6

Contributions The Company expects to contribute $15.0 million to its pension plans and $2.0 million to its other postretirement benefit plan in 2007.

Estimated Future Benefit Payments The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Millions of Dollars	Pension Benefits	Other Benefits
2007	$ 10.4	$ 1.8
2008	$ 9.6	$ 1.8
2009	$12.3	$ 2.0
2010	$14.1	$ 2.2
2011	$14.2	$ 2.6
2012 - 2016	$89.9	$17.7

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 $3.3 million, $3.0 million and $3.1 million for the years ended December 31, 2006, 2005 and 2004, respectively.

NOTES 18. LEASES

The Company has several non-cancelable operating leases, primarily for office space and equipment. Rent expense amounted to approximately $6.1 million, $4.6 million and $4.1 million for the years ended December 31, 2006, 2005 and 2004, respectively. Total future minimum rental commitments under all non-cancelable leases for each of the years 2007 through 2011 and in aggregate thereafter are approximately $4.6 million, $3.6 million, $3.1 million, $2.3 million, $1.0 million, respectively, and $7.8 million thereafter. Total future minimum rentals to be received under non-cancelable subleases were approximately $7.0 million at December 31, 2006.

Total future minimum payments to be received under direct financing leases for each of the years 2007 through 2011 and the aggregate thereafter are approximately: $4.9 million, $3.7 million, $2.7 million, $1.9 million, $1.3 million, and $2.3 million thereafter.

NOTE 19. LITIGATION

On November 28, 2005, the Company announced that it had reached a settlement of pending commercial and patent litigation with Omya AG. The settlement was on a worldwide basis, hence the litigation in both the United States and Italy have been dismissed. The settlement provides for the recognition of the Company's intellectual property and patent rights. As part of the settlement, the Company received a settlement payment and granted Omya AG a non-exclusive license for the terms of the patents in exchange for royalty payments through 2009.

Certain of the Company's subsidiaries are among numerous defendants in a number of cases seeking damages for exposure to silica or to asbestos containing materials. The Company currently has 776 pending silica cases and 26 pending asbestos cases. In 2006, the Company was named in two new silica cases and in three new asbestos cases. To date, 655 silica cases have been dismissed, of which 211 were dismissed in 2006. 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 has not settled any silica or asbestos lawsuits to date. We are unable to state an amount or range of amounts claimed in any of the lawsuits because state court pleading practices do not require identifying the amount of the claimed damage. The aggregate cost to the Company for 2006 for the legal defense of these cases was $0.1 million. The Company expenses legal costs when incurred. Our experience has been that MTI is not liable to plaintiffs in any of these lawsuits and MTI does not expect to pay any settlements or jury verdicts in these lawsuits.

Environmental Matters On April 9, 2003, the Connecticut Department of Environmental Protection ("DEP") issued an administrative consent order relating to our Canaan, Connecticut, plant where both our Refractories segment and Specialty Minerals segment have operations. We agreed to the order, which includes provisions requiring investigation and remediation of contamination associated with historic use of polychlorinated biphenyls (PCBs) at a portion of the site. The following is the present status of the remediation efforts:

- *Building Decontamination.* We have completed the investigation of building contamination and submitted a report characterizing the contamination. We are awaiting review and approval of this report by the regulators. Based on the results of this investigation, we believe that the contamination may be adequately addressed by means of encapsulation through painting of exposed surfaces, pursuant to the Environmental Protection Agency's ("EPA") regulations and have accrued such liabilities as discussed below. However, this conclusion remains uncertain pending completion of the phased remediation decision process required by the regulations.
- *Groundwater.* We are still conducting investigations of potential groundwater contamination. To date, the results of investigation indicate that there is some oil contamination of the groundwater. We are conducting further investigations of the groundwater.
- *Soil.* We have completed the investigation of soil contamination and submitted a report characterizing contamination to the regulators. Based on the results of this investigation, we believe that the contamination may be left in place and monitored, pursuant to a site-specific risk assessment, which is underway. However, this conclusion is subject to completion of a phased remediation decision process required by applicable regulations.

We believe that the most likely form of remediation will be to leave existing contamination in place, encapsulate it, and monitor the effectiveness of the encapsulation.

We estimate that the cost of the likely remediation above would approximate $200,000, and that amount has been recorded as a liability on our books and records.

The Company is evaluating options for upgrading the wastewater treatment facilities at its Adams, Massachusetts, plant. This work is being undertaken pursuant to an administrative consent order issued by the Massachusetts Department of Environmental Protection on June 18, 2002. The order required payment of a civil fine in the amount of $18,500, the investigation of options for ensuring that the facility's wastewater treatment ponds will not result in discharge to groundwater, and closure of a historic lime solids disposal area. The Company is committed to identifying appropriate improvements to the wastewater treatment system by July 1, 2007, and to implementing the improvements by June 1, 2012. Preliminary engineering reviews indicate that the estimated cost of these upgrades to operate this facility beyond 2012 may be between $6 million and $8 million. The Company estimates that remediation costs would approximate $350,000, which has been accrued as of December 31, 2006. It is reasonably possible that a change in estimate may occur.

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

NOTE 20. 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 19,085,528 shares and 19,986,801 shares were outstanding at December 31, 2006 and 2005, respectively, and 1,000,000 shares of preferred stock, none of which were issued and outstanding.

Cash Dividends Cash dividends of $3.9 million or $0.20 per common share were paid during 2006. In January 2007, a cash dividend of approximately $0.9 million or $0.05 per share, was declared, payable in the first quarter of 2007.

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.

The following table summarizes stock option and restricted stock activity for the Plan:

		Under Option		Restricted Stock	
	Shares Available for Grant	Shares	Weighted Average Exercised Price Per Share ($)	Shares	Weighted Average Exercise Price Per Share ($)
Balance January 1, 2004	1,190,737	1,482,766	40.85	27,855	49.12
Granted	(297,650)	270,750	54.09	26,900	50.59
Exercised	—	(363,300)	39.01	—	—
Canceled	23,998	(21,998)	46.25	(2,000)	49.12
Balance December 31, 2004	917,085	1,368,218	43.87	52,755	49.88
Granted	(86,800)	50,700	61.97	36,100	60.59
Exercised	—	(218,431)	40.69	—	—
Canceled	18,822	(14,722)	51.51	(4,100)	51.56
Balance December 31, 2005	849,107	1,185,765	45.15	84,755	54.20
Granted	(129,500)	79,200	54.82	50,300	54.91
Exercised	—	(103,392)	39.02	(255)	39.30
Canceled	9,504	(9,504)	35.80	—	—
Balance December 31, 2006	729,111	1,152,069	46.44	134,800	55.61

NOTE 21. 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 recognition of deferred pension costs, and cumulative foreign currency translation adjustments.

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

Millions of Dollars	Currency Translation Adjustment	Minimum Pension Liability	Net Gain (Loss) On Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2004	$ 6.9	$ (2.7)	$(0.4)	$ 3.8
Current year net change	34.0	(2.2)	0.1	31.8
Balance at December 31, 2004	40.9	(4.9)	(0.3)	35.6
Current year net change	(43.7)	1.9	0.2	(41.5)
Balance at December 31, 2005	(2.8)	(3.0)	(0.1)	(5.9)
Current year net change	36.0	(51.3)	—	(15.3)
Balance at December 31, 2006	$ 33.2	$(54.3)	$(0.1)	$(21.2)

The income tax expense (benefit) associated with items included in other comprehensive income (loss) was approximately $1.9 million, $(1.3) million and $(0.2) million for the years ended December 31, 2006, 2005 and 2004, respectively.

NOTE 22. ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS

SFAS No. 143, "Accounting for Asset Retirement Obligations," establishes the financial accounting and reporting for obligations associated with the retirement of long-lived assets and the associated asset retirement costs. The Company records asset retirement obligations in which the Company will be required to retire tangible long-lived assets. These are primarily related to its PCC satellite facilities and mining operations. The Company has also applied the provisions of FIN 47 related to conditional asset retirement obligations at its facilities. The Company has recorded asset retirement obligations at all of its facilities except where there are no contractual or legal obligations. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

The following is a reconciliation of asset retirement obligations as of December 31, 2006:

Thousands of Dollars	
Asset retirement liability, beginning of period	$10,968
Accretion expense	723
Settlements	(283)
Foreign currency translation	242
Asset retirement liability, end of period	$11,650

The current portion of the liability of approximately $0.2 million is included in other current liabilities. The long-term portion of the liability of approximately $11.5 million is included in other noncurrent liabilities.

Accretion expense is included in cost of goods sold in the Company's Consolidated Statements of Income.

NOTE 23. ACCOUNTING FOR STRIPPING COSTS

Effective January 1, 2006, the Company adopted the consensus of EITF No. 04-06, "Accounting for Stripping Costs Incurred During Production in the Mining Industry." This consensus states that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of inventory produced during the period that the stripping costs are incurred. The Company had previously deferred stripping costs in excess of the average life of mine stripping ratio and amortized such costs on a unit of production method when the ratio of waste to ore mined is less than the average life of mine stripping ratio. As a result, the Company recorded an after-tax charge of $7.1 million to its opening retained earnings and increased its opening inventory by $0.8 million.

The following is a reconciliation of opening retained earnings:

Thousands of Dollars	
Ending retained earnings, December 31, 2005	$828,591
Adoption of EITF 04-06, net of tax	7,119
Opening retained earnings, January 1, 2006	$821,472

The change did not have a significant impact on earnings in 2006.

NOTE 24. NON-OPERATING INCOME AND DEDUCTIONS

Thousand of Dollars	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Interest income	$ 1,762	$ 1,384	$ 1,589
Interest expense	(7,753)	(5,847)	(4,130)
Gain on insurance settlement	1,822	—	—
Litigation settlement	—	2,100	—
Foreign exchange losses	(268)	(451)	(564)
Other income (deductions)	(867)	(820)	(1,399)
Non-operating deductions, net	$(5,304)	$(3,634)	$(4,504)

During the first quarter of 2006, the Company recognized an insurance settlement gain of $1.8 million, net of related deductible, for property damage sustained at one of our facilities in 2004 as a result of Hurricane Ivan. Claims submitted to the insurance carrier for damages related to a combination of replacement costs for fixed assets and reimbursement of expenses associated with the clean-up and repairs at the facility. The insurance settlement gain related to the reimbursement of replacement costs for fixed assets in excess of the net book value of such assets.

During the fourth quarter of 2005, the Company recognized a litigation settlement gain of $2.1 million relating to the worldwide settlement of its pending commercial and patent litigation with Omya AG.

NOTE 25. TRANSACTION WITH FORMER PARENT COMPANY

Under the terms of certain agreements entered into in connection with the Company's initial public offering in 1992, Pfizer Inc ("Pfizer") agreed to indemnify the Company against any liability arising from claims for remediation, as defined in the agreements, of on-site environmental conditions relating to activities prior to the closing of the initial public offering. The Company had asserted to Pfizer a number of indemnification claims pursuant to those agreements during the ten-year period following the closing of the initial public offering. Since the initial public offering, the Company has incurred and expensed approximately $6 million of environmental claims under these agreements. On January 20, 2006, Pfizer and the Company agreed to settle those claims, along with certain other potential environmental liabilities of Pfizer, in consideration of a payment by Pfizer of $4.5 million. Such payment was recorded as additional paid-in-capital, net of its related tax effect.

NOTE 26. 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 reportable 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 products and systems used primarily by the steel, cement and glass industries as well as metallurgical products used primarily in the steel industry.

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. Intersegment sales and transfers are not significant.

Segment information for the years ended December 31, 2006, 2005 and 2004 was as follows (in millions):

2006	**Specialty Minerals**	**Refractories**	**Total**
Net sales	$711.4	$347.9	$1,059.3
Income from operations	52.9	32.0	84.9
Bad debt expenses	0.8	(0.4)	0.4
Depreciation, depletion and amortization	68.8	14.4	83.2
Segment assets	795.8	356.2	1,152.0
Capital expenditures	67.8	16.0	83.8

2005	**Specialty Minerals**	**Refractories**	**Total**
Net sales	$663.0	$327.8	$990.8
Income from operations	52.7	28.3	81.0
Impairment of assets	0.3	—	0.3
Bad debt expenses	0.3	(0.8)	(0.5)
Depreciation, depletion and amortization	61.2	12.1	73.3
Segment assets	768.1	293.4	1,061.5
Capital expenditures	85.3	21.8	107.1

2004	Specialty Minerals	Refractories	Total
Net sales	$618.7	$300.3	$919.0
Income from operations	57.7	30.4	88.1
Restructuring charges	0.7	0.4	1.1
Bad debt expenses	1.3	0.3	1.6
Depreciation, depletion and amortization	57.9	12.2	70.1
Segment assets	769.6	297.4	1,067.0
Capital expenditures	83.1	17.8	100.9

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	2006	2005	2004
Income from operations for reportable segments	$84.9	$81.0	$88.1
Unallocated corporate expenses	—	—	(1.0)
Consolidated income from operations	84.9	81.0	87.1
Interest income	1.8	1.4	1.6
Interest expense	(7.8)	(5.8)	(4.1)
Other deductions	0.7	0.8	(2.0)
Income before provision for taxes on income, minority interests and discontinued operations	$79.6	$77.4	$82.6

Total assets	2006	2005	2004
Total segment assets	$1,152.0	$1,061.5	$1,067.0
Corporate assets	41.1	94.8	87.9
Consolidated total assets	$1,193.1	$1,156.3	$1,154.9

Capital expenditures	2006	2005	2004
Total segment capital expenditures	$83.8	$107.1	$100.9
Corporate capital expenditures	1.4	4.4	5.5
Consolidated total capital expenditures	$85.2	$111.5	$106.4

The carrying amount of goodwill by reportable segment as of December 31, 2006 and December 31, 2005 was as follows:

Goodwill Thousands of Dollars	2006	2005
Specialty Minerals	$16,560	$15,371
Refractories	52,417	38,241
Total	$68,977	$53,612

The net change in goodwill since December 31, 2005 was primarily attributable to the acquisition of ASMAS and the effect of foreign exchange.

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

Net Sales	**2006**	**2005**	**2004**
United States	$ 628.4	$600.1	$558.2
Canada/Latin America	80.7	80.0	81.7
Europe/Africa	278.4	248.7	222.7
Asia	71.8	62.0	56.4
Total International	430.9	390.7	360.8
Consolidated total net sales	$1,059.3	$990.8	$919.0

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	**2006**	**2005**	**2004**
United States	$425.2	$424.0	$412.4
Canada/Latin America	18.8	21.1	23.7
Europe/Africa	217.1	176.8	194.0
Asia	75.3	67.6	43.7
Total International	311.2	265.5	261.4
Consolidated total long-lived assets	$736.4	$689.5	$673.8

The Company's sales by product category are as follows:

Millions of Dollars	**2006**	**2005**	**2004**
Paper PCC	$ 500.6	$460.7	$429.3
Specialty PCC	56.4	55.6	50.7
Talc	58.5	54.2	51.6
SYNSIL®	10.4	6.6	3.1
Other Processed Minerals	85.5	85.9	84.0
Refractory Products	264.6	239.3	243.0
Metallurgical Products	83.3	88.5	57.3
Net Sales	$1,059.3	$990.8	$919.0

NOTE 27. QUARTERLY FINANCIAL DATA (UNAUDITED)

The financial information for all periods presented has been reclassified to reflect discontinued operations. See Note 4 to the Consolidated Financial Statements for further information.

Millions of Dollars, Except Per Share Amounts

2006 Quarters	**First**	**Second**	**Third**	**Fourth**
Net Sales by Major Product Line				
PCC	$141.9	$137.7	$138.9	$138.5
Processed Minerals	39.2	41.8	38.9	34.5
Specialty Minerals Segment	181.1	179.5	177.8	173.0
Refractories Segment	83.6	86.9	87.5	89.9
Net sales	264.7	266.4	265.3	262.9
Gross profit	53.7	56.1	57.8	53.7
Income from continuing operations	12.7	12.6	14.1	12.2
Income from discontinued operations	0.1	(0.1)	—	(1.7)
Net income	$ 12.8	$ 12.5	$ 14.1	$ 10.5
Earnings per share:				
Basic:				
Earnings per share from continuing operations	$ 0.64	$ 0.63	$ 0.72	$ 0.64
Earnings per share discontinued operations	—	—	—	(0.09)
Basic earnings per share	$ 0.64	$ 0.63	$ 0.72	$ 0.55
Diluted:				
Earnings per share from continuing operations	$ 0.64	$ 0.63	$ 0.72	$ 0.63
Earnings per share from discontinued operations	—	—	—	(0.08)
Diluted earnings per share	$ 0.64	$ 0.63	$ 0.72	$ 0.55
Market price range per share of common stock:				
High	$58.93	$61.27	$53.40	$59.31
Low	$52.97	$51.61	$48.01	$51.71
Close	$58.41	$52.00	$53.40	$58.79
Dividends paid per common share	$ 0.05	$ 0.05	$ 0.05	$ 0.05

2005 Quarters	**First**	**Second**	**Third**	**Fourth**
Net Sales by Major Product Line				
PCC	$132.8	$121.6	$129.3	$132.5
Processed Minerals	35.8	37.8	36.7	36.5
Specialty Minerals Segment	168.6	159.4	166.0	169.0
Refractories Segment	81.0	84.0	79.5	83.2
Net sales	249.6	243.4	245.5	252.2
Gross profit	57.3	51.3	50.9	50.6
Income from continuing operations	14.9	13.0	12.1	12.5
Income from discontinued operations	0.3	0.1	0.1	0.1
Net income	$ 15.2	$ 13.1	$ 12.2	$ 12.6
Earnings per share:				
Basic:				
Earnings per share from continuing operations	$ 0.72	$ 0.63	$ 0.60	$ 0.63
Earnings per share from discontinued operations	0.02	0.01	0.01	—
Basic earnings per share	$ 0.74	$ 0.64	$ 0.61	$ 0.63
Diluted:				
Earnings per share from continuing operations	$ 0.71	$ 0.62	$ 0.60	$ 0.63
Earnings per share from discontinued operations	0.02	0.01	—	—
Diluted earnings per share	$ 0.73	$ 0.63	$ 0.60	$ 0.63
Market price range per share of common stock:				
High	$66.80	$68.83	$64.11	$58.32
Low	$60.52	$60.02	$57.21	$51.59
Close	$65.78	$61.60	$57.21	$55.89
Dividends paid per common share	$ 0.05	$ 0.05	$ 0.05	$ 0.05

In the fourth quarter of 2005, the Company recorded a $0.3 million writedown of impaired assets relating to the planned closure of the Company's operations in Cornwall, Canada.

Report of Independent Registered Public Accounting Firm

Minerals Technologies Inc. and Subsidiary Companies 2006 Annual Report

The Board of Directors and Shareholders
Minerals Technologies Inc.:

We have audited the accompanying consolidated balance sheets of Minerals Technologies Inc. and subsidiary companies as of December 31, 2006 and 2005, 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, 2006. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the 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, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in the notes to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123R, "Shared-Based Payment," SFAS No. 151, "Inventory Costs - an Amendment of ARB No. 43, Chapter 4," and Emerging Issues Task Force Issue No. 04-06, "Accounting for Stripping Costs Incurred During Production in the Mining Industry." Also as discussed in the notes to the consolidated financial statements, effective December 31, 2006, the Company adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132(R)."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Minerals Technologies Inc. and subsidiary companies' internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

New York, New York
February 27, 2007

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Shareholders
Minerals Technologies Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Minerals Technologies Inc. and subsidiary companies maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Minerals Technologies Inc. and subsidiary companies' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of a refractories company in Turkey acquired on October 2, 2006. This refractories company, excluding goodwill, constituted approximately 2.5% of consolidated total assets of the Company and less than 1% of consolidated net sales. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of this acquired company.

In our opinion, management's assessment that Minerals Technologies Inc. and subsidiary companies maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Minerals Technologies Inc. and subsidiary companies maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Minerals Technologies Inc. and subsidiary companies as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows and related financial statement schedule for each of the years in the three-year period ended December 31, 2006, and our report dated February 27, 2007 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule. Our report refers to the adoption in 2006 of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Shared-Based Payment," SFAS No. 151, "Inventory Costs - an Amendment of ARB No. 43, Chapter 4," Emerging Issues Task Force Issue No. 04-06, "Accounting for Stripping Costs Incurred During Production in the Mining Industry," and SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans – An Amendment of FASB Statements No. 87, 88, 106, and 132(R)."

KPMG LLP

New York, New York
February 27, 2007

Management's Report on Internal Control Over Financial Reporting

Minerals Technologies Inc. and Subsidiary Companies 2006 Annual Report

Management's Report On Internal Control Over Financial Reporting

Management of Minerals Technologies Inc. is responsible for the preparation, integrity and fair presentation of its published consolidated financial statements. The financial statements have been prepared in accordance with U.S. generally accepted accounting principles and, as such, include amounts based on judgements and estimates made by management. The Company also prepared the other information included in the annual report and is responsible for its accuracy and consistency with the consolidated financial statements.

Management is also responsible for establishing and maintaining effective internal control over financial reporting. The Company's internal control over financial reporting includes those policies and procedures that pertain to the Company's ability to record, process, summarize and report reliable financial data. The Company maintains a system of internal control over financial reporting, which is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation of reliable published financial statements and safeguarding of the Company's assets. The system includes a documented organizational structure and division of responsibility, established policies and procedures, including a code of conduct to foster a strong ethical climate, which are communicated throughout the Company, and the careful selection, training and development of our people.

The Board of Directors, acting through its Audit Committee, is responsible for the oversight of the Company's accounting policies, financial reporting and internal control. The Audit Committee of the Board of Directors is comprised entirely of outside directors who are independent of management. The Audit Committee is responsible for the appointment and compensation of the independent registered public accounting firm. It meets periodically with management, the independent registered public accounting firm and the internal auditors to ensure that they are carrying out their responsibilities. The Audit Committee is also responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of the Company in addition to reviewing the Company's financial reports. The independent registered public accounting firm and the internal auditors have full and unlimited access to the Audit Committee, with or without management, to discuss the adequacy of internal control over financial reporting, and any other matters which they believe should be brought to the attention of the Audit Committee.

Management recognizes that there are inherent limitations in the effectiveness of any system of internal control over financial reporting, including the possibility of human error and the circumvention or overriding of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect misstatements. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

The Company assessed its internal control system as of December 31, 2006 in relation to criteria for effective internal control over financial reporting described in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, the Company has determined that, as of December 31, 2006, its system of internal control over financial reporting was effective.

On October 2, 2006, the Company completed an acquisition of a refractories company in Turkey and has excluded this company from our assessment of the effectiveness of our internal control over financial reporting. During 2006, this company contributed less than 1% of consolidated net sales and, as of December 31, 2006, accounted for approximately 2.5% of our consolidated total assets, excluding goodwill.

The consolidated financial statements have been audited by the independent registered public accounting firm, KPMG LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of stockholders, the Board of Directors and committees of the Board. Reports of the independent registered public accounting firm, which includes the independent registered public accounting firm's attestation of management's assessment of internal controls, are also presented within this document.

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
February 27, 2007

Directors, Committees and Officers

Minerals Technologies Inc. and Subsidiary Companies 2006 Annual Report

Board of Directors

Joseph C. Muscari
Chairman of the Board, President and
Chief Executive Officer

Paula H. J. Cholmondeley
Business Consultant, former Vice President and
General Manager of Specialty Products
SAPPI Fine Paper, North America

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

Steven J. Golub
Vice Chairman, Chairman of the Financial
Advisory Group and Managing Director
Lazard Frères & Co. LLC

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

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

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

Corporate Officers

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Chairman, President and Chief Executive Officer

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Vice President, Organization and Human Resources

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

Kirk G. Forrest ◆
Vice President, General Counsel and Secretary

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

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 and Nominating Committee
John T. Reid, Chair
Paula H. J. Cholmondeley
Duane R. Dunham
Kristina M. Johnson

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

Compensation
Michael F. Pasquale, Chair
Duane R. Dunham
Steven J. Golub
William C. Stivers

◆ *Member, MTI Leadership Council*

Investor Information

Minerals Technologies Inc. and Subsidiary Companies 2006 Annual Report

Stock Listings

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

Registrar and Transfer Agent

Computershare Trust Company, N. A.
P.O. Box 43078
Providence, RI 02940-3078

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

Computershare Trust Company, N. A.
P.O. Box 43078
Providence, RI 02940-3078
Stockholder Inquiries: 1-800-426-5523
www.computershare/equiserve.com

Certifications

The Company's chief executive officer submitted the certification required by Section 303A.12(a) of the NYSE Listed Company Manual certifying without qualification to the NYSE that he is not aware of any violations by the Company of NYSE corporate governance listing standards as of June 5, 2006. The Company also filed as an exhibit to its Annual Report on Form 10-K for the year ended December 31, 2006, the certifications required by Section 302 of the Sarbanes-Oxley Act regarding the quality of the Company's public disclosure.

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, 2006, including the financial statement schedule thereto. Requests should be directed to:

Secretary
Minerals Technologies Inc.
The Chrysler Building
405 Lexington Avenue
New York, NY 10174-0002

Annual Meeting

The Minerals Technologies Annual Meeting will take place on Wednesday, May 23, 2007 at 2 p.m., at The Grand Hyatt New York, 109 East 42nd St., Conference Level (3rd floor) 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 the close of business on March 26, 2007.

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 10174-0002
212-878-1831
For further information on Minerals Technologies Inc. visit the Company's website at www.mineralstech.com

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For the years of service, MTI would like to thank:

Paul R. Saueracker, Jean-Paul Vallès and John B. Curcio

Paul R. Saueracker Paul R. Saueracker, who served as Chairman, President, and Chief Executive Officer of Minerals Technologies Inc. since 2001, will retire from the company on May 1, 2007.

"Paul Saueracker has made numerous contributions to MTI over his 36 years of service, including being one of the 'fathers of PCC' during the 1980s, a new technology that helped revolutionize the way paper was made in North America," said Joseph C. Muscari, who succeeded Mr. Saueracker. "I would like to take this opportunity to thank Paul on behalf of all of our employees for his dedication, perseverance and leadership."

Mr. Saueracker joined the Company in 1971 as a Sales Representative in Los Angeles. In 1973, he moved to New York to become a Market Research Analyst and over the years assumed positions of increasing responsibility including Manager of Market Research and Director of Sales and Marketing. In 1989, he became Vice President, Sales and Marketing, Minerals. He was named President and CEO of Specialty Minerals Inc. in 1994 and a Senior Vice President of Minerals Technologies Inc. in 1999. In August of 2000, he was elected President of the Company and a member of the Board of Directors. In January 2001, he was elected Chief Executive Officer, and in October of 2001 he became Chairman of the Board.

Jean-Paul Vallès Jean-Paul Vallès, Ph.D., resigned from the MTI Board of Directors in October of 2006. Dr. Vallès was often cited as the "father" of Minerals Technologies Inc. after he took the company public in 1992 through an initial public offering from Pfizer Inc, and served as Chairman and CEO from then until 2001, when he was named Chairman Emeritus of the Board.

Before joining Minerals Technologies, Jean-Paul Vallès had a long and distinguished career at Pfizer, which he joined in 1968. While there, he assumed positions of increasing responsibility, including Vice President of Finance and Chief Financial Officer, Senior Vice President, Executive Vice President and Vice Chairman. Dr. Vallès served on the Board of Directors of Pfizer from 1980 to 2005.

John B. Curcio John B. "Jack" Curcio, a former Chairman and Chief Executive Officer of Mack Trucks, Inc., resigned from the Minerals Technologies Inc. Board of Directors in May of 2006 after 14 years of service.

Mr. Curcio was the first outside director to join the MTI Board in 1992, when the company was formed. During his Board service, he was intimately involved with the formulation of key strategies for growth and expansion into a truly global company.

Minerals Technologies Inc.

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