

ATTACHMENT F
CONTAINS CONFIDENTIAL
INFORMATION WHICH HAS BEEN
REMOVED

ATTACHMENT F

Demonstration that Rohm and Haas Chemicals meets one of the six financial criteria set forth in Part 451.110(a)(1-6) of the Commission's Regulations.

1. The applicant maintains at least one of the following commercial paper ratings: A-2 or higher from Standard & Poor's or its successor, P-2 or higher from Moody's Investors Service or its successor, or F-2 or higher from Fitch Ratings or its successor; or at least one of the following long-term credit ratings: BBB- or higher from Standard & Poor's or its successor, Baa3 or higher from Moody's Investors Service or its successor, or BBB- or higher from Fitch Ratings or its successor. The applicant shall provide with its application a copy of the ratings agency reports that present the ratings of the applicant.

2. The applicant maintains a borrowing agreement with an affiliate.¹

3. The obligations of the applicant to unaffiliated companies arising from the acquisition of electric energy that can be delivered to retail customers in the State of Illinois, for sale, lease or in exchange for other value received, are covered under a guarantee, payment bond, or letter of credit.²

¹ The affiliate must have at least one of the following commercial paper ratings: A-2 or higher from Standard & Poor's or its successor, P-2 or higher from Moody's Investors Service or its successor, or F-2 or higher from Fitch Ratings or its successor; or at least one of the following long-term credit ratings: BBB- or higher from Standard & Poor's or its successor, Baa3 or higher from Moody's Investors Service or its successor, or BBB- or higher from Fitch Ratings or its successor.

The amount of credit available to the applicant under the borrowing agreement shall be no less than the greater of \$500,000 or 5% of the amount of the applicant's revenue for its most recently completed fiscal year. That amount of revenue must appear in the applicant's certified financial statements, or those of the applicant's parent, that have received an accountant's report that certifies those financial statements to be free of material misstatement. If the applicant is using the certified financial statements of its parent, the amount of credit available under the borrowing agreement shall be determined using the applicable revenue amount from the segment information section of the certified financial statements of the applicant's parent.

- o If the applicant is listed separately in the segment information section, the applicant's revenue shall be used.
- o If the segment information section is broken down by operation, or other means, the revenue for the entire segment of which the applicant is part shall be used, unless a certified breakdown of the segment by company is provided.

The borrowing agreement shall be valid for a period of not less than one year.

The applicant shall provide a copy of the following:

- o The ratings agency reports that present the ratings of the affiliate with which the applicant maintains the borrowing agreement;
- o The borrowing agreement;
- o The applicant's certified financial statements or those of the applicant's parent, as applicable; and The accountant's report for the applicant's certified financial statements or those of the applicant's parent, as applicable.

² The guarantee, payment bond, or letter of credit shall be in an amount that is no less than the greater of \$500,000 or 5% of the amount of the applicant's revenue from the sale of electric energy for the most recently completed fiscal year. That amount of revenue must appear in the applicant's certified financial statements, or those of the applicant's parent, that have received an accountant's report that certifies those financial statements to be free of material misstatement. If the applicant is using the certified financial statements of its parent, the amount of credit available under the borrowing agreement shall be determined using the applicable revenue amount from the segment information section of the certified financial statements of the applicant's parent.

- o If the applicant is listed separately in the segment information section, the applicant's revenue shall be used.
- o If the segment information section is broken down by operation, or other means, the revenue for the entire segment of which the applicant is part shall be used, unless a certified breakdown of the segment by company is provided.

The guarantee, payment bond, or letter of credit shall be valid for a period of not less than one year.

Guarantee. The guarantor shall be an affiliate of the applicant that maintains at least one of the following commercial paper ratings: A-2 or higher from Standard & Poor's or its successor, P-2 or higher from Moody's Investors Service or its successor, or F-2 or higher from Fitch Ratings or its successor; or at least one of the following long-term credit ratings: BBB- or higher from Standard & Poor's or its successor, Baa3 or higher from Moody's Investors Service or its successor, or BBB- or higher from Fitch Ratings or its successor. The guarantee shall obligate the guarantor to make contractually required payment, net of set-offs for any amounts owed to the applicant, to the supplier for services rendered or power supplied in the event the applicant defaults. The applicant shall provide a copy of the following:

- o The ratings agency reports that present the ratings of the affiliate that is the guarantor;
- o The guarantee;
- o The certified financial statements, including the accountant's report, of the applicant or those of the applicant's parent, as applicable. If the amount of the guarantee is without dollar limitation, neither the applicant's certified financial statements nor those of the applicant's parent are required.

Payment Bond An applicant using a payment bond or payment bonds shall provide a copy of the following:

- o The payment bonds;
- o The certified financial statements of the applicant or those of the applicant's parent, as applicable; and
- o The accountant's report for the certified financial statements of the applicant or those of the applicant's parent, as applicable.

Letter of Credit. The letter of credit shall be irrevocable and issued by a financial institution with a long-term obligation rating of A- or higher from Standard & Poor's or its successor, A3 or higher from Moody's Investors Service or its successor, or A- or higher from Fitch Ratings or its successor. The applicant shall provide a copy of the following:

- o The letter of credit;

(continued...)

4. The applicant certifies that it will offer to reimburse its Illinois retail customers for the additional costs those customers incur to acquire electric energy as a result of the applicant's failure to comply with a contractual obligation to supply such energy. The applicant's prospective obligation to reimburse Illinois retail customers shall be covered by an unconditional guarantee, payment bond, or letter of credit. Any dollar limitation on the unconditional guarantee, payment bond, or letter of credit shall equal not less than the product of 1080 times an estimate of the maximum number of megawatts the applicant expects to schedule over the next twelve months times the average of the 45 highest daily market prices of electric energy traded during the previous year. Each January, the Commission shall choose a published price index for electricity for use in this subsection (a)(4). The daily market price of electric energy shall equal the published price index for electricity traded in Illinois, except in the event that no price index for electricity traded in the State of Illinois is published, then the daily market price of electricity shall be determined by the use of a published price index for electricity traded at the nearest location to the State of Illinois. The unconditional guarantee, payment bond, or letter of credit shall be valid for a period of not less than one year. In the alternative, an applicant may elect to calculate its prospective obligation by certifying to the Commission a good faith estimate of the total megawatt hour consumption for the calendar year in which the filing is made. Such estimate shall be a product of multiplying the estimated maximum number of megawatts by 8760 hours, by the estimated average load factor, by one-tenth the per megawatt hour Market Value of Energy Charge established by operation of the Market Value Index (MVI) tariff for the utility service territory in which the customers are served. In making a good faith estimate of the load factor to be used in the calculation, the applicant may rely either on the average load factor of its customers in the prior year or the average load factor for all non-residential customers within the utility service territory or a good faith estimate by the applicant of the prospective load factor of its customers for the applicable period. This option is only available for ARES seeking to serve non-residential customers in service territories that have purchase power option (PPO)-MVI tariffs in effect. The unconditional guarantee, payment bond, or letter of credit shall be valid for a period of not less than one year.³

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- o The ratings agency report that presents the long-term obligation rating of the financial institution extending the credit;
 - o The certified financial statements of the applicant or those of the applicant's parent, as applicable; and
 - o The accountant's report for the certified financial statements of the applicant or those of the applicant's parent, as applicable.

This option is only available to an applicant that will engage in activities that could result in the applicant holding an ownership interest in or taking title to electric energy for the purpose of sale or resale to Illinois retail customers.

³ Unconditional Guarantee. The guarantor shall be an affiliate of the applicant that maintains at least one of the following commercial paper ratings: A-2 or higher from Standard & Poor's or its successor, P-2 or higher from Moody's Investors Service or its successor, or F-2 or higher from Fitch Ratings or its successor; or at least one of the following long-term credit ratings: BBB- or higher from Standard & Poor's or its successor, Baa3 or higher from Moody's Investors Service or its successor, or BBB- or higher from Fitch Ratings or its successor. The applicant shall provide a copy of the following:

- o The ratings agency reports that present the ratings of the affiliate that is the guarantor;
- o The unconditional guarantee; and
- o A good faith estimate of the peak amount of MW the applicant will schedule during the remainder of the current calendar year or, in the alternative, a good faith estimate of the megawatt hour consumption of its customers during the calendar year.

(continued...)

5. **The applicant maintains a line of credit or revolving credit agreement.⁴**

Payment Bond. The payment bond or payment bonds shall be issued by a qualifying surety authorized to transact business in the State of Illinois or by a surety whose Best's rating is A- or better and whose Best's financial size category is VII or larger, and whose contract of insurance is issued pursuant to Section 445 or 445a of the Illinois Insurance Code [215 ILCS 5/445 or 445a] and countersigned by the Surplus Line Association of Illinois or its successor. The applicant shall provide a copy of the following:

- o The payment bonds or the contract of insurance with the countersignature of the Surplus Line Association of Illinois or its successor as applicable; and
- o A good faith estimate of the peak amount of MW the applicant will schedule during the remainder of the current calendar year or, in the alternative, a good faith estimate of the megawatt hour consumption of its customers during the calendar year.

Letter of Credit. The letter of credit shall be irrevocable and issued by a financial institution with a long-term obligation rating of A- or higher from Standard & Poor's or its successor, A3 or higher from Moody's Investors Service or its successor, or A- or higher from Fitch Ratings or its successor. The applicant shall provide a copy of the following:

- o The letter of credit;
- o The ratings agency report that presents the long-term obligation rating of the financial institution extending the credit; and
- o A good faith estimate of the peak amount of MW the applicant will schedule during the remainder of the current calendar year or, in the alternative, a good faith estimate of the megawatt hour consumption of its customers during the calendar year.

⁴ The line of credit or revolving credit agreement must be from a financial institution with a long-term obligation rating of A- or higher from Standard & Poor's or its successor, A3 or higher from Moody's Investors Service or its successor, or A- or higher from Fitch Ratings or its successor.

The amount of the line of credit or revolving credit agreement shall be no less than the greater of \$500,000 or 5% of the amount of revenue for the most recently completed fiscal year. That amount of revenue must appear in the applicant's certified financial statements, or those of the applicant's parent, that have received an accountant's report that certifies those financial statements to be free of material misstatement. If the applicant is using the certified financial statements of its parent, the amount of credit available under the borrowing agreement shall be determined using the applicable revenue amount from the segment information section of the certified financial statements of the applicant's parent.

- o If the applicant is listed separately in the segment information section, the applicant's revenue shall be used.
 - o If the segment information section is broken down by operation, or other means, the revenue for the entire segment of which the applicant is part shall be used, unless a certified breakdown of the segment by company is provided.
- The line of credit or revolving credit agreement shall be valid for a period of not less than one year.
- The applicant shall provide a copy of the following:

(continued...)

6. The applicant earns 12 points on the financial ratios set forth in subsection (a)(6)(A):³

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- o The line of credit or revolving credit agreement;
 - o The ratings agency report that presents the long-term obligation rating of the financial institution extending the credit;
 - o The applicant's certified financial statements or those of the applicant's parent, as applicable; and
 - o The accountant's report for the applicant's financial statements or those of the applicant's parent, as applicable.

³ See rule for financial ratios



Moody's Investors Service

69 Church Street
New York, New York 10007

December 16, 2003

Mr. Ehrin Moeller
Global Cash Manager
Rohm and Haas Company
100 Independence Mall West
Philadelphia, PA 19106-2399

Re: Rohm and Haas Company Ratings

Mr. Moeller:

This letter will serve to confirm the ratings currently assigned to Rohm and Haas Company: Issuer Rating at A3; Senior Unsecured debt rating at A3; and rating for commercial paper at Prime-2.

Consistent with Moody's standard practice, these ratings are be subject to revision or withdrawal by Moody's at any time without notice, if any information (or lack of information) warrants such action, in the sole opinion of Moody's. In addition, any change in Moody's ratings will be publicly disseminated by Moody's through normal print and electronic media and in response to oral requests to the Moody's rating desk. The ratings are statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities.

Thank you for your continuing interest in Moody's rating services. If you have any questions, please do not hesitate to contact me.

Sincerely,

John Rogers
Vice President, Senior Credit Officer

INTERCOMPANY MASTER LOAN AGREEMENT

**THIS INFORMATION HAS BEEN DELETED ON THE GROUNDS THAT IT IS
CLAIMED TO BE OR DETERMINED TO BE CONFIDENTIAL, PROPRIETARY
OR A TRADE SECRET**

ROHM AND HAAS

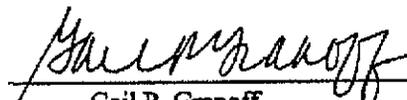
ROHM AND HAAS COMPANY
100 INDEPENDENCE MALL, WEST, PHILADELPHIA, PA 19106-2399 USA
TELEPHONE: (215) 592-3000 FAX: (215) 592-3227



- CERTIFICATE -

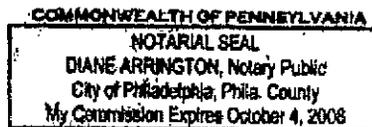
I, Gail P. Granoff, a duly elected and qualified Assistant Corporate Secretary of Rohm and Haas Company (the "Company"), a Delaware corporation, do hereby certify that the attached are a true and correct copies of the Consolidated Financial Statements and Report of Independent Registered Public Accounting Firm as of December 31, 2005 for Rohm and Haas Company and Subsidiaries as reported in our 10-K filed with the Securities and Exchange Commission on March 2, 2006.

WITNESS my hand and seal this 15th day of August, 2006.


Gail P. Granoff
Assistant Corporate Secretary

Sworn to and subscribed before me
this 15th day of August, 2005.


Notary Public



Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Rohm and Haas Company:

We have completed integrated audits of Rohm and Haas Company's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Rohm and Haas Company and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 8, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment, and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 28, 2006

Rohm and Haas Company and Subsidiaries
Consolidated Statements of Operations

	2005	2004	2003
For the years ended December 31, (in millions, except per share amounts)			
Net sales	\$ 7,994	\$ 7,300	\$ 6,421
Cost of goods sold	2,398	2,129	1,913
Gross profit	5,596	5,171	4,508
Selling and administrative expense	(1,025)	994	892
Research and development expense	278	263	235
Interest expense	117	133	126
Amortization of intangibles	59	62	67
Restructuring and asset impairments	98	18	196
Loss on early extinguishment of debt	17	-	4
Share of affiliate earnings, net	13	14	15
Other (income), net	(48)	(41)	(7)
Earnings from continuing operations before income taxes, minority interest and cumulative effect of accounting change	\$ 372	\$ 714	\$ 415
Income taxes	324	207	127
Minority interest	10	11	-
Earnings from continuing operations before cumulative effect of accounting change	\$ 638	\$ 496	\$ 288
Discontinued operations:			
(Loss) Gain on disposal of discontinued line of business, net of income taxes of \$-, \$- and \$5 in 2005, 2004 and 2003, respectively	(1)	1	-
Earnings before cumulative effect of accounting change	\$ 637	\$ 497	\$ 288
Cumulative effect of accounting change, net of \$3 of income taxes in 2003	(8)	-	-
Net earnings	\$ 637	\$ 497	\$ 280
Basic earnings per share (in dollars):			
From continuing operations	2.88	2.22	1.30
(Loss) Gain on disposal of discontinued line of business	(0.01)	0.01	-
Net earnings per share	\$ 2.87	\$ 2.23	\$ 1.26
Diluted earnings per share (in dollars):			
From continuing operations	2.86	2.21	1.30
(Loss) Gain on disposal of discontinued line of business	(0.01)	0.01	-
Net earnings per share	\$ 2.85	\$ 2.22	\$ 1.26
Weighted average common shares outstanding - basic	221.9	222.9	221.5
Weighted average common shares outstanding - diluted	223.9	224.2	222.4

See Notes to Consolidated Financial Statements

Rohm and Haas Company and Subsidiaries
Consolidated Statements of Cash Flows

	2005	2004	2003
For the years ended December 31:			
(in millions)			
Cash Flows from Operating Activities			
Net earnings	\$ 237	\$ 497	\$ 280
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Loss (gain) on disposal of discontinued line of business, net of income taxes	(1)	(5)	(5)
Cash on sale of assets	(197)	11	20
Provision for allowance for doubtful accounts	(4)	(2)	(47)
Provision for deferred taxes	38	18	196
Restructuring and asset impairments	419	419	411
Depreciation	53	62	67
Amortization of finite-lived intangibles	—	—	8
Cumulative effect of accounting change, net of income taxes	—	20	12
Stock-based compensation	—	—	4
Loss on extinguishment of debt	(4)	—	(15)
Premium paid on debt retirement	(1)	—	—
Changes in assets and liabilities, net of acquisitions and divestitures:			
Accounts receivable	(102)	(123)	(103)
Inventories	11	11	(17)
Prepaid expenses and other current assets	8	13	(41)
Accounts payable and accrued liabilities	615	8	63
Federal, foreign and other income taxes payable	89	(21)	78
Payments to fund pension plans	(310)	(31)	(37)
Other, net	91	74	74
Net cash provided by operating activities	925	925	948
Cash Flows from Investing Activities			
Acquisitions of businesses and affiliates	(5)	(5)	(21)
Proceeds from previous disposition	8	8	23
Decrease (increase) in restricted cash	(49)	(49)	—
Cash received from consolidating joint venture	2	2	—
Proceeds from the sale of land, buildings and equipment	28	28	18
Additions to land, buildings and equipment	(322)	(322)	(339)
Proceeds (payments) for hedge of net investment in foreign subsidiaries	(31)	(23)	(49)
Net cash used by investing activities	(361)	(361)	(368)
Cash Flows from Financing Activities			
Proceeds from issuance of long-term debt	71	71	—
Repayments of long-term debt	(13)	(13)	(492)
Purchase of common stock	—	—	—
Proceeds from exercise of stock options	47	47	32
Net change in short-term borrowings	(42)	(42)	(42)
Payment of dividends	(217)	(217)	(191)
Net cash used by financing activities	(154)	(154)	(693)
Net increase (decrease) in cash and cash equivalents	410	410	(113)
Effect of exchange rate changes on cash and cash equivalents	(4)	19	14
Cash and cash equivalents at the beginning of the year	625	196	295
Cash and cash equivalents at the end of the year	\$ 1,036	\$ 625	\$ 196
Supplemental Cash Flow Information			
Cash paid during the year for:			
Interest, net of amounts capitalized	\$ 147	\$ 139	\$ 143
Income taxes, net of refunds received	251	224	85

See Notes to Consolidated Financial Statements

Roim and Haas Company and Subsidiaries
Consolidated Balance Sheets

	2005	2004
December 31, (in millions, except share data)		
Assets		
Cash and cash equivalents	625	49
Restricted cash	(469)	(469)
Receivables, net	841	841
Inventories	263	263
Prepaid expenses and other current assets	3247	2929
Total current assets	4007	3682
Land, buildings and equipment, net of accumulated depreciation	141	141
Investments in and advances to affiliates	1724	1724
Goodwill, net of accumulated amortization	1665	1665
Other intangible assets, net of accumulated amortization	389	389
Other assets	10095	10095
Total Assets	\$ 10,095	\$ 10,095
Liabilities and Stockholders' Equity		
Liabilities		
Short-term obligations	77	611
Trade and other payables	611	839
Accrued liabilities	839	213
Income taxes payable	213	1740
Total current liabilities	1740	2563
Long-term debt	2563	706
Employee benefits	706	1059
Deferred income taxes	1059	726
Other liabilities	726	6294
Total Liabilities	6294	104
Minority interest	104	-
Commitments and contingencies	-	605
Stockholders' Equity:		
Preferred stock, par value - \$1.00, authorized - 25,000,000 shares issued - no shares	605	2,062
Common stock, par value - \$2.50, authorized - 400,000,000 shares, issued - 242,078,349 shares	2,062	1,370
Additional paid-in capital	1,370	4,037
Retained earnings	4,037	(166)
Treasury stock at cost (2005 - 20,115,637 shares 2004 - 16,818,129 shares)	(166)	(94)
ESOP shares (2005 - 9,230,434 shares; 2004 - 9,811,464 shares)	(94)	(60)
Accumulated other comprehensive loss	(60)	3,697
Total Stockholders' Equity	3,697	10,095
Total Liabilities and Stockholders' Equity	\$ 10,095	\$ 10,095

See Notes to Consolidated Financial Statements

Rohm and Haas Company and Subsidiaries Consolidated Statement of Stockholders' Equity

For the years ended December 31, 2005, 2004, and 2003

(in millions, except share amounts in thousands)	Number of Shares of Common Stock Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Number of Shares of Treasury Stock Outstanding	Treasury Stock	ESOP	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Total Comprehensive Income
2003										
Balance January 1, 2003	221,132	\$ 605	\$ 1,971	\$ 994	30,947	\$ (200)	\$ (107)	\$ (144)	\$ 3,119	\$ 280
Net earnings				280				(5)	(5)	(5)
Current period changes in fair value, net of taxes of \$3								4	4	4
Redistribution to earnings, net of taxes of (\$2)								89	89	89
Cumulative transition adjustment, net of taxes of \$16								4	4	4
Change in minimum pension liability, net of taxes of \$12								4	4	4
Total comprehensive income				377						377
Repurchase of common stock										
Common stock issued	1,993		31		(1,993)		7		16	7
Stock-based compensation									4	4
ESOP				4					(4)	(4)
Tax benefit on ESOP				(191)					(191)	(191)
Common dividends (\$0.86 per share)										
Balance December 31, 2003	223,125	\$ 605	\$ 2,002	\$ 1,087	18,954	\$ (185)	\$ (100)	\$ (52)	\$ 3,357	\$ 497
2004										
Net earnings				497				(6)	(6)	(6)
Current period changes in fair value, net of taxes of \$3								5	5	5
Redistribution to earnings, net of taxes of (\$3)								3	3	3
Cumulative transition adjustment, net of taxes of (\$35)								(30)	(30)	(30)
Change in minimum pension liability, net of taxes of \$13										
Total comprehensive income				561						561
Repurchase of common stock										
Common stock issued	2,136		60		(2,136)		6		79	6
Stock-based compensation									3	3
ESOP				3					(3)	(3)
Tax benefit on ESOP				(217)					(217)	(217)
Common dividends (\$0.87 per share)										
Balance December 31, 2004	225,261	\$ 605	\$ 2,062	\$ 1,370	16,818	\$ (166)	\$ (94)	\$ (80)	\$ 3,637	\$ 607
2005										
Net earnings				637						637
Current period changes in fair value, net of taxes of \$3										
Redistribution to earnings, net of taxes of (\$3)										
Cumulative transition adjustment, net of taxes of (\$35)										
Change in minimum pension liability, net of taxes of \$13										
Total comprehensive income				637						637
Repurchase of common stock										
Common stock issued	2,576		90		(2,576)				79	6
Stock-based compensation									3	3
ESOP				3					(3)	(3)
Tax benefit on ESOP				(258)					(258)	(258)
Common dividends (\$0.88 per share)										
Balance December 31, 2005	227,737	\$ 605	\$ 2,152	\$ 1,762	14,242	\$ (166)	\$ (97)	\$ (80)	\$ 3,916	\$ 607

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business –

Rohm and Haas Company was incorporated in 1917 under the laws of the State of Delaware. Our shares are traded on the New York Stock Exchange under the symbol "ROH." We are a leading specialty materials company that leverages science and technology in many different forms to design materials and processes that enable the products of our customers to work. We serve many different market places, the largest of which include: building and construction, electronics, food and retail, household and personal care, industrial processes, packaging, transportation and water. To serve these markets, we have significant operations in approximately 100 manufacturing and 35 research facilities in 27 countries. We have approximately 16,500 employees working for us worldwide.

Use of Estimates –

Our financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). In accordance with GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in our financial statements and accompanying notes. Actual results could differ from these estimates.

Reclassifications –

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

During the second quarter of 2004, we identified several prior period entries pertaining to the accounting for the acquisition of Morton International, Inc. that were incorrectly classified on our balance sheet. We corrected the classification of these entries during the second quarter of 2004 and reclassified prior period balances for all periods presented. The net impact of this reclassification was a \$60 million increase to goodwill. We concluded that these reclassifications had an immaterial effect on both the current year and prior year financial statements, including the annual goodwill impairment review required by SFAS No. 142, "Goodwill and Other Intangible Assets."

During the first quarter of 2005, we adopted a streamlined and consistent methodology for allocating shared service costs across all business units and

redefined corporate expenses to provide improved management reporting. Therefore, we have modified certain of our disclosures for 2004 and 2003 to conform to this change. "Shared services" refers to the support activities provided by functions such as Finance, Human Resources, Logistics, Procurement and Information Technology. As a result, we have reclassified amounts between consolidated cost of goods sold, selling and administrative expenses, research and development expense, and segment net income for the years ended December 31, 2004 and 2003, as if the reclassifications had been made at the beginning of these respective years. We filed a Form 8-K with the Securities and Exchange Commission on August 15, 2005 related to these reclassifications.

Principles of Consolidation –

Our Consolidated Financial Statements include the accounts of our company and subsidiaries. We consolidate all entities in which we have a controlling ownership interest. All of our significant entities are consolidated. We have no significant contractual requirements to fund losses of unconsolidated entities. Also in accordance with FIN 46R, "Consolidation of Variable Interest Entities," we consolidate variable interest entities in which we bear a majority of the risk to the potential losses or gains from a majority of the expected returns.

We are the primary beneficiary of a joint venture deemed to be a variable interest entity. Each joint venture partner holds several equivalent variable interests, with the exception of a royalty agreement held exclusively between the joint venture and us. In addition, the entire output of the joint venture is sold to us for resale to third party customers. As the primary beneficiary, we consolidated the joint venture's assets, liabilities, and results of operations in our Consolidated Financial Statements initially for the fiscal year ended December 31, 2004. As we previously accounted for this entity as an equity method investment the cumulative impact of consolidation was not material to our net income. We did not consider this a variable interest entity at the initial adoption date of FIN 46R, however based on our subsequent evaluation, we concluded this entity should be consolidated under FIN 46R. Accordingly, the Consolidated Financial Statements for the years ended December 31, 2004 and 2005 properly reflect the consolidated results of this variable interest entity.

We hold a variable interest in another joint venture, which we account for under the equity method of accounting. The variable interest relates to a cost-plus arrangement between the joint venture and each joint venture partner. We have determined that Rohm and Haas is not the primary beneficiary and therefore have not consolidated the entity's assets, liabilities, and results of operations in our Consolidated Financial Statements. The entity provides manufacturing services to us and the other joint venture partner, and has been in existence since 1999. As of December 31, 2005, our investment in the joint venture was approximately \$46 million, representing our maximum exposure to loss.

We use the equity method to account for our investments in companies in which we have the ability to exercise significant influence over operating and financial policies, generally 20-50% owned. Accordingly, our consolidated net earnings or loss include our share of the net earnings or loss of these companies.

We account for our investments in other companies that we do not control and for which we do not have the ability to exercise significant influence, which are generally less than 20%, under the cost method. In accordance with the cost method, the assets are recorded at cost or fair value, as appropriate.

All significant intercompany accounts, transactions and unrealized profits and losses are eliminated appropriately in consolidation from our financial results.

Foreign Currency Translation —

We translate foreign currency amounts into U.S. dollars in accordance with U.S. GAAP. The majority of our operating subsidiaries in regions other than Latin America use the local currency as their functional currency. We translate the assets and liabilities of those entities into U.S. dollars using the appropriate exchange rates. We translate revenues and expenses using the average exchange rates for the reporting period. Translation gains and losses are recorded in accumulated other comprehensive income or loss, net of taxes, which is a separate component of stockholders' equity.

For entities that continue to use the U.S. dollar as their functional currency, we translate land, buildings and equipment, accumulated depreciation, inventories, goodwill and intangibles, accumulated amortization and minority interest at their respective historical rates of exchange. We translate all other assets and liabilities using the appropriate exchange rates at the end of period. Revenue, cost of goods sold and operating expenses other than depreciation and amortization are translated using the average rates of exchange for the reporting period.

Foreign exchange gains and losses, including recognition of open foreign exchange contracts, are credited or charged to income.

Cost of Goods Sold —

Cost of goods sold as reported in the Consolidated Statements of Operations includes inbound freight charges, purchasing and receiving costs, inspection costs, internal transfer costs, and other distribution network charges.

Revenue Recognition —

We recognize revenue when the earnings process is complete. This occurs when products are shipped to or received by the customer in accordance with the terms of the agreement, title and risk of loss have been transferred, collectability is

probable and pricing is fixed or determinable. The exception to this practice is for sales made under supplier-owned and managed inventory ("SOMI") arrangements. We recognize revenue under SOMI arrangements when usage of inventory is reported by the customer, generally on a weekly or monthly basis. Revenues from product sales are recorded net of applicable allowances.

Customer payments received in advance are recorded as deferred revenue and recognized into income upon completion of the earnings process. We account for cash sales incentives as a reduction to revenue. Certain of our customers earn cash incentive rebates when their cumulative annual purchases meet specified measurement targets per the terms of their individual agreement. We record these rebate incentives as a reduction to revenue based on the customers' progress against the specified measurement target. Non-cash sales incentives, such as product samples, are recorded as a charge to selling expense at the time of shipment.

Amounts billed to customers for shipping and handling fees are included in net sales and costs we have incurred for the delivery of goods are classified as cost of goods sold in the Consolidated Statements of Operations.

Accounts Receivable and Allowance for Doubtful Accounts —

Accounts receivable result from a sale of goods or services on terms that provide for future payment. They are created when an invoice is generated and are reduced by payments. We record an allowance for doubtful accounts as a best estimate of the amount of probable credit losses in our existing accounts receivable. We consider factors such as customer credit, past transaction history with the customer, and changes in customer payment terms when determining whether the collection of an invoice is reasonably assured. We review our allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. Receivables are charged off against the allowance for doubtful accounts when we feel it is probable the receivable will not be recovered.

Earnings Per Share —

We use the weighted-average number of shares outstanding to calculate basic earnings per share. Diluted earnings per share include the dilutive effect of stock-based compensation, such as stock options and restricted stock.

Cash and Cash Equivalents —

Cash and cash equivalents include cash, time deposits and readily marketable securities with original maturities of three months or less.

Inventories -

Our inventories are stated at the lower of cost or market. Over half of our inventory is determined by the last-in, first-out (LIFO) method. The remainder is determined by the first-in, first-out (FIFO) method.

Land, Buildings and Equipment, and Accumulated Depreciation -

The value of our land, buildings and equipment is carried at cost less accumulated depreciation. These assets are depreciated over their estimated useful lives using straight-line and accelerated methods. Construction costs, labor and applicable overhead related to construction and installation of these assets are capitalized. Expenditures for additions and improvements that extend the lives or increase the capacity of plant assets are capitalized. Maintenance and repair costs for these assets are charged to earnings as incurred. Repair and maintenance costs associated with planned major maintenance activities are expensed as incurred and are included in cost of goods sold. Replacements and betterment costs are capitalized. The cost and related accumulated depreciation of our assets are removed from the accounting records when they are retired or disposed.

Capitalized Software -

We capitalize certain costs, such as software coding, installation and testing, that are incurred to purchase or create and implement integral use computer software in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The majority of our capitalized software relates to the implementation of our Enterprise Resource Planning ("ERP") system which was completed in 2004.

Goodwill and Indefinite-Lived Intangible Assets -

We consider this to be one of the critical accounting estimates used in the preparation of our Consolidated Financial Statements. We believe the current assumptions and other considerations used to value goodwill and indefinite-lived intangible assets to be appropriate. However, if actual experience differs from the assumptions and considerations used in our analysis, the resulting change could have a material adverse impact on the consolidated results of operations and statement of position.

Prior to 2002, goodwill was amortized on a straight-line basis over periods not greater than 40 years. Effective January 1, 2002, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets." In accordance with this statement, as of the effective date we ceased amortization of goodwill and indefinite-lived intangibles and reclassified certain intangible assets, such as workforce, to goodwill. Goodwill is assigned to reporting units, which are one level below our operating segments. Goodwill is assigned to the reporting unit that benefits from the synergies arising from each particular business combination. Goodwill and indefinite-lived intangible

assets are reviewed annually, or more frequently, if changes in circumstances indicate the carrying value may not be recoverable. To test for recoverability, we typically utilize discounted estimated future cash flows to measure fair value for each reporting unit. This calculation is highly sensitive to both the estimated future cash flows of each reporting unit and the discount rate assumed in these calculations. Our annual impairment review is as of May 31.

During 2005, 2004 and 2003, the annual impairment review was completed without any additional impairments identified.

Impairment of Long-Lived Assets -

We consider this to be one of the critical accounting estimates used in the preparation of our Consolidated Financial Statements. We believe the current assumptions and other considerations used to evaluate the carrying value of long-lived assets to be appropriate. However, if actual experience differs from the assumptions and considerations used in our estimates, the resulting change could have a material adverse impact on the consolidated results of operations and statement of position.

Our long-lived assets, other than goodwill and indefinite-lived intangible assets which are discussed above include land, buildings, equipment, long-term investments, and other intangible assets. Long-lived assets, other than investments, goodwill and indefinite-lived intangible assets, are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value of the asset may not be recoverable. Such circumstances would include items such as a significant decrease in the market price of a long-lived asset, a significant adverse change in the manner the asset is being used or planned to be used or in its physical condition or a history of operating or cash flow losses associated with the use of the asset. In addition, changes in the expected useful life of these long-lived assets may also be an impairment indicator. When such events or changes occur, we assess the recoverability of the asset by comparing the carrying value of the asset to the expected future cash flows associated with the asset's planned future use and eventual disposition of the asset, if applicable. If the carrying value of the asset is not determined to be recoverable, we estimate the fair value of the asset primarily from discounted future cash flows expected to result from the use of the assets and compare that to the carrying value of the asset. We utilize marketplace assumptions to calculate the discounted cash flows used in determining the asset's fair value. If the carrying value is greater than the fair value, an impairment loss is recorded. In some circumstances the carrying value may be appropriate; however, the event that triggered the review of the asset may indicate a revision to the service life of the asset. In such cases, we will accelerate depreciation to match the revised useful life of the asset.

surveys to determine the extent of environmental damage and necessary remediation. With the expertise of our environmental engineers and legal counsel we determine our best estimates for remediation and restoration costs. These estimates are based on forecasts of future costs for remediation and change periodically as additional and better information becomes available. Changes to assumptions and considerations used to calculate remediation reserves could materially affect our results of operations. If we determine that the scope of remediation is broader than originally planned, discover new contamination, discover previously unknown sites or become subject to related personal injury or property damage claims, our estimates and assumptions could materially change.

We believe the current assumptions and other considerations used to estimate reserves for both our environmental and other legal liabilities are appropriate. These estimates are based in large part on information currently available and the current laws and regulations governing these matters. If additional information becomes available or there are changes to the laws or regulations or actual experience differs from the assumptions and considerations used in estimating our reserves, the resulting change could have a material impact on the consolidated results of our operations and statement of position.

Income Taxes –

We consider this to be one of the critical accounting estimates used in the preparation of our Consolidated Financial Statements. We believe the current assumptions and other considerations used to determine our current year and deferred income tax provisions to be appropriate. However, if actual experience differs from the assumptions and considerations used, the resulting change could have a material impact on the consolidated results of operations and statement of position.

We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future consequences of temporary differences between the financial statement carrying value of assets and liabilities and their values as measured by tax laws. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Treasury Stock –

Treasury stock consists of shares of Rohm and Haas stock that have been issued, but subsequently reacquired. We account for treasury stock purchases under the cost method. In accordance with the cost method, we account for the entire cost of acquiring shares of our stock as treasury stock, which is a contra equity account. When these shares are resold, we use an average cost method for determining cost. Proceeds in excess of cost are credited to additional paid-in capital.

The key variables that we must estimate include assumptions regarding sales volume, selling prices, raw material prices, labor and other benefit costs, capital additions, assumed discount rates and other economic factors. These variables require significant management judgment and include inherent uncertainties since they are forecasting future events. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value.

The fair values of our long-term investments are dependent on the financial performance and solvency of the entities in which we invest, as well as volatility inherent in their external markets. In assessing potential impairment for these investments, we will consider these factors as well as the forecasted financial performance of the investment entities. If these forecasts are not met, we may have to record impairment charges.

Research and Development –

We expense all research and development costs as incurred.

Litigation and Environmental Contingencies and Reserves –

We consider this to be one of the critical accounting estimates used in the preparation of our Consolidated Financial Statements. We are involved in litigation in the ordinary course of business including employee matters, personal injury, property damage and environmental litigation. Additionally, we are involved in environmental remediation and spend significant amounts for both company-owned and third party locations. In accordance with GAAP, we are required to assess these matters to: 1) determine if a liability is probable; and 2) record such a liability when the financial exposure can be reasonably estimated. The determination and estimation of these liabilities are critical to the preparation of our financial statements.

In reviewing such matters, we consider a broad range of information, including the claims, demands, settlement offers received from governmental authorities or other responsible parties, estimates performed by independent third parties, identification of prior experience, to determine if a liability is probable and if the value is reasonably estimable. If both of these conditions are met, we record a liability. If we believe that no best estimate exists, we accrue the minimum in a range of possible losses, as we are required to do under GAAP. If we determine a liability to be only reasonably possible, we consider the same information to estimate the possible exposure and disclose the potential liability.

Our most significant reserves have been established for remediation and restoration costs associated with environmental damage. As of December 31, 2005, we have \$147 million reserved for environmental related costs. We conduct studies and site

Stock-Based Compensation -

We consider this to be one of the critical accounting estimates used in the preparation of our Consolidated Financial Statements. We have various stock-based compensation plans for directors, executives and employees, which are comprised primarily of restricted stock, restricted stock units and stock option grants. 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 prior to 2003 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 awarded to employees after January 1, 2003. The fair value is calculated using the Black-Scholes pricing model as of the grant date and is recorded as compensation expense over the appropriate vesting period, which is typically three years. We also calculate and record the fair value of our restricted stock awards in accordance with SFAS No. 123. Compensation expense is recognized over the vesting period, which is typically five years.

In December 2004, the Financial Accounting Standards Board (FASB) amended SFAS No. 123. This Statement supersedes APB No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. This Statement eliminates the prospective option we have applied under SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," 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 beginning with the first interim or annual period after June 15, 2005. Due to the fact that the majority of our options issued prior to January 1, 2003, the date we adopted SFAS No. 123, will have vested as of June 15, 2005, the revised computations are not expected to have a material impact on our financial statements.

The disclosure requirements of SFAS No. 148 provide that pro forma net earnings and net earnings per share be presented as if the fair value based method had been applied to all awards granted to employees, not just awards granted after the date of adoption. Since we chose the prospective method of expensing stock options, the actual stock-based compensation expense recorded in 2005, 2004 and 2003 is less than the amount calculated for this pro forma disclosure requirement.

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	2005	2004	2003
Net earnings, as reported	\$ 567	\$ 497	\$ 280
Add: Stock-based employee compensation expense included in reported net earnings, after-tax effects	30	13	7
Deduct: Total stock-based compensation expense determined under the fair value based method for all awards, net of related tax effects	(31)	(26)	(26)
Pro forma net earnings	\$ 536	\$ 484	\$ 261

	2005	2004	2003
Net earnings per share			
Basic, as reported	\$ 2.07	\$ 2.23	\$ 1.26
Basic, pro forma	1.98	2.17	1.18
Diluted, as reported	1.85	2.22	1.26
Diluted, pro forma	1.84	2.16	1.17

Accounting for Derivative Instruments and Hedging Activities -

We use derivative and non-derivative instruments to manage market risk arising out of changes in interest rates, foreign exchange rates, commodity prices and the U.S. dollar value of our net investments outside the U.S. These instruments are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which we adopted as of January 1, 2001.

We have established policies governing our use of derivative instruments. We do not use derivative instruments for trading or speculative purposes, nor are we a party to any leveraged derivative instruments or any instruments for which the fair market values are not available from independent third parties. We manage counter-party default risk by entering into derivative contracts with only major financial institutions of investment grade credit rating and by limiting the amount of exposure to each financial institution. Certain of our derivative instruments contain credit clauses giving each party the right to settle at market if the other party is downgraded below investment grade.

NOTE 2. ACQUISITIONS AND DISPOSITIONS OF ASSETS

2005

We acquired the remaining shares of three consolidated subsidiaries for \$20 million in 2005. There were no other significant acquisitions or dispositions.

2004

We had no significant acquisitions or dispositions during 2004. Effective January 1, 2004, we began consolidating the results of one of our joint ventures in accordance with FIN 46R. (See Note 1 to the Consolidated Financial Statements)

2003

We made no significant acquisitions in 2003. In March 2003, we completed the sale of our dry film photoresist business to Eternal Chemical Company. As a result of this sale, we closed our North American and European dry film photoresist manufacturing operations. Eternal Chemical Company will manufacture its newly expanded dry film Photoresist product line under the Eternal Company label. As part of the divestiture, we have entered into an agreement to distribute the entire Eternal dry film photoresist product line in North America and Europe, as well as to our existing customers in Asia.

The accounting standards require that all derivative instruments be reported on the balance sheet at their fair values. For derivative instruments designated as fair value hedges, changes in the fair value of the derivative instruments generally offset the changes in fair value of the hedged items in the Consolidated Statements of Operations. For derivative instruments designated as cash flow hedges to reduce the variability of future cash flows related to forecasted transactions, the effective portions of hedges are recorded in accumulated other comprehensive income (loss) until the hedged items are realized and recorded in earnings. When cash flow hedges are terminated early but the underlying hedged forecast transactions are likely to occur, related gains or losses are deferred in accumulated other comprehensive income (loss) until the hedged items occur. Any ineffective portions of the hedges are recognized in current period earnings.

Changes in the value of derivative or non-derivative instruments, which are designated as, and meet all of the criteria for, hedges of net investments are recorded in accumulated other comprehensive income (loss) based on changes measured on a spot-to-spot basis of exchange rates. Ineffective portions of net investment hedges are charged to earnings.

Changes in the fair values are immediately recorded in current period earnings if derivative instruments were not designated as hedges or fail to meet the criteria as effective hedges.

Cash flows resulting from our hedging activities are reported under operating activities in our Consolidated Statements of Cash Flows, except for cash flows from derivatives hedges of net investments in foreign subsidiaries, which are reported separately under investing activities.

In order to conform to our current year presentation, we have revised our 2004 and 2003 cash flow statement classification to present proceeds from the termination of interest rate swap agreements into cash flows from operations from cash flows from financing activities.

NOTE 3: PROVISION FOR RESTRUCTURING AND ASSET IMPAIRMENTS

Costs associated with restructuring initiatives are primarily accounted for in accordance with SFAS No. 112, "Employers' Accounting for Postemployment Benefits." The following net restructuring and asset impairment charges were recorded for the three years ending December 31, 2005, 2004 and 2003, respectively, as detailed below:

Restructuring and Asset Impairments -

(in millions)	2005	2004	2003
Severance and employee benefits (net)	\$ 19	\$ 18	\$ 96
Asset impairments, net of gains on sales	79	2	96
Other, including contract lease termination penalties	-	(2)	4
Amount charged to earnings	\$ 98	\$ 18	\$ 196

Restructuring and Asset Impairments by Business Segment -

Pre-Tax (in millions)	2005	2004	2003
Business Segment			
Coatings	\$ 18	\$ 2	\$ 104
Monomers	-	1	2
Performance Chemicals	-	5	51
Electronic Materials	31	3	-
Salt	-	-	-
Adhesives and Sealants	54	3	5
Corporate	(7)	4	34
Total	\$ 98	\$ 18	\$ 196

Restructuring by Initiative -

(in millions)	Severance and employee benefits	Contract and lease termination and other costs	Total
2005 Initiatives			
Initial Charge	\$ 36	\$ 1	\$ 37
Payments	(3)	(1)	(4)
Changes in estimate	-	-	-
December 31, 2005 ending balance	33	-	33

2004 Initiatives			
Initial Charge	\$ 33	\$ 1	\$ 34
Payments	(3)	-	(3)
Changes in estimate	(2)	-	(2)
December 31, 2004 ending balance	27	1	28
Payments	(19)	-	(19)
Changes in estimate	(5)	(1)	(6)
December 31, 2005 ending balance	3	-	3

2003 Initiatives			
Initial Charge	\$ 82	\$ 2	\$ 84
Payments	(15)	(1)	(16)
Changes in estimate	(2)	-	(2)
December 31, 2003 ending balance	65	1	66
Payments	(34)	-	(34)
Changes in estimate	(11)	(1)	(12)
December 31, 2004 ending balance	20	-	20
Payments	(9)	-	(9)
Changes in estimate	(11)	-	(11)
December 31, 2005 ending balance	3	-	3

The restructuring reserve balances presented are considered adequate to cover committed restructuring actions.

Restructuring Initiatives -

2005 Initiatives

For the year ended December 31, 2005, our management approved restructuring initiatives to further improve the efficiency of our manufacturing network and support organization across several of our business segments. The 2005 restructuring initiatives involved the closing or partial shutdown of manufacturing facilities in North America, the United Kingdom and Germany, in addition to a North American research and development facility. Included in the net \$19 million restructuring expense for 2005 are provisions for severance and employee benefits of \$36 million for 590 employees company-wide, impacting virtually all areas including sales and marketing, manufacturing, administrative support and research personnel. Employee separation benefits varied depending on local regulations within certain foreign countries that were affected by the restructuring initiatives.

Severance and employee benefit costs related to the 2005 initiatives include \$2 million for the closure of our Wytheville, VA Powder Coatings plant and subsequent consolidation of our North American Powder Coatings operations. In addition, \$25 million of charges related to the manufacturing realignments to improve operating efficiencies and reduce excess capacity across several of our chemical businesses in the European region. An additional \$3 million was recorded in severance and employee benefit costs for the realignment of the Electronic Materials segment manufacturing, research and development and sales and marketing organizations in Europe and North America in order to be closer to its customer base and to increase operating efficiencies. Lastly, \$6 million in severance and employee benefit costs were incurred for several smaller reduction in-force efforts within our Electronic Materials segment, Plastics Additives business and administrative support functions initiated throughout the year. In addition to severance and employee benefit costs, \$1 million was recorded for contract and lease terminations. Cash payments related to all of these initiatives will be paid out over the next 12-18 months.

2004 Initiatives

In 2004, our management approved restructuring initiatives related to the reorganization of our Plastics Additives and Architectural and Functional Coatings businesses and Adhesives and Sealants and Electronic Materials segments in North America and Europe, which resulted in \$18 million of severance and employee benefit charges and affected 500 positions in total. Our management also approved a reduction of our administrative support functions, as well as several smaller initiatives in other businesses, which resulted in \$15 million of severance and employee benefit charges. These initiatives were designed to reduce redundant costs and reposition our workforce to capitalize on the enhancements made possible by the implementation of our Enterprise Resource Planning System. In addition, a charge of \$1 million was recorded for contract and lease termination

costs. During 2004, we reversed \$3 million of severance and employee benefit charges pertaining to these initiatives, largely related to the North American Plastics Additives initiative. In 2005, we reversed \$5 million of severance and employee benefit charges due to fewer employee separations than originally anticipated in the administrative support restructurings announced in 2004, as some employees had been redeployed, while others affected by workforce reductions were able to fill positions left vacant through natural attrition. Of the initial 500 positions identified, we reduced the total number of positions to be affected by these initiatives by 96 to 404 positions in total. As of December 31, 2005, 347 positions have been eliminated. We expect to complete the actions under these programs in 2006.

2003 Initiatives

In 2003, our management approved the following restructuring initiatives affecting 1,460 positions in total: a \$22 million European restructuring initiative; a \$25 million reorganization associated with the elimination of positions primarily in our North American support services, including logistics, human resources, procurement and information technology announced in the fourth quarter; and \$35 million for initiatives associated with several smaller reduction in force efforts in all of our businesses throughout the year. In most cases, separated employees were offered early termination benefits. In addition, we recorded \$2 million of expense related to contract and lease terminations. In 2003, \$2 million of charges were reversed due to fewer employee separations than originally anticipated. In 2004, we reversed an additional \$12 million of charges largely related to a reduction in the design and scope of our North American support services restructuring, where we determined business model transformation opportunities would not generate the anticipated benefit. In 2005, another \$11 million of reserves related to the 2003 initiatives were reversed. Of the initial 1,460 positions identified, we reduced the total number of positions to be affected by these initiatives by 476 to 984 positions in total. As of December 31, 2005, 974 positions have been eliminated. These initiatives were substantially completed in 2005.

Our restructuring initiatives are generally completed in 12 to 18 months. The balance at December 31, 2005, recorded for severance and employee benefits, is included in accrued liabilities in the Consolidated Balance Sheet.

Asset Impairments -

2005 Impairments

In 2005, \$81 million of asset impairments were recognized for the impairment of certain finite-lived intangible assets and fixed assets across several of our chemical businesses and our Electronic Materials segment. During 2005, gains on sales of previously impaired assets offset the total asset impairment charge by \$2 million. In the fourth quarter we recorded asset impairment charges of \$40 million for certain finite-lived intangible and fixed assets, primarily related to the closure or partial

(In millions)	2005	2004	2003
Royalty income	\$ 7	\$ 8	\$ 19
Foreign exchange losses and related hedging costs	(8)	(19)	(1)
Interest income	17	9	5
Sales of real estate	2	11	5
Sale of remaining interest in European Salt Business	8	8	-
Other, net	20	24	(21)
Total	\$ 46	\$ 41	\$ 7

NOTE 5: FINANCIAL INSTRUMENTS

We denominate our business transactions in a variety of foreign currencies, finance our operations through long- and short-term borrowings, and purchase raw materials at market prices. Accordingly, changing market prices for foreign currencies and commodities and changing interest rates materially impact our earnings, cash flows and the fair values of our assets and liabilities. Our operating and financing plans include actions to reduce, but not eliminate, the uncertainty associated with these changes including the use of derivative instruments. (See Note 1 to our Consolidated Financial Statements.)

Currency Hedges -

We enter into foreign exchange option and forward contracts in order to reduce the risk associated with variability in our operating results from foreign-currency-denominated earnings, cash flows, assets and liabilities. We direct these hedging efforts toward three distinct currency hedging objectives:

- (1) To preserve the dollar values of anticipated non-dollar cash flows and earnings, primarily with respect to transactions forecast to occur within a one-year period;
- (2) To prevent changes in the values of assets and liabilities denominated in currencies other than the legal entity's functional currency which may create undue earnings volatility (we refer to this hedging activity as "asset and liability hedging"); and
- (3) To hedge the dollar values of our net investments in operations outside the U.S.

During 2005, non-dollar currencies in which we transacted business were stronger, on average, compared with the prior-year period. These currencies had a \$20 million favorable impact on our 2005 earnings compared with 2004, net of all currency hedging. At the beginning of 2005, the dollar was close to its weakest point and by the end of 2005 it had recovered somewhat against most currencies. At December 31, 2005, the basket of currencies in which our operations are

shutdown of 5 manufacturing facilities in the United Kingdom and Germany, in addition to a North American research and development facility, within our Adhesives and Sealants and Electronic Materials segments and Powder Coatings business. During 2005, we recorded an asset impairment charge of \$29 million for certain finite-lived intangible and fixed assets related to certain product lines within our Adhesives and Sealants segment. These product lines have suffered dramatic declines in both volume and profitability due to recent increases in raw material costs, coupled with aggressive pricing competition. We determined that the significant volume declines in these product lines were not recoverable and warranted impairment. Fair value was determined based upon current business conditions, using cash flow analyses. In addition, we recognized \$12 million of asset impairment charges, of which approximately \$9 million was associated with the closing of our Wytheville, VA Powder Coatings plant, and approximately \$2 million was recognized for the impairment of certain finite-lived intangible and fixed assets related to our Electronic Materials segment.

2004 Impairments

In 2004, we recognized \$2 million in asset impairment charges primarily related to an administrative support initiative announced in the second quarter.

2003 Impairments

In 2003, we recognized \$96 million, net of asset impairment charges. Of the total 2003 charges, \$116 million was recognized as a non-cash asset impairment charge recorded to adjust the carrying value of certain assets to their fair value, which was determined using cash flow analyses. The largest asset impairment of approximately \$80 million of finite-lived intangible assets related to the Lamineer product line of the Powder Coatings business in the Coatings segment. The remaining charge consisted primarily of \$15 million of finite-lived intangible assets and \$7 million of net fixed assets associated with our Specialty Magnesia product line in the Performance Chemicals segment and \$14 million of other building and equipment impairments. During 2003, gains on sales of previously impaired assets offset the total impairment charge by \$20 million.

NOTE 4: OTHER INCOME, NET

We recorded other income, net of \$48 million, \$41 million and \$7 million during the years ended December 31, 2005, 2004 and 2003, respectively. The major categories of our other income, net are summarized in the following table:

invested was weaker against the dollar than at December 31, 2004. This weakening was recorded as a \$13 million cumulative translation adjustment loss during 2005, net of gains from net investment hedges.

Hedges entered to preserve the dollar values

of anticipated non-dollar cash flows and earnings
We generally purchase options which give us the right, but not the obligation, to sell the underlying currencies when the cash flows denominated in those currencies are forecast to occur. In this way, the premiums paid for the options represent the maximum cost of the hedge. If, when the forecast transactions occur, the underlying currencies have strengthened, the options become worthless and are expensed. In this case, the dollar values of the underlying forecast non-dollar cash flows and earnings are higher than anticipated. If the underlying currencies have weakened, the options are exercised and the underlying currencies are sold at the stronger historical rate, thus preserving the dollar values of the forecast non-dollar cash flows.

These contracts are designated as foreign currency cash flow hedges covering portions of our twelve month forecasted non-dollar cash flows and mature when the underlying cash flows being hedged are forecast to occur. Because the options are considered highly effective hedges, the cash value less cost will be reflected in earnings when the contracts mature. These contracts are marked-to-market at each balance sheet date with changes in fair value prior to maturity recorded in accumulated other comprehensive income (loss). For the year ended December 31, 2005, these contracts appreciated in value resulting in a \$4 million after-tax gain, which is recorded in accumulated other comprehensive income (loss). In 2004, these contracts decreased in value resulting in a \$5 million accumulated after-tax loss, which was recorded in accumulated other comprehensive income (loss). For the years ended December 31, 2005, 2004 and 2003, after-tax losses of \$1 million, \$7 million and \$8 million, respectively, were recorded in earnings related to foreign currency cash flow hedges that matured during the respective periods. Changing market conditions will impact the actual amounts recorded to earnings during the following twelve-month periods. Both the effective and ineffective portions of foreign currency cash flow hedges recorded in the Consolidated Statements of Operations are classified in other income, net.

As of December 31, 2005 and 2004, we maintained hedge positions of immaterial amounts that were effective as foreign currency cash flow hedges from an economic perspective but did not qualify for hedge accounting under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Such hedges consisted primarily of emerging market foreign currency option and forward contracts, and have been marked-to-market through income, with an immaterial impact on earnings.

Asset and liability hedging

We contract with counterparties to buy and sell foreign currencies to offset the impact of exchange rate changes on recognized assets and liabilities denominated in non-functional currencies, including inter-company loans. These contracts generally require exchange of one foreign currency for another at a fixed rate at a future date. These contracts have maturities generally less than twelve months. All contracts are marked-to-market at each balance sheet date with changes in fair value recorded in other income, net. For the year ended December 31, 2005, an after-tax loss of \$23 million was recorded in earnings for these contracts. This loss was largely offset by gains resulting from the impact of changes in exchange rates on recognized assets and liabilities denominated in non-functional currencies. In the years ended December 31, 2004 and 2003, after-tax gains of \$6 million and \$13 million, respectively, were recorded in earnings for these contracts. These gains were largely offset by losses resulting from the impact of changes in exchange rates on recognized assets and liabilities denominated in non-functional currencies.

Net investment hedging

We utilize foreign exchange forward and currency collar contracts together with non-dollar borrowings to hedge the dollar values of our net investments in foreign operating units in Europe, Japan and Canada. These derivative instruments and non-dollar borrowings are designated as hedges of net investments. Accordingly, the effective portions of foreign exchange gains or losses on these hedges are recorded as part of the cumulative translation adjustment, which is part of accumulated other comprehensive income (loss). As of December 31, 2005, \$66 million in after-tax losses were recorded in cumulative translation adjustment representing the effective portions of foreign exchange losses on these hedges. Of this amount, \$34 million in after-tax losses at December 31, 2005 was related to long-term Euro and Japanese Yen borrowings and the remainder was related to exchange forward and currency collar contracts. As of December 31, 2004, \$140 million in after-tax losses were recorded in cumulative translation adjustment representing the effective portions of foreign exchange losses on these hedges. Of this amount, \$54 million in after-tax losses at December 31, 2004 was related to long-term Euro and Japanese Yen borrowings and the remainder was related to exchange forward and currency collar contracts.

Total derivative and non-functional currency liabilities designated as hedges of net investments outstanding at December 31, 2005 were \$1,259 million compared to \$576 million outstanding at December 31, 2004. The majority of the increase is due to additional hedging to reduce our exposure related to our European net investments.

Included in other comprehensive income as cumulative translation adjustment were gains of \$12 million and \$25 million for the years ended December 31, 2005 and 2004, respectively, all net of related hedge gains and losses.

In 2001, we entered into interest rate swap agreements with a notional value of \$950 million, which converted the fixed rate components of the \$451 million notes due July 15, 2004 and the \$500 million notes due July 15, 2009 to a floating rate based on three-month LIBOR. During December 2003, we redeemed the \$451 million notes early, and terminated the related interest rate swap agreements with a \$450 million notional value. During May 2004, we terminated the \$500 million notional value interest rate swap agreements and received \$43 million in proceeds. These proceeds were being amortized as reductions to interest expense over the remaining life of the \$500 million notes. During March 2005, we redeemed \$400 million of the notes maturing on July 15, 2009. The unamortized portion of the related interest rate swap proceeds reduced the early retirement loss that was recorded with respect to this redemption.

During October 2003 and May 2004, we entered into interest rate swap agreements with a notional value totaling 400 million Euro, which converted the fixed rate components of 400 million Euro notes due March 9, 2007 to a floating rate based on six-month EURIBOR. In September 2005, we terminated 240 million Euro of these interest rate swap contracts in connection with an exchange whereby we retired 240 million Euro of the notes due March 9, 2007 in exchange for newly issued notes due September 15, 2012. The \$3 million proceeds received from the termination of the interest rate swap contracts are being amortized as a reduction to interest expense over the 7-year life of the newly issued Euro-notes.

The changes in fair value of interest rate swap agreements are marked-to-market through income together with the offsetting changes in fair value of the underlying notes using the short cut method of measuring effectiveness. As a result, the carrying amount of these notes was increased by \$1 million at December 31, 2005 and \$4 million at December 31, 2004, while the fair value of the swap agreements was reported as other assets in the same amount.

In September 2005, we entered into a LIBOR rate lock agreement with a bank to hedge against changes in long-term interest rates in anticipation of a long-term debt issuance, a cash flow hedge. As of December 31, 2005, \$1 million of after-tax deferred net gains on the interest rate lock are accumulated in other comprehensive income (loss) and is expected to be reclassified into earnings upon issuance of the long-term debt. Changing market conditions will impact the actual amounts recorded to earnings upon issuance of the long-term debt.

(in millions) Gains/Losses	Foreign Currency Translation		Hedges of Net Investment		Cumulative Translation Adjustment	
	Impact on Net Investment	Investment	Investment	Adjustment	Investment	Adjustment
Balance as of December 31, 2003	\$ 144	\$ 21	\$ 144	\$ 21	\$ 22	\$ 3
Changes in fair value	\$ (122)	\$ (18)	\$ (122)	\$ (18)	\$ 25	\$ 25
Balance as of December 31, 2004	\$ 22	\$ 3	\$ 22	\$ 3	\$ (67)	\$ (51)
Changes in fair value	\$ 76	\$ 76	\$ 76	\$ 76	\$ 76	\$ 76
Balance as of December 31, 2005	\$ 98	\$ 79	\$ 98	\$ 79	\$ 9	\$ 25

The amounts that were considered ineffective on these net investment hedges were recorded in interest expense. Interest expense was decreased by \$9 million, \$1 million and \$1 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Commodity Hedges

We use commodity swap, option and collar contracts to reduce the effects of changing raw material prices. These contracts are designated and accounted for as cash flow hedges. The notional value of commodity hedges outstanding at December 31, 2005 and 2004 was \$25 million and \$34 million, respectively.

Included in accumulated other comprehensive income (loss) at December 31, 2005 and 2004 are an immaterial amount and \$1 million in after-tax gains, respectively, which represents the accumulated market value changes in those outstanding commodity swap, option and collar contracts. These contracts are considered highly effective as hedges and will mature consistent with our purchases of the underlying commodities during the following twenty-four month period. The actual amounts to be recorded in earnings when these contracts mature will depend upon spot market prices when these contracts mature. For the years ended December 31, 2005, 2004 and 2003, \$6 million, \$3 million and \$5 million in gains, respectively, were recorded as components of costs of goods sold with the related tax effect recorded in tax expense with respect to those commodity swap, option and collar contracts maturing during the same periods.

Interest Rate Hedges

To reach a desired level of floating rate debt we utilize interest rate swap agreements to convert specific fixed rate debt issuances into variable rate debt. These interest rate swaps are designated as fair value hedges.