

January 3, 2002

Honeywell International Inc.
101 Columbia Road
Morristown, New Jersey 07962

Gentlemen:

North American Refractories Company ("NARCO") is a wholly-owned subsidiary of RHI Refractories Holding Company, a Delaware corporation ("RHI"). Prior to January 17, 1986, NARCO was an unincorporated division of a predecessor to Honeywell International Inc. ("Honeywell").

In 1986, in connection with the sale of the NARCO business, Honeywell agreed to indemnify NARCO, with certain exceptions, for any liability associated with asbestos-containing products manufactured and sold by the NARCO business prior to January 17, 1986 and that constituted "Discontinued Products" as defined in the agreement granting the indemnity, as such indemnity has been amended to date (the "Honeywell Indemnity").

NARCO is the defendant in numerous personal injury actions related to (a) Discontinued Products, (b) NARCO products that were continued after January 17, 1986, and (c) NARCO products manufactured and sold for the first time after January 17, 1986, and NARCO expects similar actions to be filed in the future (the "NARCO Actions"). Honeywell is also a defendant in some of the NARCO Actions.

There is a dispute between Honeywell and NARCO relating to which products are Discontinued Products, the scope of the Honeywell Indemnity, and the respective rights and obligations of Honeywell and NARCO with respect to the pending and any future claims arising from the NARCO business.

Prior to January 1, 2001, Honeywell and NARCO by agreement shared in the costs of the defense and/or settlement of all cases. NARCO's obligation to make certain payments in connection with the Honeywell Indemnity is hereinafter referred to as the "NARCO Contribution." Honeywell contends that since January 1, 2001, NARCO has not performed its obligations with respect to the NARCO Contribution, and NARCO contends that it has a claim for an overpayment of the NARCO Contribution for years prior to 2001.

Notwithstanding this dispute, with a full reservation of rights since January 1, 2001, Honeywell has undertaken the defense of all personal injury actions filed against NARCO, including those that allege liability arising out of the manufacture and sale of products that Honeywell believes are not covered by the Honeywell Indemnity.

Honeywell no longer is prepared to undertake the entire defense of the NARCO Actions that Honeywell does not believe are covered by the Honeywell Indemnity, and Honeywell intends to seek contribution from NARCO, RHI and others with respect to such liability for cases in which NARCO has not performed its obligations with respect to the NARCO Contribution.

Nothing contained in this letter agreement shall be an admission against any other party with respect to such dispute, and all rights of each party are expressly preserved.

Concurrently herewith, Honeywell is entering into a letter agreement (the "NARCO Agreement") with NARCO regarding, inter alia, debtor-in-possession financing for NARCO in the NARCO Chapter 11 Case (as hereinafter defined).

Honeywell and RHI have each been advised by counsel with respect to the execution and delivery of this letter agreement, and in the exercise of the fiduciary obligations of each party. From and after this date, the board of directors of Honeywell and RHI shall continue to exercise independent fiduciary duties with respect to the actions contemplated to be taken hereby and in connection with the NARCO Agreement and NARCO.

In furtherance of the foregoing, the parties intend that all actions taken in the NARCO Chapter 11 Case (as hereinafter defined) pursuant to this letter agreement will, to the extent required by the Bankruptcy Code, be subject to the Bankruptcy Court's approval and shall be consistent with the requirements of the Bankruptcy Code and other applicable law. In particular, the terms of this letter agreement shall be disclosed to the Bankruptcy Court in connection with NARCO's first-day motion seeking approval of the DIP Commitment (as hereinafter defined).

On the terms and subject to the conditions set forth herein, Honeywell and RHI hereby agree as follows:

1. On the terms and subject to the conditions of the NARCO Agreement, Honeywell or an affiliate is prepared to provide NARCO with a \$20 million commitment for debtor-in-possession financing (the "DIP Commitment"). In the event that Honeywell funds the DIP Commitment through an affiliate, Honeywell shall provide RHI with reasonable assurance that such affiliate will be able to perform its financial obligations with respect to the DIP Commitment.

2.A. If, on or about January 4, 2002, NARCO files a petition for relief (the "Petition") under Chapter 11 of the Bankruptcy Code (the "Chapter 11 Case") in the United States District Court for the Western District of Pennsylvania (the "Bankruptcy Court"),

Honeywell shall upon filing of the Petition, pay to RHI by wire transfer of immediately available funds the sum of \$40 million.

2.B. If NARCO complies with its obligations under the NARCO Agreement after the filing of the Petition to seek, by means of an adversary proceeding in form and substance satisfactory to Honeywell, an injunction under Sections 362 and 105 of the Bankruptcy Code to stay any litigation against Honeywell arising out of the NARCO business (the "Honeywell Actions"); and if Honeywell decides to remove any or all present or future Honeywell Actions to federal courts, NARCO cooperates with Honeywell in seeking such removal, and in such event, NARCO seeks to consolidate all such actions in the United States District Court in which the Chapter 11 Case is pending, then upon (1) NARCO's filing of a plan of reorganization (the "Plan") that is acceptable to Honeywell in its sole discretion, pay to RHI \$20 million by wire transfer of immediately available funds, and (2) confirmation and consummation of a Plan that is acceptable to Honeywell in its sole discretion, pay to RHI the additional sum of \$40 million by wire transfer of immediately available funds.

2.C. Upon the commencement of the NARCO Chapter 11 Case, Honeywell shall provide RHI with a clean irrevocable standby letter of credit (1) in the amount of \$20 million that may be drawn by RHI in the event that Honeywell fails to make payment in accordance with paragraph 2(B) (1) above, and (2) in the amount of \$40 million that may be drawn by RHI in the event that Honeywell fails to make payment in accordance with paragraph 2(B)(2) above.

2.D. For the avoidance of doubt, a Plan that provides (v) for a channeling injunction pursuant to Section 524(g) of the Bankruptcy Code in form and substance satisfactory to Honeywell in its sole discretion that enjoins any future litigation against Honeywell or any affiliate (or any insurer thereof) in respect of the NARCO Actions and the Honeywell Actions, (w) that Honeywell shall retain sole and absolute discretion and approval with respect to the amount and timing of any payment or other contribution to the Plan made by or on its behalf, (x) Honeywell with sole and absolute discretion and approval with respect to any other aspect of the Plan that affects Honeywell in respect of the NARCO Actions or any claims of Honeywell in any material respect, (y) that RHI shall cause the contribution to the trust contemplated to be created thereunder of the Capital Stock (as hereinafter defined) of NARCO and (z) for the cancellation of any debt that RHI or any non-United States Affiliate (as hereinafter defined) of RHI holds in NARCO, shall be a Plan acceptable to Honeywell in its sole and absolute discretion. For purposes hereof, "Affiliate" means a Person (as hereinafter defined) who controls, is controlled by, or is under common control with, any other Person.

3. RHI represents, covenants and warrants to Honeywell as follows:

3.A. The authorized capital stock of NARCO consists of 100,000 shares of common stock, with no par value of which 57,474 shares are issued and outstanding, and all of which are held beneficially and of record by RHI, and 30,000 shares of preferred stock, par value of \$100.00 per share, 30,000 shares of which are issued and outstanding and held of record by RHI, and no other class of capital stock (the "Capital Stock"). There are no outstanding options, warrants, rights or other securities convertible or exchangeable into shares of Capital Stock, and

no person, firm, corporation or other entity (collectively, a "Person") has any pre-emptive or contractual rights to acquire shares of Capital Stock.

3.B. The Capital Stock of NARCO is held by RHI free and clear of any lien, claim, charge of encumbrance (collectively, "Liens"). Until the first to occur of: (1) a plan of reorganization for NARCO shall have been confirmed by the Bankruptcy Court or (2) the NARCO Chapter 11 Case shall have been dismissed or converted to a proceeding under Chapter 7 of the Bankruptcy Code, RHI will not (x) sell, assign, transfer or convey any shares of Capital Stock to any Person, or (y) grant a Lien upon any shares of Capital Stock to any Person or suffer to exist any Lien thereon.

3.C. RHI owns approximately \$59.4 million principal amount of claims against NARCO. Except for claims held by Global Industrial Technologies, Inc. and its subsidiaries, no Affiliate of RHI holds any claims against NARCO.

4. In the event that (a) either RHI shall fail to fulfill any of its obligations hereunder or under the NARCO Agreement or NARCO shall fail to fulfill any of its obligations under the NARCO Agreement, or (b) a NARCO Termination Event shall occur (as such term is defined in the NARCO Agreement), Honeywell may in the exercise of its sole discretion, by delivering written notice to RHI, terminate its obligation to make any further payments to RHI hereunder. In the event that Honeywell elects to terminate its obligations to make any further payments to RHI, RHI shall be under no obligation to refund or repay any amounts paid to it by Honeywell prior to the date of such termination, but nothing contained in this paragraph 4 shall affect or limit NARCO's obligations under the DIP Commitment, which shall be governed solely by the definitive documentation evidencing such DIP Commitment and any related orders of the Bankruptcy Court.

5. This letter agreement shall be governed by the laws of the State of New York without regarding to its principles of conflicts of laws.

6. This letter agreement may be executed in two or more counterparts, each of which shall be deemed an original, but which together shall constitute one and the same instrument.

7. This letter agreement sets forth all of the promises, covenants, agreements, conditions, and undertakings between the parties hereto with respect to the subject matter hereof and supersede all prior and contemporaneous agreements and understandings, inducements, or conditions, express or implied, oral or written.

This letter agreement may not be amended except by an instrument in writing signed by the party sought to be charged with effect of such amendment.

[SIGNATURES ON FOLLOWING PAGES]

Honeywell International Inc.

January 3, 2002

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If the foregoing accurately reflects your understanding of the terms of the settlement agreement between Honeywell and RHI, kindly execute the enclosed copy of this letter agreement and return it the undersigned via fax and overnight mail.

Sincerely,

RHI REFRACTORIES
HOLDING COMPANY

By: _____
Name:
Title:

Agreed and accepted, this
____ day of January, 2002.

HONEYWELL INTERNATIONAL INC.

By: _____
Name:
Title:

Honeywell International Inc.

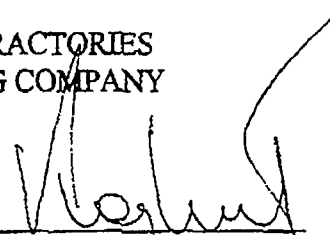
January 3, 2002

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Sincerely,

RHI REFRACTORIES
HOLDING COMPANY

By: 

Name:

Title:

Agreed and accepted, this
___ day of January, 2002.

HONEYWELL INTERNATIONAL INC.

By: _____

Name:

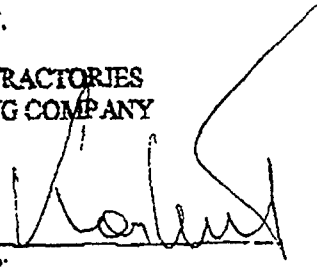
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Honeywell International Inc.
January 8, 2002
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If the foregoing accurately reflects your understanding of the terms of the settlement agreement between Honeywell and RHI, kindly execute the enclosed copy of this letter agreement and return it the undersigned via fax and overnight mail.

Sincerely,

RHI REFRACTORIES
HOLDING COMPANY

By: 

Name:
Title:

Agreed and accepted, this
4th day of January, 2002.

HONEYWELL INTERNATIONAL INC.

By: 
Name: PETER H. KREINDLER
Title: SR VPA GEN'L COUNSEL