NOTE 9: RETIREMENT BENEFITS

Qualified Pension Plans –

We sponsor and contribute to pension plans that provide defined benefits to U.S. and non-U.S. employees. Pension benefits earned are generally based on years of service and compensation during active employment. The following disclosures include amounts for the U.S. and significant foreign pension plans, primarily Canada, Germany, Japan, and the United Kingdom. *All of our plans have a measurement date of December 31, except for two of our Japanese plans which have measurement dates of September 30.*

A summary of the net periodic expense for these plans is as follows:

(in millions)	**2005**		**2004**		**2003**	
Components of net periodic pension expense:	**U.S.**	**Non-U.S.**	**U.S.**	**Non-U.S.**	**U.S.**	**Non-U.S.**
Service cost	$ 56	$ 19	$ 55	$ 16	$ 49	$ 14
Interest cost	[illegible]	32	92	28	91	23
Expected return on plan assets	(119)	(35)	(124)	(32)	(138)	(27)
Amortization of net gain existing at adoption of SFAS No. 87	–	(1)	–	(1)	–	(1)
Unrecognized prior service cost	2	[illegible]	3	1	3	–
Unrecognized net actuarial loss	25	6	8	3	–	1
Net periodic pension expense, excluding special items [1]	62	22	34	15	5	10
Settlement and curtailment losses	[illegible]	[illegible]	–	–	10	–
Special termination benefits	[illegible]	[illegible]	–	2	24	–
Special items [2]	–	1	–	2	34	–
Net periodic pension expense	$ 62	$ 23	$ 34	$ 17	$ 39	$ 10

Notes:
(1) Amount represents traditional net periodic pension expense (income) components.
(2) Settlement and curtailment losses (gains), and special termination benefits, which include severance and early retirement costs.

The following table sets forth the weighted average assumptions used in the calculation of net periodic pension expense:

Weighted-average assumptions used to determine net expense for the period *January 1, - December 31,*	**2005**		**2004**		**2003**	
	U.S.	**Non-U.S.**	**U.S.**	**Non-U.S.**	**U.S.**	**Non-U.S.**
Discount rate	5.80%	5.49%	6.25%	5.73%	6.67%	5.83%
Expected return on plan assets	8.50%	7.37%	8.50%	7.40%	8.50%	7.42%
Rate of compensation increase	4.00%	4.14%	4.00%	4.14%	4.00%	3.93%

The amount recognized in the balance sheet for our U.S. and Non-U.S. pension plans is as follows:

(in millions)	2005		2004	
Amounts recognized in the statement of financial position:	**U.S.**	**Non-U.S.**	**U.S.**	**Non-U.S.**
Prepaid pension cost	$ 293	$ 8	$ 230	$ 9
Accrued benefit liability	[illegible]	(94)	–	(86)
Intangible asset	[illegible]	[illegible]	–	5
Accumulated other comprehensive income	[illegible]	118	–	94
Net amount recognized	$ 293	$ 37	$ 230	$ 22

Our projected benefit obligation (PBO) represents the actuarial present value of benefits attributable to employee service rendered to date, including the effects of estimated future salary increases. The market value of plan assets fell short of our PBO by $317 million in 2005. We refer to this as our unfunded position. The amount recognized in the balance sheet reconciled to the unfunded status of the pension plans (plan assets less projected benefit obligation) is as follows:

(in millions)	2005		2004	
	U.S.	**Non-U.S.**	**U.S.**	**Non-U.S.**
Net amount recognized	$ 293	$ 37	$ 230	$ 22
Post measurement date contributions	[illegible]	[illegible]	–	(1)
Unrecognized transition asset	[illegible]	[illegible]	–	1
Unrecognized actuarial loss	(444)	(186)	(359)	(187)
Unrecognized prior service cost	(12)	(5)	(15)	(5)
Unfunded status	$ (163)	$ (154)	$ (144)	$ (170)

The following table reflects the change in the projected benefit obligation (PBO) based on the measurement date:

(in millions)	2005		2004	
	U.S.	**Non-U.S.**	**U.S.**	**Non-U.S.**
Change in pension benefit obligation:				
Pension benefit obligation at beginning of year	[illegible]	[illegible]	$ 1,492	$ 501
Service cost, excluding expenses	[illegible]	[illegible]	50	16
Interest cost	[illegible]	[illegible]	92	28
Participant contributions	[illegible]	[illegible]	–	2
Plan amendments	[illegible]	[illegible]	–	–
Actuarial (gain) loss	[illegible]	[illegible]	118	34
Benefits paid	[illegible]	[illegible]	(151)	(20)
Acquisitions and plan transfers	[illegible]	[illegible]	–	–
Settlements	[illegible]	[illegible]	–	(1)
Special termination benefits	[illegible]	[illegible]	–	2
Foreign currency translation *adjustment*	[illegible]	[illegible]	–	40
Pension benefit obligation at end of year	[illegible]	[illegible]	$ 1,601	$ 602

The following table sets forth the weighted average assumptions used in the calculation of the PBO:

Weighted-average assumptions used to determine benefit obligation for years ended December 31,	2005		2004	
	U.S.	**Non-U.S.**	**U.S.**	**Non-U.S.**
Discount rate	[illegible]	[illegible]	5.80%	5.50%
Rate of compensation increase	[illegible]	[illegible]	4.00%	4.16%

The discount rates were determined by projecting the plans' expected future benefit payments as defined for the projected benefit obligation, discounting those expected payments using a zero-coupon spot yield curve derived from a universe of high-quality bonds (rated Aa or better by Moody's Investor Services) as of the measurement date, and solving for the single equivalent discount rate that resulted in the same projected benefit obligation. Our calculation excluded bonds with explicit call schedules and bonds which are not frequently traded. A 1% increase in the discount rate would have decreased the net periodic benefit cost for 2005 by $39 million. A 1% decrease in the discount rate would have increased the 2005 net periodic benefit cost by $39 million.

The following table summarizes the change in the fair value of assets of the pension plans based on the measurement date:

(in millions)	2005		2004	
	U.S.	**Non-U.S.**	**U.S.**	**Non-U.S.**
Change in plan assets:				
Fair value of plan assets at beginning of year	[illegible]	[illegible]	$ 1,448	$ 378
Actual return on plan assets	[illegible]	[illegible]	168	24
Employer contribution	[illegible]	[illegible]	–	20
Participant contributions	[illegible]	[illegible]	–	2
Acquisitions and plan transfers	[illegible]	[illegible]	–	–
Settlements	[illegible]	[illegible]	–	(1)
Benefits paid	[illegible]	[illegible]	(151)	(20)
Administrative expenses	[illegible]	[illegible]	(8)	–
Foreign currency translation adjustment	[illegible]	[illegible]	–	29
Fair value of plan assets at end of year	[illegible]	[illegible]	$ 1,457	$ 432

To the extent the expected return on plan assets varies from the actual return, an actuarial gain or loss results. The expected return on plan asset assumption is based on our estimates of long-term returns on major asset categories, such as fixed income and equity securities, and our actual allocation of pension investment among these asset classes. In determining our long-term expected rate of return, we take into account long-term historical returns of these asset categories, historical performance of plan assets, expected value of active investment management, and the expected interest rate environment. Each 1% increase or decrease in the expected rate of return assumption would have decreased or increased the net periodic benefit expense for 2005 by $18 million.

The net assets of our defined benefit pension plans, which consist primarily of equity and debt securities, were measured at market value. Except where our equity is a component of an index fund, the plans are prohibited from holding shares of Rohm and Haas stock. The target and actual plan asset allocation at December 31, 2005 and December 31, 2004, by asset category for U.S. and the significant Non-U.S. plans are as follows:

Percentage of Plan Assets

	Targeted % 2005		Actual % 2005		Targeted % 2004		Actual % 2004	
Asset Category	**U.S.**	**Non-U.S.**	**U.S.**	**Non-U.S.**	**U.S.**	**Non-U.S.**	**U.S.**	**Non-U.S.**
Equity securities	67	58	66	58	66	60	68	61
Debt securities	20	35	19	33	21	32	18	33
Real Estate	7	3	8	3	7	–	7	–
Other	6	4	7	6	6	8	7	6
Total	100	100	100	100	100	100	100	100

The fiduciaries of our plans determine how investments should be allocated among asset categories after taking into account plan demographics, asset returns and acceptable levels of risk. Asset allocation targets are established based on the long-term return and volatility characteristics of the asset categories. The targeted asset category allocations recognize the benefit of diversification and the profiles of the plans' liabilities. The plans' assets are currently invested in a variety of funds representing most standard equity and debt security classes. Our U.S. plan investments are balanced with the goal of containing potential declines in asset values within a specified percentage and preventing negative returns over a five year period. The plans' investment policy mandates diversification, consistent with that goal. While no significant changes in the asset allocation are expected during 2006, we are permitted to make changes at any time.

The unrecognized actuarial loss represents the actual changes in the estimated obligation and plan assets that have not been recognized in either our balance sheet or our income statement. During 2005 the plans' total unrecognized net loss increased by $84 million. The increase in unrecognized loss is primarily due to lower discount rates for both the U.S. and Non-U.S. plans, and the adoption of the 1994 mortality table for the U.S. plans. Higher than expected actual returns on plan assets decreased the total unrecognized net loss by $39 million during 2005. Actuarial gains and losses are not recognized immediately, but instead are accumulated as a part of the unrecognized net loss balance and amortized into net periodic pension expense over the average remaining service period of participating employees as certain thresholds are met.

Because the total unrecognized net gain or loss exceeds the greater of 10% of the projected benefit obligation or 10% of the plan assets, the excess will be amortized over the average expected future working lifetime of active plan participants. As of January 1, 2005 the average expected future working lifetime of active plan participants varies by plan and is within a range of 8 to 22 years. Actual results for 2006 will depend on the 2006 actuarial valuation of the plan.

Projected benefit payments, which reflect expected future service, are as follows:

(in millions)	**U.S.**	**Non-U.S.**
2006	$ 106	$ 23
2007	114	25
2008	118	26
2009	130	28
2010	136	31
2011-2015	801	185

During the year ended December 31, 2005, we contributed $42 million to our international pension plans. These contributions were higher than the $25 million previously anticipated and disclosed in our Annual Report filed on Form 10-K for the year ended December 31, 2004 to make up for funding shortfalls in our United Kingdom pension trust. In addition, we identified an opportunity to increase the funding of our U.S. pension and other post-retirement employee benefit plans on a tax-deductible basis. Accordingly, we decided to maximize tax-deductible funding of these plans by contributing $137 million to our U.S. pension trust in October 2005. Of this total, $125 million was designated to fund pension benefits and the remaining $12 million to fund retiree health care.

We do not expect to make contributions to our U.S. plans during 2006; however we expect to contribute to our Non-U.S. plans. Funding requirements for subsequent years are uncertain and will significantly depend on changes in assumptions used to calculate plan funding levels, the actual return on plan assets, changes in the employee groups covered by the plan, and any legislative or regulatory changes affecting plan funding requirements. For tax planning, financial planning, cash flow management or cost reduction purposes the company may increase, accelerate, decrease or delay contributions to the plan to the extent permitted by law.

The accumulated benefit obligation (ABO) is the actuarial present value of benefits attributed to employee service rendered to a particular date, based on current salaries. The accumulated benefit obligation differs from the projected benefit obligation in that it includes no assumption about future compensation levels. At a minimum, the consolidated balance sheet as of the fiscal year end should reflect an amount equal to the unfunded ABO. For several of our Non-U.S. plans, the ABO exceeded the fair value of the pension plan assets; therefore a minimum pension liability (MPL) was recorded. As of December 31, 2005, the market value of our U.S. plan assets exceeded the ABO. Therefore no minimum liability was required for the U.S. plans.

The following table shows the accumulated benefit obligation for our U.S. and Non-U.S. plans and the increase in minimum liability for our Non-U.S. plans, for 2005 and 2004, respectively:

(in millions)	2005		2004	
Additional information:	**U.S.**	**Non-U.S.**	**U.S.**	**Non-U.S.**
Pre-tax increase in minimum liability included in other comprehensive income	$ –	$ 24	$ –	$ 36
Accumulated benefit obligation	1,420	583	1,303	500

The increase in the additional minimum liability for our Non-U.S. plans resulted principally from the decline in the discount rate.

The following table provides information on pension plans where the ABO exceeds the value of plan assets:

(in millions)	2005		2004	
Plans for which accumulated benefit obligation exceeds assets:	**U.S.**	**Non-U.S.**	**U.S.**	**Non-U.S.**
Projected benefit obligation	$ –	$ (580)	$ –	$ (522)
Accumulated benefit obligation	–	(516)	–	(435)
Fair value of plan assets	–	423	–	349

Non-Qualified Pension Plans –

We have noncontributory, unfunded pension plans that provide supplemental defined benefits primarily to U.S. employees whose benefits under the qualified pension plan are limited by the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code.

The unfunded status of the pension plans (plan assets less projected benefit obligation) reconciled to the amount recognized in the balance sheet is as follows:

(in millions)	2005	2004
Net amount recognized	$ (91)	$ (87)
Unrecognized actuarial loss	(64)	(63)
Unrecognized prior service cost	(1)	(2)
Unfunded status	$ (156)	$ (152)

The following disclosures include net periodic pension cost for both the U.S. and Canadian non-qualified pension plans:

(in millions)	2005	2004	2003
Components of net periodic pension expense:			
Service cost	$ 2	$ 1	$ 1
Interest cost	9	9	9
Unrecognized prior service cost	1	1	1
Other amortization, net	4	4	3
Net periodic pension expense	$ 16	$ 15	$ 14

The following table sets forth the weighted average assumptions used in the calculation of net periodic pension expense:

Weighted-average assumptions used to determine net expense for the period January 1, - December 31,	**2005**	**2004**	**2003**
Discount rate	5.80%	6.25%	6.67%
Rate of compensation increase	4.00%	4.00%	4.00%

All of our non-qualified pension plans have a measurement date of December 31.

The following table reflects the change in the PBO based on the measurement date:

(in millions)	2005	2004
Change in pension benefit obligation:		
Pension benefit obligation at beginning of year	$ 152	$ 132
Service cost, excluding expenses	2	1
Interest cost	9	9
Actuarial loss	5	21
Benefits paid	(12)	(11)
Pension benefit obligation at end of year	$ 156	$ 152

The following table sets forth the weighted average assumptions used in the calculation of the PBO:

Weighted-average assumptions used to determine benefit obligation for years ended December 31,	**2005**	**2004**
Discount rate	5.70%	5.80%
Rate of compensation increase	4.00%	4.00%

The following table summarizes the change in fair value of assets of the pension plans based on the measurement date:

(in millions)	**2005**	**2004**
Change in plan assets:		
Fair value of plan assets at beginning of year	$ –	$ –
Employer contribution	12	11
Benefits paid	(12)	(11)
Fair value of plan assets at end of year	$ –	$ –

We have a non-qualified trust, referred to as a "rabbi" trust, to fund benefit payments under our non-qualified U.S. pension plan. Rabbi trust assets are subject to creditor claims under certain conditions and are not the property of employees. Therefore, they are accounted for as corporate assets and are classified as other non-current assets. Assets held in trust at December 31, 2005 and 2004 totaled $63 million and $59 million, respectively.

Non-qualified plan contributions, which reflect expected future service, are as follows:

(in millions)		**Total**
2006	$	10
2007		10
2008		10
2009		11
2010		11
2011-2015		59

The amounts recognized in the balance sheet for the years ended December 31, were as follows:

(in millions)	**2005**	**2004**
Amounts recognized in the statement of financial position:		
Accrued benefit liability	$ (144)	$ (143)
Intangible asset	1	2
Accumulated other comprehensive income	52	54
Net amount recognized	$ (91)	$ (87)

The ABO of the non-qualified plan is $144 million and $143 million as of December 31, 2005 and 2004, respectively.

We recorded a $2 million credit to other comprehensive loss for 2005 representing the change in the plans' additional minimum liability, compared to a charge to other comprehensive loss of $13 million for 2004.

In 1997, we instituted a non-qualified savings plan for eligible employees in the U.S. The purpose of the plan is to provide additional retirement savings benefits beyond the otherwise determined savings benefits provided by the Rohm and Haas Company Employee Stock Ownership and Savings Plan ("the Savings Plan"). See Note 22 for more information on the Savings Plan. Each participant's non-qualified savings plan contributions are notionally invested in the same investment funds as the participant has elected for investment in his or her Savings Plan account. For most participants, we contribute a notional amount equal to 60% of the first 6% of the amount contributed by the participant. Our matching contributions are allocated to deferred stock units. At the time of distribution, each deferred stock unit is distributed as one share of Rohm and Haas Company common stock. We recorded expense of $3 million, $1 million, and $2 million in 2005, 2004 and 2003, respectively for the non-qualified savings plan.

Other Postretirement Benefits –

We provide health care and life insurance benefits under numerous plans for substantially all of our domestic retired employees, for which we are self-insured. Most retirees are required to contribute toward the cost of such coverage. We also provide health care and life insurance benefits to some Non-U.S. retirees primarily in France and Canada.

The following disclosures include amounts for both the U.S. and significant Non-U.S. postretirement plans:

(in millions)	**2005**	**2004**	**2003**
Components of net periodic postretirement cost:			
Service cost	$ 5	$ 5	$ 4
Interest cost	26	28	29
Net amortization	(1)	(2)	(2)
Net periodic postretirement cost	$ 30	$ 31	$ 31

The following table sets forth the weighted average assumptions used in the calculation of net periodic postretirement expense for the U.S. plans:

	2005	**2004**	**2003**
Weighted-average assumptions for annual expense:			
Discount rate	5.60%	6.25%	6.67%
Health care cost trend rate (current rate)	10.00%	10.00%	11.00%
Health care cost trend rate (ultimate rate)	5.00%	5.00%	5.00%
Health care cost trend rate (year ultimate rate reached)	2010	2009	2009

Different discount rates and trend rates are used for Non-U.S. plans, which account for approximately 13% of the total benefit obligation as of December 31, 2005.

All of our postretirement benefit plans have a measurement date of December 31.

The following table reflects the change in the postretirement benefit obligation based on the measurement date:

(in millions)	2005	2004
Change in postretirement benefit obligation:		
Benefit obligation at beginning of year	$ 497	$ 464
Service cost	5	5
Interest cost	26	28
Contributions	16	17
Actuarial loss	21	49
Medicare Part D subsidy	(24)	(11)
Benefits paid	(55)	(58)
Foreign currency translation adjustment	–	3
Benefit obligation at end of year	486	497
Plan assets	12	–
Unfunded status	(474)	(497)
Unrecognized prior service cost	(12)	(15)
Unrecognized actuarial loss	63	67
Total accrued postretirement benefit obligation	$ (423)	$ (445)

The following table sets forth the weighted average assumptions used in the *calculation of the postretirement* benefit obligation:

	2005	2004	2003
Weighted-average assumptions for year-end APBO:			
Discount rate	5.60%	5.60%	6.25%
Health care cost trend rate (current rate)	9.00%	10.00%	10.00%
Health care cost trend rate (ultimate rate)	5.00%	5.00%	5.00%
Health care cost trend rate (year ultimate rate reached)	2010	2010	2009

The U.S. benefit obligation as of December 31, 2005 is based on a health care cost trend rate of 9% declining annually in 1% increments to a long-term rate of 5%. Different discount rates and trend rates are used for Non-U.S. plans, which account for approximately 13% of the total benefit obligation as of December 31, 2005. The U.S. plan generally limits our per-capita cost to double the 1992 cost. Different cost limits apply to some groups of participants, and there are some retirees to whom the limits do not apply. The limits greatly reduce the impact of health care cost trend rates on the benefit obligation and expense.

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

	1-Percentage Point Increase		1-Percentage Point Decrease	
(in millions)	2005	2004	2005	2004
Effect on total of service and interest cost components	$ 1	$ 1	$ (1)	$ –
Effect on postretirement benefit obligation	12	12	(9)	(9)

In May 2004, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FAS 106-2, *"Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"* (the Act), which provides guidance on the accounting for the effects of the Act for employers that sponsor postretirement health care plans that provide drug benefits. The effect of the subsidy has reduced our 2005 accumulated postretirement benefit obligation by approximately $37 million and has reduced our annual benefit expenses by $4 million. *Our estimates assume that our plans with defined dollar caps will be* eligible for the subsidy until 2019.

Projected benefit payments for our U.S. and Non-U.S. plans, which reflect expected future service are as follows:

(in millions)	Total net benefit payments before Medicare Part D subsidy	Estimated amount of Medicare Part D subsidy
2006	$ 45	$ 3
2007	45	3
2008	44	4
2009	43	4
2010	42	4
2011-2015	198	21

NOTE 10: EMPLOYEE BENEFITS

(in millions)	2005	2004
Postretirement health care and life insurance benefits	$ 388	$ 400
Unfunded supplemental pension plan	131	133
Long-term disability benefit costs	40	36
Foreign pension liabilities	94	86
Other	50	51
Total	$ 703	$ 706

See Note 9 for more information on pension and postretirement health care benefits.

NOTE 11: RESTRICTED CASH

Restricted cash represents investments in cash equivalents through a trust designed to meet financial assurance requirements of U.S., state and local environmental agencies with respect to plant operations. These requirements are based on an annual assessment of our net worth. Because we have met the specified requirements, most authorities have released the restrictions and only $4 million remained at December 31, 2005, down from $49 million at December 31, 2004.

NOTE 12: RECEIVABLES, NET

(in millions)	2005	2004
Customers	$ 1,330	$ 1,322
Affiliates	30	17
Employees	5	8
Other	188	171
	1,553	1,518
Less: allowance for doubtful accounts	46	49
Total	$ 1,507	$ 1,469

Employee receivables are primarily comprised of relocation and education reimbursements for our employees.

NOTE 13: INVENTORIES

Inventories consist of the following:

(in millions)	2005	2004
Finished products and work in process	$ 666	$ 685
Raw materials	117	117
Supplies	42	39
Total	$ 825	$ 841

Inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) inventory method for domestic inventories, which approximates 50% of the total inventory balance. The remainder is determined by the first-in, first-out (FIFO) method. The excess of replacement cost over the value of inventories based upon the LIFO method was $124 million and $97 million at December 31, 2005 and 2004, respectively. This increase is attributable to the significant increase in many of our raw material costs, particularly in the Monomers business. Liquidation of prior years' LIFO inventory layers did not materially affect cost of goods sold in 2005, 2004 or 2003.

NOTE 14: PREPAID EXPENSES AND OTHER CURRENT ASSETS

(in millions)	2005	2004
Deferred tax assets	$ 202	$ 172
Prepaid expenses	81	62
Other current assets	20	29
Total	$ 303	$ 263

NOTE 15: LAND, BUILDINGS AND EQUIPMENT, NET

(in millions)	2005	2004
Land	$ 139	$ 141
Buildings and improvements	1,683	1,744
Machinery and equipment	5,570	5,656
Capitalized interest	329	320
Construction in progress	168	166
	7,889	8,027
Less: Accumulated depreciation	5,208	5,098
Total	$ 2,681	$ 2,929

The principal lives (in years) used in determining depreciation rates of various assets are: buildings and improvements (10-50); machinery and equipment (5-20); automobiles, trucks and tank cars (3-10); furniture and fixtures, laboratory equipment and other assets (5-10); capitalized software (5-7). The principle life used in determining the depreciation rate for leasehold improvements is the years remaining in the lease term or the useful life (in years) of the asset, whichever is shorter.

Gross book values of assets depreciated by accelerated methods totaled $688 million and $806 million at December 31, 2005 and 2004, respectively. Assets depreciated by the straight-line method totaled $6,894 million and $6,914 million at December 31, 2005 and 2004, respectively.

In 2005, 2004 and 2003 respectively, interest costs of $9 million, $10 million and $18 million were capitalized. Amortization of such capitalized costs included in depreciation expense was $14 million, $15 million and $15 million in 2005, 2004 and 2003, respectively.

Depreciation expense was $422 million, $419 million and $411 million in 2005, 2004 and 2003, respectively.

NOTE 16: GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill –

The changes in the carrying amount of goodwill for the years ended December 31, 2005 and 2004, by business segment, are as follows:

(in millions)	Coatings	Performance Chemicals	Monomers	Electronic Materials	Adhesives and Sealants	Salt	Total
Balance as of January 1, 2004 (1)	$ 320	$ 177	$ 18	$ 319	$ 468	$ 360	$ 1,662
Goodwill related to acquisitions (2)	–	–	11	3	–	–	14
Currency effects (3)	3	7	–	–	3	–	13
Opening balance sheet adjustments (4)	(6)	(4)	–	(5)	–	(3)	(18)
Consolidation of JV (5)	–	–	–	53	–	–	53
Balance as of December 31, 2004 (1)	$ 317	$ 180	$ 29	$ 370	$ 471	$ 357	$ 1,724
Goodwill related to acquisitions (2)	–	6	–	11	–	–	17
Currency effects (3)	(8)	(12)	–	(2)	(10)	(1)	(33)
Opening balance sheet adjustments (4)	(21)	(18)	–	(17)	(23)	(28)	(107)
Balance as of December 31, 2005	$ 288	$ 156	$ 29	$ 362	$ 438	$ 328	$ 1,601

Notes:

(1) *Certain prior year balances have been reclassified to conform to the current year presentation.*

(2) Goodwill related to acquisitions is due to the following: $11.0 million and $3.0 million, respectively, Electronic Materials - buyback of additional shares of CMPT; $6.0 million – Performance Chemicals acquisition of joint venture; $11.0 million – Monomers – European Monomer acquisition.

(3) Certain goodwill amounts are denominated in foreign currencies and are translated using the appropriate U.S. dollar exchange rate.

(4) Primarily relates to adjustments to opening balance sheet liabilities due to the favorable resolution of tax audits resulting in the reduction of opening balance sheet tax reserves and valuation allowances.

(5) Represents the amount of goodwill resulting from the consolidation of a joint venture under FIN 46R. *See Note 1 to the Consolidated Financial Statements.*

Intangible Assets –

SFAS No. 142 established two broad categories of intangible assets: finite-lived intangible assets, which are subject to amortization; and indefinite-lived intangible assets, which are not subject to amortization.

The following table provides information regarding our intangible assets:

	At December 31, 2005			At December 31, 2004		
(in millions)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Finite-lived Intangibles:						
Customer list	$ 970	$ (162)	$ 808	$ 976	$ (138)	$ 838
Trade name	158	(29)	129	163	(30)	133
Developed technology	400	(155)	245	400	(131)	269
Patents, license agreements and other	160	(99)	61	160	(91)	69
	1,688	(445)	1,243	1,699	(390)	1,309
Indefinite-lived Intangibles:						
Trade name	328	(23)	305	318	(20)	298
Strategic location (1)	75	(5)	70	62	(4)	58
	403	(28)	375	380	(24)	356
Total	$ 2,091	$ (473)	$ 1,618	$ 2,079	$ (414)	$ 1,665

Note:

(1) Strategic location is a specific customer-related asset that recognizes the intangible value of our supply source in relation to a customer's location.

Certain of our intangible assets are denominated in foreign currencies and are translated using the appropriate U.S. dollar exchange rate. During the first quarter of 2005, we discovered inaccuracies in the methodology being used to translate foreign currency denominated assets, related to our purchase of Morton International, Inc., into U.S. dollars. As a result, currency translation adjustments related to these assets were understated and we recorded a $33 million increase to our cumulative translation adjustment account, a component of accumulated other comprehensive income. The impact to intangible assets was an $82 million increase to the gross carrying amount and a $(12) million increase to accumulated amortization. For the year ended December 31, 2005, the currency translation adjustment recorded to the gross carrying amount and accumulated amortization was $(29) million and $4 million, respectively.

In 2005, we recorded $29 million, respectively to adjust the carrying value of certain finite-lived intangible assets to their fair values in accordance with SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets."* These charges were recorded in the Provision for Restructuring and Asset Impairments in the Consolidated Statement of Operations. See Note 3: Restructuring and Asset Impairments for additional information on the impairments.

Annual SFAS No. 142 Impairment Review

In accordance with the provisions of SFAS No. 142, *"Goodwill and Other Intangible Assets,"* we are required to perform, at a reporting unit level, an annual impairment review of goodwill and indefinite-lived intangible assets, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For purposes of this review, we primarily utilize discounted cash flow analyses for estimating the fair value of the reporting units. We completed our annual recoverability review as of May 31, 2005, 2004 and 2003, and determined that goodwill and indefinite-lived intangible assets were fully recoverable as of these dates.

SFAS No. 144 Impairment Review

Finite-lived intangible assets are amortized over their estimated useful lives and are reviewed for impairment whenever changes in circumstances indicate the carrying value may not be recoverable in accordance with SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets."*

Amortization expense for finite-lived intangible assets was $59 million and $62 million for the year ended December 31, 2005 and 2004, respectively. Future amortization expense is estimated to be $58 million for the year 2006 and $57 million for each of the subsequent four years.

NOTE 17: OTHER ASSETS

(in millions)	**2005**	**2004**
Prepaid pension cost (see Note 9)	$ 301	$ 239
Rabbi trust assets (see Note 9)	63	59
Insurance receivables	28	28
Deferred tax assets (see Note 7)	28	8
Other employee benefit assets	21	24
Fair market value of interest rate swaps (see Note 5)	1	4
Other non-current assets	34	27
Total	$ 476	$ 389

NOTE 18: BORROWINGS

Short-Term Obligations

(in millions)	**2005**	**2004**
Other short-term borrowings	$ 110	$ 66
Current portion of long-term debt	11	11
Total	$ 121	$ 77

Generally, our short-term borrowings consist of bank loans with an original maturity of twelve months or less. As of December 31, 2005, we had uncommitted credit arrangements with financial institutions to provide local credit facilities to our foreign subsidiaries for working capital needs. At December 31, 2005 and 2004, $88 million and $64 million, respectively, were outstanding under such arrangements. The weighted-average interest rate of short-term borrowings was 5.2% and 4.6% at December 31, 2005 and 2004, respectively.

In November of 2003 and September of 2004, we entered into three-year receivables securitization agreements under which two of our operating subsidiaries in Japan sell a defined pool of trade accounts receivable without recourse to an unrelated third party financier who purchases and receives ownership interest and the risk of credit loss in those receivables. The transfers qualify for sales treatment under SFAS No. 140, *"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."* The utilized balance under the receivables securitization agreements, $18 million and $21 million at December 31, 2005 and 2004, respectively, is not included in debt on the Consolidated Balance Sheets but rather is reflected as a reduction of receivables. Amounts sold related to these agreements totaled $75 million and $57 million in 2005 and 2004, respectively. The maximum availability under these agreements is $45 million. We continue to retain collection and administrative responsibilities in the receivables. When the third party financier sells the receivables, the associated discount is accounted for as a loss on the sale of receivables and has been included in other expense in the Consolidated Statements of Operations. This discount was immaterial in 2005, 2004 and 2003. Due to the short-term nature of the non-interest bearing receivables sold, changes to the key assumptions would not materially impact the recorded loss on the sale of receivables.

Long-Term Debt and Other Financing Arrangements

The following table illustrates the carrying value of long-term debt included in the Consolidated Balance Sheets at December 31, 2005 and 2004.

(in millions)	**Currency**	**Maturities**	**2005**	**2004**
6.0% notes	Euro	2007	$ 190	$ 544
TIBOR[1] plus 0.45% notes	Japanese Yen	2007	59	68
TIBOR[1] plus 0.45% notes	Japanese Yen	2008	70	–
7.40% notes	U.S. Dollar	2009	100	500
8.74% obligation	U.S. Dollar	2012	21	24
3.50% notes	Euro	2012	285	–
9.65% debentures	U.S. Dollar	2020	145	145
9.80% notes	U.S. Dollar	2020	98	105
7.85% debentures	U.S. Dollar	2029	882	882
3.50% notes	Japanese Yen	2032	170	195
Fair market value adjustments			29	61
Other			36	50
			2,085	2,574
Less: current portion			11	11
Total			$ 2,074	$ 2,563

Note:

(1) Six-month Tokyo Interbank Offered Rate ("TIBOR")

In March 2005, we retired $400 million of our 7.4% notes due in 2009. The retirement resulted in a loss of $17 million. In December 2003, we retired $451 million of 6.95% notes due in July 2004. This debt retirement resulted in a loss of $4 million.

In July 2005, we issued 8.25 billion of Japanese Yen-denominated variable rate notes ($70 million at December 31, 2005) due in July 2008. The interest rate is set semi-annually in January and July at the six-month TIBOR plus 0.45%. Interest is paid semi-annually in January and July.

On September 19, 2005, we completed an exchange offer to existing holders of our €400 million 6.0% Euro-denominated notes due March 9, 2007. As a result of the exchange offer, €240 million of the 6.0% Euro notes, was exchanged for €253 million 3.5% Euro-denominated notes due September 19, 2012. The transaction was accounted for as an exchange of debt under EITF 96-19, *Debtor's Accounting for a Modification or Exchange of Debt Instruments*, and therefore no gain or loss was recognized. Costs of approximately $1 million associated with the exchange were expensed during the third quarter. The 3.5% Euro notes will initially be recorded at €240 million ($284 million at December 31, 2005) (a discount of €13 million) and subject to accretion up to the €253 million principal value over the time through maturity.

The 3.50% Japanese Yen notes issued in February 2002 are callable annually after March 2012.

The 9.65% debentures due 2020, previously issued by Morton International, Inc., are credit-sensitive unsecured obligations (Debentures). The coupon interest rate on the Debentures is subject to adjustment upon changes in the debt rating of the Debentures as determined by Standard and Poor's Corporation or Moody's Investors Service. Upon acquiring Morton International, Inc., we recorded a fair market value adjustment on the Debentures, which is being amortized ratably over the remaining life of the Debentures. The remaining amount of this adjustment amounted to $19 million in 2005 and $20 million in 2004.

The remaining fair market value adjustments result from changes in the carrying amounts of certain fixed-rate borrowings that have been designated as being hedged. Of the $10 million in 2005, $1 million relates to outstanding interest rate swaps and $9 million relates to settled interest rate swaps on outstanding debt. Of the $41 million in 2004, $4 million relates to outstanding interest rate swaps and $37 million relates to settled interest rate swaps on outstanding debt. The proceeds from the settlement of interest rate swaps are recognized as reductions of interest expense over the remaining maturity of the related hedged debt. The primary reason for the reduction in the unamortized interest rate swap proceeds is due to the retirement of the $400 million 7.4% notes which resulted in the recognition of approximately $28 million of these proceeds.

We have a revolving credit facility of $500 million, which expires December 2010, that is maintained for general corporate purposes including support for any future issuance of commercial paper. The commitment was unused at December 31, 2005 and 2004. No compensating balance is required for this revolving credit agreement. Our revolving credit and other loan agreements require that earnings before interest, taxes, depreciation and amortization, excluding certain items, exceed 3.5 times consolidated interest expense on a rolling four-quarter basis. There are no restrictions on the payment of dividends.

At December 31, 2005, we had outstanding letters of credit totaling approximately $43 million issued primarily in support of self-insurance, environmental and tax-related activities. There were no draw downs under these letters of credit.

The aggregate amount of long-term debt maturing in each of the next five years is $11 million in 2006, $329 million in 2007, $11 million in 2008, $116 million in 2009, and $13 million in 2010.

During 2005, 2004 and 2003, we made interest payments, net of capitalized interest, of $147 million, $139 million, and $143 million, respectively.

As of December 31, 2005, we were in compliance with all of our debt covenants.

NOTE 19: ACCRUED LIABILITIES

(in millions)	**2005**	**2004**
Salaries and wages	$ 200	$ 212
Interest	53	82
Sales incentive programs and other selling accruals	79	80
Taxes, other than income taxes	83	82
Employee benefits	88	95
Reserve for restructuring (see Note 3)	42	55
Insurance and legal	9	15
Marketing and sales promotion	14	14
Reserve for environmental remediation (see Note 26)	36	33
Other	159	171
Total	$ 763	$ 839

NOTE 20: OTHER LIABILITIES

(in millions)	**2005**	**2004**
Reserves for environmental remediation (see Note 26)	$ 111	$ 104
Deferred revenue on supply contracts	46	49
Legal contingencies	42	41
Asset retirement obligations	14	14
Other	28	18
Total	$ 241	$ 226

Our asset retirement obligations are primarily associated with the following: 1) the capping of certain brine and gas wells used by our Salt segment for the production of various products; and 2) the contractual requirement to remove or dismantle certain leasehold improvements at the end of the lease term.

(in millions)		
Balance as of January 1, 2003	$	14
Liabilities settled		(2)
Accretion expense		1
Currency effects		1
Revisions in estimated cash flows		(1)
Balance as of December 31, 2003	$	13
Liabilities settled		(1)
Accretion expense		1
Currency effects		1
Revisions in estimated cash flows		–
Balance as of December 31, 2004	$	14
Liabilities settled		–
Accretion expense		1
Currency effects		–
Revisions in estimated cash flows		(1)
Balance as of December 31, 2005	$	14

The liability for certain asset retirement obligations cannot currently be measured as the retirement dates are not yet determinable. We will recognize the liability when sufficient information exists to estimate a range of potential dates.

NOTE 21: EARNINGS PER SHARE

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

(in millions, except per share amounts)	**Earnings (Numerator)**	**Shares (Denominator)**	**Per Share Amount**
2005			
Net earnings available to stockholders	$ 637	221.9	$ 2.87
Dilutive effect of options [1]		2.0	
Diluted earnings per share	$ 637	223.9	$ 2.85
2004			
Net earnings available to stockholders	$ 497	222.9	$ 2.23
Dilutive effect of options [1]		1.3	
Diluted earnings per share	$ 497	224.2	$ 2.22
2003			
Net earnings available to stockholders	$ 280	221.5	$ 1.26
Dilutive effect of options [1]		0.9	
Diluted earnings per share	$ 280	222.4	$ 1.26

Note:

(1) There were approximately 0.7 million shares, 1.2 million shares and 5.5 million shares in 2005, 2004 and 2003, respectively, attributable to stock options that were excluded from the calculation of diluted earnings per share as the exercise price of the stock options was greater than the average market price.

NOTE 22: STOCKHOLDERS' EQUITY

We have an employee stock ownership and savings plan ("the Savings Plan") where eligible employees may contribute up to 50% of qualified before-tax pay and up to 19% of after-tax pay to the Savings Plan, subject to the annual limit set by the IRS. We match the first 6% of the salary contributed at 60 cents on the dollar. We provide for the Savings Plan matching contributions with common shares through a leveraged Employee Stock Ownership Plan (ESOP). We have elected to continue to account for the Savings Plan based on Statement of Position 76-3, *"Accounting Practices for Certain Employee Stock Ownership Plans"* as permitted by AICPA Statement of Position 93-6, *"Employers' Accounting for Employee Stock Ownership Plans."*

The ESOP purchased 18.9 million shares (split adjusted) of our common stock in 1990. The 18.9 million shares will decline over the 30-year life of the ESOP as shares are allocated to employee savings plan member accounts. We financed this purchase by borrowing $150 million at a 9.8% rate for 30 years, plus funds from other sources, which were loaned to the ESOP trust with payments guaranteed by us. The ESOP trust funds annual loan payments of $20 million, which include principal and interest, from interest earnings on cash balances and common dividends on shares not yet allocated to participants, common dividends on certain allocated shares and company cash contributions. Interest expense recorded by the ESOP trust related to annual loan payments totaled $15 million, $16 million and $16 million in 2005, 2004 and 2003, respectively.

Dividends paid on ESOP shares used as a source of funds for the ESOP financing obligation were $16 million, $15 million and $13 million, in 2005, 2004 and 2003, respectively. These dividends were recorded net of the related U.S. tax benefits. We contributed cash of $4 million, $5 million and $7 million in 2005, 2004 and 2003, respectively. The number of ESOP shares not allocated to plan members at December 31, 2005, 2004 and 2003 were 9.2 million, 9.8 million and 10.5 million, respectively. All shares not allocated to plan members are considered outstanding for purposes of computing basic and diluted EPS.

We recorded compensation expense for the Savings Plan of $6 million, $6 million and $7 million in 2005, 2004 and 2003, respectively, for ESOP shares allocated to plan members. We expect to record annual compensation expense of approximately this amount over the next 15 years as the remaining $151 million of ESOP shares are allocated to plan members. The allocation of shares from the ESOP is expected to fund a substantial portion of our future obligation to match employees' savings plan contributions as the market price of Rohm and Haas stock appreciates. However, if the stock price does not appreciate, we would need to make additional contributions.

Stockholders' Rights Plan –

In 2000, we adopted a stockholders' rights plan under which the Board of Directors declared a dividend of one preferred stock purchase right (Right) for each outstanding share of our common stock held of record as of the close of business on November 3, 2000. The Rights initially are deemed to be attached to the common shares and detach and become exercisable only if (with certain exceptions and limitations) a person or group has obtained or attempts to obtain beneficial ownership of 15% or more of the outstanding shares of our common stock or is otherwise determined to be an "acquiring person" by the Board of Directors. Each Right, if and when it becomes exercisable, initially will entitle holders of the Rights to purchase one one-thousandth (subject to adjustment) of a share of Series A Junior Participating Preferred Stock for $150 per one one-thousandth of a Preferred Share, subject to adjustment. Each holder of a Right (other than the acquiring person) is entitled to receive a number of shares of our common stock with a market value equal to two times the exercise price, or $300. The Rights expire, unless earlier exercised or redeemed, on December 31, 2010.

In December 2004, our Board of Directors authorized the repurchase of up to $1 billion of our common stock through 2008, with the timing of the purchases depending on market conditions and other priorities for cash. During 2005, we repurchased 6 million shares at a cost of $273 million.

NOTE 23: STOCK COMPENSATION PLANS

We have various stock-based compensation plans for directors, executives and employees. The majority of our stock-based compensation grants through 2005 were made in restricted stock, restricted stock units and non-qualified stock options. Prior to 2003, we accounted for these plans under APB Opinion No. 25, *"Accounting for Stock Issued to Employees."* Accordingly, no compensation expense was recognized for stock options. Effective January 1, 2003, we prospectively adopted the fair value method of recording stock-based compensation as defined in SFAS No. 123, *"Accounting for Stock-Based Compensation."* As a result, we began to expense the fair value of stock options that were awarded to employees after January 1, 2003. Total compensation expense recognized in the Consolidated Statement of Operations for stock options was $13 million, $6 million and $3 million in 2005, 2004 and 2003, respectively.

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), *"Share-Based Payment,"* which is a revision of FASB Statement No. 123, *"Accounting for Stock-Based Compensation."* FASB Statement No. 123 revised (the Statement) requires all share-based payments to employees including grants of employee stock options to be recognized in the financial statements based on their fair values. The Statement is effective for public companies at the first interim of an annual period beginning after June 15, 2005. We will adopt the provisions of the Statement on January 1, 2006 and the impact of the Statement on our financial statements is not expected to be material.

During the first quarter of 2005, we became aware of a provision of SFAS No. 123, *"Accounting for Stock-Based Compensation,"* which resulted in an acceleration of our stock-based compensation for retirement eligible employees where our plans provide for immediate vesting of stock-based compensation upon their retirement. This resulted in approximately $21 million (pre-tax) in higher than expected selling and administrative expense for the quarter ended March 31, 2005, of which $12 million related to prior periods.

All employee stock option and restricted stock awards are expensed over their respective vesting periods, which are typically three years for stock options and three to five years for restricted stock awards. The value of compensation expense is equal to the fair value on the date of grant. We calculate the fair value of stock options utilizing the Black-Scholes fair value model. The fair value of restricted stock awards is equal to the average of the high and low price of Rohm and Haas Company shares on the date of grant. Total compensation expense recognized for restricted stock awards was $32 million, $14 million and $9 million in 2005, 2004 and 2003, respectively.

1999 Stock Plan –

Under this plan, as amended in 2001 and 2004, we may grant as options or restricted stock up to 29 million shares of common stock with no more than 3 million of these shares granted to any employee as options over a five-year period. No more than 50% of the shares in this plan can be issued as restricted stock. Awards under this plan may be granted to our employees and directors. Options granted under this plan in 2005, 2004 and 2003 were granted at the fair market value on the date of grant and generally vest over three years expiring within 10 years of the grant date. Restricted stock awards issued in 2005 totaled 555,160 at a weighted average grant-date fair value of $47.82 per share. As of December 31, 2005, approximately 16 million shares were issuable under this plan.

Non-Employee Directors' Stock Plans of 1997 and 2005 –

Under the 1997 Non-Employee Directors' Stock Plan, directors receive half of their annual retainer in deferred stock. Each share of deferred stock represents the right to receive one share of our common stock upon leaving the board. Directors may also elect to defer all or part of their cash compensation into deferred stock. Annual compensation expense is recorded equal to the number of deferred stock shares awarded multiplied by the market value of our common stock on the date of award. Additionally, directors receive dividend equivalents on each share of deferred stock, payable in deferred stock, equal to the dividend paid on a share of common stock. As a result of provisions of the *"American Jobs Creation Act of 2004"* enacted in November 2004, we replaced the Non-Employee Directors' Stock Plan of 1997 with a new plan which was approved by the stockholders at the May 2005 Annual Meeting of Stockholders. The new plan has the provisions required by this legislation but otherwise has the same terms as the old plan.

Rohm and Haas Company Non-Qualified Savings Plan –

Under this plan, as amended in 2005, employees above a certain level can add to their retirement savings by deferring compensation into the plan. We match 60% of participant's contributions, up to 6% of the participant's compensation in Rohm and Haas Stock Units that are rights to acquire shares of Rohm and Haas Company common stock. Participants can also make an irrevocable election to convert restricted stock on which restrictions are about to lapse into Rohm and Haas Stock Units. We do not match these elections. Due to the adoption of the *"American Jobs Creation Act of 2004,"* enacted in November 2004, we replaced the Rohm and Haas Company Non-Qualified Savings Plan with a new plan, which was approved by the stockholders at the May 2005 Annual Meeting of Stockholders. The new plan has the provisions required by this legislation but otherwise has the same terms as the old plan.

A summary of our stock options as of December 31 is presented below:

	2005		**2004**		**2003**	
	Shares (000s)	**Weighted Average Exercise Price**	**Shares (000s)**	**Weighted Average Exercise Price**	**Shares (000s)**	**Weighted Average Exercise Price**
Outstanding at beginning of year	10,231	$35.30	11,246	$34.29	11,519	$34.18
Granted	705	48.60	737	40.20	1,220	28.94
Forfeited	(108)	40.03	(163)	36.62	(301)	37.27
Exercised	(2,404)	33.99	(1,589)	30.27	(1,192)	27.01
Outstanding at year-end	8,424	36.73	10,231	35.30	11,246	34.29
Options exercisable at year-end	7,036	$35.80	7,541	$34.90	6,713	$33.64
Weighted-average fair value options granted during the year		$13.84		$12.08		$8.11

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

	2005	**2004**	**2003**
Dividend yield	1.83%	2.24%	2.84%
Volatility	30.47	33.85	34.48
Risk-free interest rate	4.08	3.32	3.08
Expected life	5 years	6 years	6 years

The following table summarizes information about stock options outstanding and exercisable at December 31, 2005:

	Options Outstanding			**Options Exercisable**		
Range of Exercise Prices	Number Outstanding (000s)	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Number Exercisable (000s)	Weighted-Average Exercise Price
$18-27	398	2	$ 25.10	398	$ 25.10
27-36	2,913	5	31.39	2,585	31.70
36-45	5,113	6	40.68	4,053	39.46

NOTE 24: ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss are as follows:

(in millions)	**2005**	**2004**	**2003**
Cumulative translation adjustments	$ 12	$ 25	$ 22
Minimum pension liability adjustments	(122)	(101)	(71)
Net gain (loss) on derivative instruments	5	(4)	(3)
Accumulated other comprehensive loss	$ (105)	$ (80)	$ (52)

NOTE 25: LEASES

We lease certain properties and equipment used in our operations, primarily under operating leases. Most lease agreements require minimum lease payments plus a contingent rental based upon equipment usage and escalation factors. Total net rental expense incurred under operating leases amounted to $78 million, $81 million and $70 million in 2005, 2004 and 2003, respectively.

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

(in millions)			
2006	$62	2009	$21
2007	47	2010	16
2008	31	Thereafter	34

NOTE 26: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS

We are a party in various government enforcement and private actions associated with former waste disposal sites, many of which are on the U.S. Environmental Protection Agency's ("EPA") National Priority List, where remediation costs have been or may be incurred under the Federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and similar state statutes. In some of these matters we may also be held responsible for alleged property damage. We have provided for future costs at certain of these sites. We are also involved in corrective actions at some of our manufacturing facilities.

We consider a broad range of information when we determine the amount necessary for remediation accruals, including available facts about the waste site, existing and proposed remediation technology and the range of costs of applying those technologies, prior experience, government proposals for this or similar sites, the liability of other parties, the ability of other potentially responsible parties ("PRPs") to pay costs apportioned to them and current laws and regulations. We assess the accruals quarterly and update these as additional technical and legal information becomes available. However, at certain sites, we are unable, due to a variety of factors, to assess and quantify the ultimate extent of our responsibility for study and remediation costs.

Remediation Reserves and Reasonably Possible Amounts –
Reserves for environmental remediation that we believe to be probable and estimable are recorded appropriately as current and long-term liabilities in the Consolidated Balance Sheets. The amounts charged to pre-tax earnings for environmental remediation and related charges are included in cost of goods sold and are presented below:

(in millions)	**Balance**
December 31, 2003	$ 127
Amounts charged to earnings	30
Spending	(20)
December 31, 2004	$ 137
Amounts charged to earnings	38
Spending	(28)
December 31, 2005	**$ 147**

In addition to accrued environmental liabilities, there are costs which have not met the definition of probable, and accordingly, are not recorded in the Consolidated Balance Sheets. We have identified reasonably possible loss contingencies related to environmental matters of approximately $110 million, $80 million and $84 million at December 31, 2005, 2004 and 2003, respectively.

Further, we have identified other sites where future environmental remediation may be required, but these loss contingencies cannot be reasonably estimated at this time. These matters involve significant unresolved issues, including the number of parties found liable at each site and their ability to pay, the interpretation of applicable laws and regulations, the outcome of negotiations with regulatory authorities, and alternative methods of remediation.

Except as noted below, we believe that these matters, when ultimately resolved, which may be over an extended period of time, will not have a material adverse effect on our consolidated financial position, but could have a material adverse effect on consolidated results of operations or cash flows in any given period.

Our significant sites are described in more detail below.

- **Wood-Ridge/Berry's Creek**
  The Wood-Ridge, New Jersey, site ("Site"), and Berry's Creek, which runs past this Site, are areas of environmental significance to the company. The Site is the location of a former mercury processing plant acquired many years ago by a company later acquired by Morton International, Inc. ("Morton"). Morton and Velsicol Chemical Corporation ("Velsicol") have been held jointly and severally liable for the cost of remediation of the Site. As of the date we acquired Morton, Morton disclosed and accrued for certain ongoing studies related to the Site. In our allocation of the purchase price of Morton, we accrued for additional study costs and additional remediation costs based on the ongoing studies. We have submitted a feasibility study of various remedial alternatives, and we expect the New Jersey Department of Environmental Protection, in consultation with EPA Region 2, to select a remedy for the Site in 2006. Our exposure at the Site will depend, in part, on the results of attempts to obtain contributions from others believed to share responsibility, and, in part, on the remedy selected for the Site. Velsicol's liabilities for Site response costs will be addressed through a bankruptcy trust fund established under a court-approved settlement among Velsicol, Fruit-of-the-Loom, Inc. (its indemnitor) and other parties, including the government.

  With regard to Berry's Creek, and the surrounding wetlands, we understand that the EPA intends to finalize a study framework document, calling for a broad scope investigation of risks posed by contamination in Berry's Creek, and to require a large group of PRPs to perform this study. Performance of this study is expected to take at least six years to complete. Today, there is much uncertainty as to what will be required to address Berry's Creek, but investigation and cleanup costs, as well as potential resource damage assessments, could be very high, and our share of these costs could possibly be material to the results of our operations, cash flows, and consolidated financial position.

- **Moss Point**
  During 1996, the EPA notified Morton of possible irregularities in water discharge monitoring reports filed by its Moss Point, Mississippi plant in early 1995. Morton investigated and identified other environmental issues at the plant. Although at the date of acquisition Morton had accrued for some remediation and legal costs, we revised these accruals as part of the allocation of the purchase price of Morton based on our discussions with the authorities and on the information available as of June 30, 2000. In 2000, we reached agreement with the EPA, the Department of Justice and the State of Mississippi, resolving these historical environmental issues. The agreement received court approval in early 2001. The accruals established for this matter were sufficient to cover the costs of the settlement. All operations at this Moss Point facility have now been terminated. Environmental investigation and interim remedial measures are proceeding pursuant to the court approved

agreement. As a part of this agreement, 23 of the former Morton chemical facilities were subject to environmental audit by an independent consultant. Morton satisfied all audit issues with a payment of $900,000 to EPA.

In December 2002, a complaint was filed in Mississippi on behalf of over 700 plaintiffs against Morton, Rohm and Haas, Joseph Magazzu, a former Morton employee, and the Mississippi Department of Environmental Quality alleging personal injury and property damage caused by environmental contamination. On April 7, 2005, this complaint was dismissed, without prejudice, with respect to all the plaintiffs. Similar complaints filed in Mississippi on behalf of approximately 1,800 other plaintiffs are pending. These are individual plaintiffs since Mississippi procedural rules do not permit class actions. At this time, we see no basis for these claims and we are vigorously defending these cases.

- **Paterson**
  We closed the former Morton plant at Paterson, New Jersey in December 2001, and are currently undertaking remediation of the site under New Jersey's Industrial Site Recovery Act. We removed contaminated soil from the site and we are now constructing an on-site remediation system for residual soil and groundwater contamination. Off site, investigation of contamination of shallow soils and groundwater is ongoing.

- **Picillo**
  In January 2006, we participated in a binding arbitration to resolve contribution claims against us by a group of companies performing remediation of the Picillo Superfund site in Rhode Island. We await the arbitrator's decision.

- **Martin Aaron Superfund Site**
  Rohm and Haas is a PRP at this Camden, New Jersey former drum recycling site. The company is participating in a PRP group which is working on cost allocation issues, identifying additional PRPs, and commenting on EPA technical reports. US EPA Region 2 has issued a Record of Decision (ROD) specifying a remedy consisting of groundwater pump and treat following soil excavation, to which the PRP Group submitted comments. In response to EPA's recent request that the PRPs implement the remedy set forth in the ROD and reimburse it for past costs, the PRP Group has recently commenced negotiations of a potential Consent Decree.

- **Groundwater Treatment And Monitoring**
  Major remediation for certain sites, such as Kramer, Whitmoyer, Woodlands and Goose Farm has been completed. We are continuing groundwater remediation and monitoring programs. Reserves for these costs have been established.

- **Manufacturing Sites**
  We also have accruals for enforcement and corrective action programs under governmental environmental laws at several of our manufacturing sites. The more significant of these accruals for corrective action, in addition to those presented above, have been recorded for the following sites: Bristol, Pennsylvania; Philadelphia, Pennsylvania; Houston, Texas; Louisville, Kentucky; Ringwood, Illinois; Apizaco, Mexico; Jacarei, Brazil; Jarrow, UK; Lauterbourg, France; and Mozzanica, Italy. We are currently negotiating with the EPA to resolve enforcement arising out of an environmental inspection in 2000 at our Houston facility. We expect to resolve these claims by payment of a penalty and performance of a supplemental environmental project at a combined cost of just over one million dollars.

Insurance Recoveries –

We have actively pursued lawsuits over insurance coverage for certain environmental liabilities. It is our practice to reflect environmental insurance recoveries in the results of operations for the quarter in which the litigation is resolved through settlement or other appropriate legal processes. These resolutions typically resolve coverage for both past and future environmental spending and involve the "buy back" of the policies and have been appropriately included in cost of goods sold. We settled with several of our insurance carriers and recorded earnings pre-tax of approximately $8 million, $13 million and $58 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Self-Insurance –

We maintain deductibles for general liability, business interruption, and property damage to owned, leased and rented property. These deductibles could be material to one quarter, but they should not be material to the overall results of the year. We carry substantial excess general liability, property and business interruption insurance above our deductibles. In addition, we meet all statutory requirements for automobile liability and workers' compensation.

Other Litigation –

In February 2006, a lawsuit was filed in Burlington County, New Jersey by the New Jersey Department of Environmental Protection ("NJDEP") and the Administrator of the New Jersey Spill Compensation Fund against the Company, Minnesota Mining and Manufacturing Company (3M), Hercules, Inc. and others for alleged natural resource damages relating to the Woodland sites ("Sites"), two waste disposal locations in the New Jersey Pinelands. The aforementioned three companies have been engaged in remediation of the Sites under various NJDEP orders since the early 1990s. Remediation is complete at one site and substantially complete at the other. The Company has not yet been served with the complaint.

On January 31, 2006 and thereafter, civil lawsuits were filed against Rohm and Haas and other chemical companies in federal court, alleging violation of antitrust laws in the production and sale of methyl methacrylate ("MMA"). The plaintiffs seek to represent a class of purchasers of MMA in the United States from January 1, 1995 through December 31, 2003. The lawsuits refer to an investigation of certain MMA producers by the European Commission in which Rohm and Haas was not involved in any way. The Company believes these lawsuits are without merit as to Rohm and Haas, and intends to defend them vigorously.

In late January 2006, Morton Salt was served with a Grand Jury subpoena in connection with an investigation by the Department of Justice into possible antitrust law violations in the "industrial salt" business. Neither Morton Salt, nor any Morton Salt employee has been charged with any wrongdoing. The Company is cooperating fully with the governmental investigation.

On December 22, 2005, a federal judge in Indiana issued a decision purporting to grant a class of participants in the Rohm and Haas pension plan the right to a cost-of-living adjustment ("COLA") as part of the retirement benefit for those who elect a lump sum benefit. The decision contravenes the plain language of the plan, which clearly and expressly excludes a discretionary COLA for participants who elect a lump sum. We feel strongly that our plan fully complies with applicable law and therefore the judge's decision is contrary to law. We are seeking an immediate appeal to the Seventh Circuit Court of Appeals. Were the decision to stand, the pension trust could be required to pay a COLA benefit to those plan participants who elected a lump sum benefit during the class period. We are still evaluating the extent of the potential financial impact of such a result on the plan.

In August 2005, three actions were filed in the Philadelphia Court of Common Pleas relating to brain cancer incidence among employees who worked at our Spring House, Pennsylvania research facility. Two actions were filed on behalf of individuals; the third is a class-action complaint which seeks a medical monitoring program for about 6,000 current and former Spring House employees. The plaintiffs allege that the number of brain cancer cases exceeds normal occurrence rates and allege that the cancers were caused by workplace chemical exposure. Our ongoing epidemiological studies have not found an association between anything in the Spring House workplace and brain cancer. The company believes that these actions have no merit and is actively defending against them.

In February 2003, we were served with European Commission Decisions requiring submission to investigations in France and the United Kingdom, a search permit in Japan from the Japanese Fair Trade Commission, an order for the production of records and information in Canada and two grand jury records subpoenas in the United States all relating to a global antitrust investigation of the plastics additives industry. We subsequently received a request for additional information from the Japanese Fair Trade Commission. The Japanese Fair Trade Commission brought proceedings against named Japanese plastics additives producers but did not initiate action against Rohm and Haas. We do not expect further action in the Japanese investigation. We are cooperating fully with all governmental authorities and there has been no recent activity in any of these investigations.

In civil litigation on plastics additives matters, we are a party to nine private federal court civil antitrust actions that have been consolidated in the U.S. District Court for the Eastern District of Pennsylvania, including one that originally had been filed in State Court in Ohio and another involving an individual direct purchaser claim that was filed in federal court in Ohio. These actions have been brought against Rohm and Haas and other producers of plastics additives products by direct purchasers of these products and seek civil damages as a result of alleged violations of the antitrust laws. The named plaintiffs in all but one of these actions are seeking to sue on behalf of all similarly situated purchasers of plastics additives products. Federal law provides that persons who have been injured by violations of Federal antitrust law may recover three times their actual damages plus attorneys' fees. In addition, in August 2005, a new indirect purchaser class action antitrust complaint was filed in the U.S. District Court for the Eastern District of Pennsylvania, consolidating all but one of the indirect purchaser cases that previously had been filed in various state courts, including Tennessee, Vermont, Nebraska, Arizona, Kansas and Ohio. The only remaining state court indirect action is the one filed in California. Our internal investigation has revealed no wrongdoing. We believe these cases are without merit as to Rohm and Haas, and we continue to vigorously defend against these actions.

As a result of the bankruptcy of asbestos producers, plaintiffs' attorneys are increasing their focus on peripheral defendants, including our company, which had asbestos on its premises. Historically, these premises cases have been dismissed or settled for minimal amounts because of the minimal likelihood of exposure at our facilities. As the asbestos producers are bankrupted, the demands against companies with older manufacturing facilities of any type in the United States, such as our company, are increasing. We have reserved amounts for premises asbestos cases that we currently believe are probable and estimable; we cannot reasonably estimate what our asbestos costs will be if the current situation deteriorates and there is no tort reform.

There are also pending lawsuits filed against Morton related to employee exposure to asbestos at a manufacturing facility in Weeks Island, Louisiana with additional lawsuits expected. We expect that most of these cases will be dismissed because they are barred under worker's compensation laws; however, cases involving asbestos-caused malignancies may not be barred under Louisiana law. Subsequent to the Morton acquisition, we commissioned medical studies to estimate possible future claims and recorded accruals based on the results.

Morton has also been sued in connection with asbestos-related matters in the former Friction Division of the former Thiokol Corporation, which merged with Morton in 1982. Settlement amounts to date have been minimal and many cases have closed with no payment. We estimate that all costs associated with future Friction Division claims, including defense costs, will be well below our insurance limits.

We are also parties to litigation arising out of the ordinary conduct of our business. Recognizing the amounts reserved for such items and the uncertainty of the ultimate outcomes, it is our opinion that the resolution of all these pending lawsuits, investigations and claims will not have a material adverse effect, individually or in the aggregate, upon our results of operations, cash flows or consolidated financial position.

Indemnifications –
In connection with the divestiture of several of our operating businesses, we have agreed to retain, and/or indemnify the purchaser against certain liabilities of the divested business, including liabilities relating to defective products sold by the business or environmental contamination arising or taxes accrued prior to the date of the sale. Our indemnification obligations with respect to these liabilities may be indefinite as to duration and may or may not be subject to a deductible, minimum claim amount or cap. As such, it is not possible for us to predict the likelihood that a claim will be made or to make a reasonable estimate of the maximum potential loss or range of loss. No company assets are held as collateral for these indemnifications and no specific liabilities have been established for such guarantees.

NOTE 27: NEW ACCOUNTING PRONOUNCEMENTS

Nonmonetary Transactions –
In December 2005, the Emerging Issues Task Force ("EITF") issued EITF No. 04-13, *"Accounting for Purchases and Sales of Inventory with the Same Counterparty"* to clarify under what circumstances two or more transactions with the same counterparty (counterparties) should be viewed as a single nonmonetary transaction within the scope of Accounting Principles Board ("APB") Opinion No. 29, *"Accounting for Nonmonetary Transactions."* In addition, EITF No. 04-13 clarifies whether there are any circumstances under which the transactions should be recognized at fair value if nonmonetary transactions within the scope of APB No. 29 involve inventory. EITF No. 04-13 is effective for new arrangements entered into, or modifications or renewals of existing arrangements, in interim or annual periods beginning after March 15, 2006. We are currently assessing the impact that EITF No. 04-13 could have on our financial position, results of operations or cash flows; however, we do not expect the adoption to have a material impact.

Inventory Costs –
In November 2004, the FASB issued SFAS No. 151, *"Inventory Costs, an amendment of ARB No. 43, Chapter 4"* ("SFAS No. 151"). SFAS No. 151 amends Accounting Research Bulletin No. 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overhead to inventory be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption is not expected to have a material impact on our financial position, results of operations or cash flows.

Stock-Based Compensation –
Effective January 1, 2003, we prospectively adopted the fair value method of recording stock-based compensation as defined in SFAS No. 123, *"Accounting for Stock-Based Compensation."* As a result, we began expensing all stock options that were granted to employees after January 1, 2003 over the vesting period using the grant-date fair value of stock options based upon the Black-Scholes model, an option-pricing model. Prior to 2003, we accounted for stock options using the intrinsic method in accordance with APB Opinion No. 25, *"Accounting for Stock Issued to Employees."* Under this method, no compensation expense was recognized for stock options awarded prior to 2003.

In December 2004, the FASB issued SFAS No. 123R ("SFAS No. 123R"), *"Share-Based Payments."* This Statement revises SFAS No. 123, and supersedes APB Opinion No. 25, and its related implementation guidance. SFAS No. 123R requires companies to recognize expense over the employee's requisite service period in the income statement for the grant-date fair value of awards of share-based payments including equity instruments and stock appreciation rights. SFAS No. 123R also clarifies and expands guidance in several areas, including measuring fair value, defining requisite service period, accounting for liability awards and accounting for tax benefits. While we do not expect these changes to have a material impact on the total expense recognized for our share-based payments, the provisions of SFAS No. 123R will require more upfront recognition of expense for our performance awards.

This statement also eliminates the prospective option we have applied under SFAS No. 148, *"Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123,"* and requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. We will be required to implement the provisions of SFAS No. 123R as of January 1, 2006. Due to the fact that all of our options issued prior to January 1, 2003, the date we adopted SFAS No. 123, will have vested as of January 1, 2006, the revised computations will not have an impact on our financial statements.

Asset Retirement Obligations –

In March 2005, the FASB issued Interpretation No. 47, *"Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143"* ("FIN 47"). FIN 47 clarifies that the term conditional asset retirement obligation as used in SFAS No. 143, *"Accounting for Asset Retirement Obligations,"* refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. We adopted FIN 47 for the fiscal year ended December 31, 2005. The adoption of FIN 47 did not have a material impact on our financial statements.

Accounting Changes and Error Corrections –

In May 2005, the FASB issued SFAS No. 154, *"Accounting Changes and Error Corrections"* ("SFAS No. 154") which replaces APB Opinion No. 20, *"Accounting Changes"* and SFAS No. 3, *"Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28."* SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of a material error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We will apply the applications of SFAS No. 154 beginning January 1, 2006 if and when required.

NOTE 28: SUMMARIZED QUARTERLY DATA (UNAUDITED)

Quarterly Results of Operations *(unaudited)*
(2005 Quarterly Reports)

(in millions, except share data)	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**	**Year 2005**
Net sales	$ 2,022	$ 2,007	$ 1,953	$ 2,012	$ 7,994
Gross profit	610	597	577	614	2,398
Provision for restructuring and asset impairments	(4)	33	(2)	71	98
Earnings from continuing operations	159	179	169	131	638
Net earnings	159	178	169	131	637
Basic earnings per share, in dollars:					
From continuing operations(1)	0.71	0.81	0.76	0.60	2.88
Net earnings(1)	0.71	0.80	0.76	0.60	2.87
Diluted earnings per share, in dollars:					
From continuing operations(1)	0.70	0.80	0.76	0.59	2.86
Net earnings(1)	0.70	0.79	0.76	0.59	2.85

Note: (1) Earnings per share for the year may not equal the sum of quarterly earnings per share due to changes in weighted average share calculations.

Quarterly Results of Operations *(unaudited)*
(2004 Quarterly Reports)

(in millions, except share data)	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**	**Year 2004**
Net sales	$ 1,832	$ 1,801	$ 1,803	$ 1,864	$ 7,300
Gross profit	528	527	530	544	2,129
Provision for restructuring and asset impairments	(2)	3	—	17	18
Earnings from continuing operations	114	118	137	127	496
Net earnings	114	118	137	128	497
Basic earnings per share, in dollars:					
From continuing operations(1)	0.51	0.53	0.61	0.56	2.22
Net earnings(1)	0.51	0.53	0.61	0.57	2.23
Diluted earnings per share, in dollars:					
From continuing operations(1)	0.51	0.52	0.61	0.56	2.21
Net earnings(1)	0.51	0.52	0.61	0.57	2.22

Note: (1) Earnings per share for the year may not equal the sum of quarterly earnings per share due to changes in weighted average share calculations.

ITEM 9 | CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No reports on Form 8-K were filed during 2005 or 2004 relating to any disagreements with accountants on accounting and financial disclosures.

ITEM 9A | *CONTROLS AND PROCEDURES*

a) Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report. Our principal executive officer and our principal financial officer have signed their certifications as required by the Sarbanes-Oxley Act of 2002.

b) Management's Report on Internal Control Over Financial Reporting

Our management's report on Internal Control Over Financial Reporting is set forth in Item 8 and incorporated herein by reference.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is set forth in Item 8.

c) Changes in Internal Controls over Financial Reporting

In January 2005, we began outsourcing the delivery of human resource services to a third party service provider as part of our Shared Services Initiative to reduce administrative costs to the Company. During the third quarter of 2005, we made further changes to the delivery of human resource services, including returning the delivery of some services to Company personnel. These activities, including a change of third party provider for some services, were completed in the fourth quarter. We performed appropriate testing relating to these changes to ensure the effectiveness of internal controls as they relate to the reliability of financial reporting and the preparation and fair presentation of our published consolidated financial statements. There have been no other changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2005 that have materially affected, or are likely to materially effect, our internal control over