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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934**
For the transition period from ______ to ______
Commission file number 1-5263
THE LUBRIZOL CORPORATION
(Exact name of registrant as specified in its charter)

OHIO	34-0367600
(State of incorporation)	(I.R.S. Employer Identification No.)

29400 Lakeland Boulevard
Wickliffe, Ohio 44092-2298
(Address of principal executive officers, including zip code)
Registrant s telephone number, including area code: (440) 943-4200
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares without par value	New York Stock Exchange
Common Share purchase rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES þ NO o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES o NO þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
Aggregate market value (on basis of closing sale price) of voting stock held by nonaffiliates as of June 30, 2005: $2,843,562,588.
Number of the registrant s Common Shares, without par value, outstanding as of February 15, 2006: 68,212,054.

Documents Incorporated by Reference

Portions of the registrant s 2005 Annual Report to its shareholders (Incorporated into Part I and II of this Form 10-K)
Portions of the proxy statement for the 2006 Annual Meeting of Shareholders (Incorporated into Part III of this Form 10-K)

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PART I

ITEM 1. BUSINESS

References to Lubrizol , the company , we , us or our refer to The Lubrizol Corporation and its subsidiaries, except where the context makes clear that the reference is only to The Lubrizol Corporation itself and not its subsidiaries.

Overview

We are an innovative specialty chemical company that produces and supplies technologies that improve the quality and performance of our customers products in the global transportation, industrial and consumer markets. Our business is founded on technological leadership. Innovation provides opportunities for us in growth markets as well as advantages over our competitors. From a base of approximately 1,900 patents, we use our product development and formulation expertise to sustain our leading market positions and fuel our future growth. We create additives, ingredients, resins and compounds that enhance the performance, quality and value of our customers products, while minimizing their environmental impact. Our products are used in a broad range of applications, and are sold into stable markets such as those for engine oils, specialty driveline lubricants and metalworking fluids, as well as higher growth markets such as personal care and over-the-counter pharmaceutical products and performance coatings and inks. Our specialty materials products are also used in a variety of industries, including the construction, sporting goods, medical products and automotive industries.

We are an industry leader in many of the markets in which our product lines compete. We also produce products with well-recognized brand names, such as Anglamol® (gear oil additives), Carbopol® (acrylic thickeners for personal care products), Estane® (thermoplastic polyurethane) and TempRite® (engineered polymers resins and compounds used in plumbing, industrial and fire sprinkler systems).

We are geographically diverse, with an extensive global manufacturing, supply chain, technical and commercial infrastructure. We operate facilities in 27 countries, including production facilities in 20 countries and laboratories in 11 countries, in key regions around the world through the efforts of approximately 7,500 employees. We derived approximately 49% of our consolidated total revenues from North America, 27% from Europe, 18% from the Asia/Pacific and the Middle East region and 6% from Latin America. We sell our products in more than 100 countries and believe that our customers recognize and value our ability to provide customized, high quality, cost-effective performance formulations and solutions worldwide. We also believe our customers value highly our global supply chain capabilities.

Our consolidated results for the year ended December 31, 2005 included total revenues of $4,042.7 million and net income of $189.3 million. We have generated consistently strong cash flows from our diverse product lines, leading market positions, disciplined capital expenditure programs and working capital management. We believe our strong cash flow will enable us to maintain our leading market positions and to invest in targeted growth strategies while continuing to reduce indebtedness.

Our principal executive offices are located at 29400 Lakeland Boulevard, Wickliffe, Ohio 44092-2298 and our telephone number is 440-943-4200. Our website is located at *www.lubrizol.com*. Information contained on our website does not constitute part of this Form 10-K. We make available free of charge on our website the annual report on Form 10-K, the quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file or furnish the material to the Securities and Exchange Commission.

Acquisition History

In the 1980s, growth in demand for lubricant additives slowed as innovations in engine design and improved lubricant performance extended the service intervals between required lubricant changes. We responded to this decline in the lubricant additive growth rate by expanding into new markets.

Our initial expansion efforts focused on discovering new applications for our additive chemistry. We also began making selective acquisitions driven by our desire to gain access to new market channels as well as to higher growth, adjacent markets such as coating additives and metalworking fluids. During the 1990s and through the end of 2000, we completed 16 acquisitions. In aggregate, the annual revenues of these companies at the time of purchase totaled approximately $270.0 million. The largest was the acquisition of BP p.l.c. s lubricant additive business, which we consolidated into our existing operations.

In 2000, we established a vision for growth that renewed our strategy to grow our business by broadening our end-market focus beyond our traditional lubricant additive markets. To measure our progress toward achieving our vision, we established aggressive revenue and profitability goals. A key element of our strategy was organic growth through continued product innovation and new formulations for new end markets.

We also increased our efforts to make larger, profitable acquisitions. Among the areas targeted for growth through acquisitions were personal care ingredients and coating additives. These areas fit our strength in surface-active chemistry and product innovation. We also introduced new tools and training to improve our ability to complete acquisitions successfully, including refinements to our due diligence and integration processes. Prior to the acquisition of Noveon International, Inc. (Noveon International) in June 2004, we had made eight other acquisitions since 2000, with aggregate annual revenues of approximately $200.0 million.

By early 2004, we believe we had established the basis for acquiring Noveon International. We had developed significant experience evaluating and integrating acquired businesses and had expanded our presence in the personal care and coatings markets that offered potential for synergies with Noveon International.

The Noveon International Acquisition

On June 3, 2004, we acquired Noveon International, a leading global producer and marketer of technologically advanced specialty materials and chemicals used in the industrial and consumer markets. With the acquisition of Noveon International, we have accelerated our program to attain a substantial presence in the personal care and coatings markets by adding a number of higher-growth, industry-leading products under highly recognizable brand names, including Carbopol, to our already strong portfolio of lubricant and fuel additive products and consumer product ingredients. Additionally, Noveon International has a number of industry-leading specialty materials businesses, including TempRite and Estane engineered polymers, that each generates strong cash flows. We believe that the Noveon International acquisition meets the core tenets of our stated strategy to:

- maintain technology leadership;
- apply our formulation expertise to extend applications into new markets; and
- expand the global breadth of our businesses.

We expect the diversity of our combined businesses, customer base and end markets to provide greater stability for our operations, and to generate strong cash flow from operations to reduce indebtedness while also pursuing selective future growth opportunities.

During 2005, we continued to integrate the Noveon International acquisition ahead of schedule. We originally established a target of $40.0 million in annual cost savings from the integration of Noveon International that we expected to achieve by reducing costs of raw materials and outside services through purchasing synergies, rationalizing manufacturing operations and consolidating corporate functions, and repositioning our commercial development activities. We realized pre-tax savings of approximately $40.0 million in 2005, which is two years ahead of schedule. In addition, we believe we currently are saving at an annual run-rate of approximately $45.0 million as compared to our original run-rate target of $40.0 million. Longer term, we seek to grow revenues and profits by pursuing cross-marketing opportunities, leveraging our geographical infrastructure, enhancing product development capabilities and further streamlining operations. For example, Lubrizol s stronger position in the European coatings market has been combined with Noveon International s greater share of the North American coatings market to increase the cross-marketing opportunities for our products.

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Divestitures

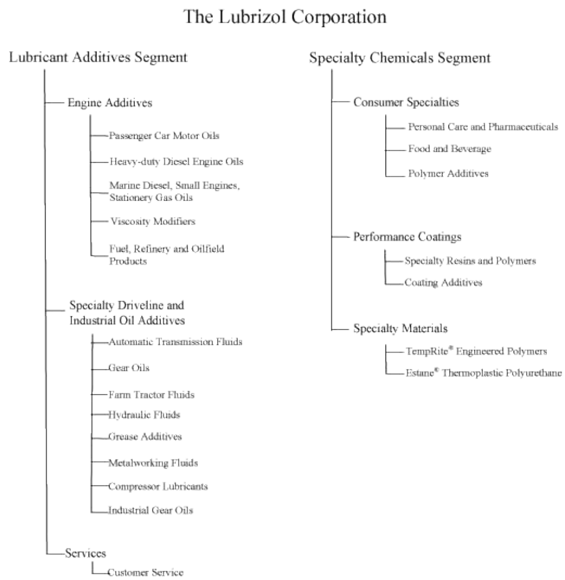
In conjunction with the integration of Noveon International, we have also made progress in our plan to divest non-core businesses. In December 2005, we sold certain assets, liabilities and stock of our Engine Control Systems (ECS) business, with facilities located in Canada, the United States and Sweden. In September 2005, we sold certain assets and liabilities of our U.S. and U.K. Lubrizol Performance Systems (LPS) operations. Both of these businesses had been included in the Lubricant Additives segment.

In November 2005, we signed a definitive sale agreement for the sale of certain assets and liabilities related to our Telene® resins business, which was part of the Specialty Chemicals segment. We completed this sale on February 3, 2006.

Business Segments

We are organized into two operating and reporting segments: Lubricant Additives and Specialty Chemicals. The Lubricant Additives segment, also referred to as Lubrizol Additives, represents 56% of our 2005 consolidated revenues and is comprised of our businesses in engine additives, specialty driveline and industrial oil additives and services. The Specialty Chemicals segment, also referred to as the Noveon segment, represents 44% of our 2005 consolidated revenues and is comprised of the businesses of the acquired Noveon International and our former performance chemicals product group.

The following chart summarizes the product groupings within each of our key product lines.



Lubricant Additives Segment

The Lubricant Additives segment is the leading global supplier of additives for transportation and industrial lubricants. We pioneered the development of lubricant additives over 75 years ago and continue to maintain leadership in the approximately $7.0 billion industry today. Our customers rely on our products to improve the performance and lifespan of critical components, such as engines, transmissions and gear drives for cars, trucks, buses, off-highway equipment, marine engines and industrial applications.

For the year ended December 31, 2005, the Lubricant Additives segment generated revenues of $2,280.1 million and segment operating income of $266.6 million.

Our products serve to increase cost-effectiveness by reducing friction and heat, resisting oxidation, minimizing deposit formation, and preventing corrosion and wear. Through our in-house research, development and testing programs, we have the capability to invent and develop a broad range of proprietary chemical components, including antioxidants, anti-wear agents, corrosion inhibitors, detergents, dispersants, friction modifiers and viscosity modifiers. We formulate proprietary additive packages by combining these different components to create unique products targeting specific customer problems. We are recognized by our customers for innovative technology, the broadest product line and high-quality products. Our key components of our additive packages include:

antioxidants that retard oil thickening;

anti-wear agents that prevent surfaces metal-to-metal contact;

corrosion inhibitors that prevent rust;

detergents that prevent deposit build-up;

dispersants that protect equipment by suspending contaminant particles;

friction modifiers that control friction at surfaces;

polymer-based viscosity modifiers that allow lubricants to operate over broad temperature ranges; and

pour point depressants that control low temperature fluid thickening.

Our products are essential to the performance of the finished lubricant, yet represent a relatively small portion of its volume. Our products are often designed to meet specific customer requirements. For example, we work with customers to develop additive packages that perform in combination with their proprietary base oil or that meet their marketing objectives to differentiate their lubricant. Extensive testing is conducted in our world-class laboratories, global mechanical testing facilities and in the field to determine additive performance under actual operating conditions. With this testing, we provide proof of performance, which enables our customers to label and certify the lubricant as meeting the exact performance specifications required for these products by the industry. The majority of our products are designed to meet an industry standard or specification.

During 2005, we had three primary product lines within our Lubricant Additives segment: engine additives, specialty driveline and industrial oil additives, and services.

Engine Additives. Our engine additives products hold a leading global position for a wide range of additives for passenger car, heavy-duty diesel, marine diesel, stationary gas and small engines. We also produce fuel additives and refinery and oilfield products. Our customers, who include major global and regional oil companies, refineries and specialized lubricant producers and marketers, blend our additive products with their base oil and distribute the finished lubricant to end users via retail, commercial or vehicle original equipment manufacturer (OEM) channels. Passenger car motor oils and diesel engine oils are more than 80% of our engine additive sales. In 2005, our engine additives products generated total revenues of $1,404.4 million.

The following is a list of representative uses for and a description of our engine additives products:

Category	Product/Brand	Description
Engine Additives	Passenger car motor oils, heavy-duty diesel engine oils, marine diesel, small engines, stationery gas and viscosity modifiers	Additives that extend engine life, lower emissions and enhance fuel economy.
	Fuel, refinery and oilfield products and other components	Additives designed to eliminate deposits and provide fuel system cleanliness, prevent rust and corrosion, enhance fuel economy, provide anti-knock, lower volatility and improve storage stability.

Specialty Driveline and Industrial Oil Additives. We are a global supplier of specialty driveline and industrial oil additive products for use in driveline and industrial applications. In 2005, our specialty driveline and industrial oil additives products generated total revenues of $835.2 million.

Specialty Driveline Additives

Our specialty driveline additives products include additives for automatic transmission oils and gear oils for cars, trucks, buses, off-highway equipment and farm tractors. Relative to engine oils, specialty driveline additives are more complex formulations that carry higher average pricing and value and have longer product life cycles. We sell our products to major global and regional oil companies, specialized lubricant producers and marketers. Our customers use our products to blend with their lubricant fluids and distribute the finished lubricant to end users via retail, commercial or vehicle OEM channels. The specialty driveline additives industry is characterized by well-established product lines that meet OEM specifications and carry OEM approvals.

Industrial Oil Additives

Our industrial oil additives products include additives for hydraulic lubricants, metalworking fluids, industrial gear oils and grease, as well as compressor lubricants. We sell our products to major global and regional oil companies, specialized lubricant producers and marketers. Our customers use our products to blend with their fluid products and distribute the finished lubricant to end users via retail, commercial or OEM channels. Because our products are sold to industrial end-markets, our industrial oil additives products are exposed to economic cycles more than other products within the Lubricant Additives segment.

The following is a list of representative uses for and a description of our specialty driveline and industrial oil additives products:

Category	Product/Brand	Description
Specialty Driveline and Industrial Oil Additives	Driveline additives for automatic transmission fluids, gear oils and farm tractor fluids	OEM-specific additives that provide multiple and complex performance properties, including reducing friction in order to prevent wear of transmissions, gears and farm tractor components.
	Additives for industrial fluids, including hydraulics, metalworking, industrial gear, grease and compressor fluids	A wide range of additives to meet the lubricant performance requirements of industrial equipment.

Services. This product line includes custom blending of finished lubricants and training services for oil company customers. In 2005, services generated total revenues of $40.5 million. The custom blending and training services support this segment s other two product lines.

Specialty Chemicals Segment

The Specialty Chemicals segment represents a diverse portfolio of performance chemicals used in consumer and industrial applications, such as ingredients for personal care and pharmaceutical products, food and beverage products, emulsions and additives for coatings and inks, and specialty plastics and materials.

For the year ended December 31, 2005, the Specialty Chemicals segment generated revenues of $1,762.6 million and segment operating income of $193.6 million.

We have three primary product lines within our Specialty Chemicals segment: consumer specialties, performance coatings and specialty materials.

Consumer Specialties. We are a global producer of specialty chemicals targeting the personal care, pharmaceutical and food and beverage industries and a leading provider of engineered adhesives, polymer additives and specialty emulsifiers. Key products include Carbopol acrylic thickeners, film formers, fixatives, emollients, silicones, botanicals, over-the-counter pharmaceutical ingredients and intermediates, process chemicals, benzoate preservatives, fragrances, defoamers, synthetic food and technical dyes, rubber and lubricant antioxidants and rubber accelerators. In 2005, our consumer specialties products generated total revenues of $738.2 million.

Personal Care and Pharmaceuticals

We are a global producer of specialty chemicals targeting the personal care and pharmaceutical industries. Our products impart physical and sensory properties, such as texture, stability and thickness to products, including lotions, shampoos, hair gels, cosmetics and personal and oral hygiene products. Key products in this area include selected functional specialties and formulation additives such as specialty surfactants, methyl glucoside and lanolin derivatives, and Carbopol acrylic thickeners, film formers and fixatives. Our products are an important component of the functionality and aesthetics of the end product, but typically represent a small portion of the customer s total product costs. Key product families include:

Carbopol acrylic thickener, which is a global leader in synthetic thickeners due to its efficient stabilizing properties and superior thickening capabilities. Primary end-uses in the personal care industry include hair care, skin care and personal and oral hygiene products. Pharmaceutical primary end-uses include topical and controlled-release applications.

Methyl glucoside and lanolin derivatives that enhance the functional and aesthetic properties of personal care products by delivering characteristics such as emulsification, thickening and moisturizing, as well as imparting the elegant feel to lotions and creams.

AMPS® specialty monomers that are used in the manufacture of polymers for a variety of applications such as dishwashing detergents to reduce spotting, skin creams to improve lubricity and feel, medical gels for defibrillator pads to enhance conductivity, and coatings and adhesives to improve adhesion.

Specialty surfactants and additives that enhance the functional and aesthetic properties of personal care products and household and industrial cleaners by improving characteristics such as foaming, cleansing, conditioning and mildness. Surfactants primarily are used in hair care products, such as shampoos and body washes.

Recent acquisitions have extended our product breadth in personal care. In September 2003, we purchased personal care ingredients product lines from Amerchol Corporation, a subsidiary of The Dow Chemical Company. In October 2003, Noveon International purchased a controlling interest in SNP, a Thailand-based manufacturer and marketer of botanical extracts used in personal care product formulations. In January 2004, Noveon International purchased Scher Chemicals, Inc., a manufacturer of emollient and surfactant specialty chemicals used in cosmetic and other personal care formulations.

The following is a list of representative uses for and a description of our personal care and pharmaceuticals products:

Category	Product/Brand	Description
Personal Care and Pharmaceuticals	Carbopol®	Acrylic thickener, which imparts stability and improves aesthetics. Often used as a controlled release agent.
	Pemulen®	Polymeric emulsifier reducing formulation irritancy and providing unique sensory properties.
	Avalure®	Polymers for color cosmetics and skin care.
	Specialty silicones	Polymers affecting slip-and-feel.
	Fixate	Resin for hair styling.
	Emollients	Improve skin feel and appearance.
	Colorants	Impart color in personal care products.
	Botanical extracts	Specialty additives for cosmetic and skin care formulations.
	Methyl glucoside derivatives, including Glucamate®	Natural thickeners, emulsifiers and moisturizers for shampoos, liquid cleansers, face and body creams and lotions.
	Lanolin derivatives	Natural emollients, emulsifiers and conditioners for creams, lotions and color cosmetics.
	AMPS® monomers	Specialty monomer for high performance polymers.
	Specialty surfactants, including Sulfochem®	Enhance cleansing, foaming and moisturizing of shampoos, body washes and industrial and household cleaners.

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Category	Product/Brand	Description
	Polycarbophil	Active agent for bulk laxatives.
	Amino acid-based actives	Over-the-counter ingredients for pharmaceuticals.
	Advanced intermediates	Used in the production of over-the-counter pharmaceutical ingredients.
	Cassia gum	Gelling agents for human food (Japan) and pet food.

Food and Beverage

We are a supplier of products that preserve freshness and improve the color and consistency of food and beverages, making them more appealing to consumers. We are a leading global producer of benzoate preservatives, a leading U.S. supplier of synthetic colorants and an integrated producer of flavors, fragrances and other food additives to the food and beverage industry. Benzoates improve the shelf life of consumable goods and are the preservative of choice for manufacturers of soft drinks, bottled beverages, fruit-based products and prepared salads due to their antimicrobial properties. We believe that our Kalama, Washington benzoate facility is the largest facility of its type in North America and the second largest in the world, giving us the capability to serve large customers globally. This facility also produces a number of high-value, distinct flavor and fragrance products for use in many food and personal care products as well as certain intermediate products. The intermediate products include plasticizers used in adhesives, sealants and safety glass, and phenol, a co-product, used for adhesive resins in forest-product applications.

We consolidated a series of small acquisitions that supply foam control agents, which reduce the amount of foam generated in a variety of industrial processes. Our antifoam and defoaming agents are based on a wide variety of chemistries, including silicone. We specialize in defoamers and antifoam agents for the food processing, fermentation, grain and sugar-sweetener industries, as well as for the metalworking, coatings, ink, textile, pharmaceutical, water treatment, mining and pulp and paper industries.

We also sell a full line of FDA-approved food, drug and cosmetic primary dyes (including blends of primary dyes), as well as lakes and natural colors. Primary end-uses for our products within food and beverage applications include soft drinks and processed foods, such as canned soup and pre-made meals. In addition, within the colorant operation, we produce pigment dispersions for use in architectural coatings and technical dyes used in household dyes and other applications. We also sell defoamer and antifoam additives that are used in food applications to manage the level of foaming that occurs.

The following is a list of representative uses for and a description of our food and beverage products:

Category	Product/Brand	Description
Food and Beverage	***Colors***	
	Food, drug and cosmetic dyes, lakes, natural colors and pigments	Colorants for beverages, confectionary goods, cosmetics, dry mixes/snacks, processed foods and pet food and colorants for inks, paints and paper dyes.
	Benzoates	
	Sodium benzoate and potassium benzoate	Improves shelf life for certain consumable goods. Preservative for manufacturers of soft drinks, bottled beverages, fruit-based products and prepared salads.
	Flavors and Fragrances	
	Benzaldehyde-based chemicals	Food, personal care and soap products.

Category	Product/Brand	Description
	Intermediates	
	Phenol, benzaldehyde, benzyl alcohol and benzoic acid	Pharmaceuticals, coatings, agrochemical products, plasticizers, adhesives, sealant products and alkyd resins.
	Foam Control Agents	
	Silicone and other chemistries	Reduce foam in processing of food, grain, fermentation and a wide range of industrial products.

Polymer Additives

We are a leading global supplier of reactive liquid polymers (RLP) sold under the trademark Hycar®, and one of the leading North American producers of polymer additives including rubber and lubricant antioxidants and rubber accelerators. Our products in this category extend the life and improve the performance characteristics of rubber, lubricating oil, plastics and thermoset resin-based formulations. RLP is a high-growth niche product for technologically challenging applications, including structural and engineered adhesives used in aerospace, transportation and electronics. RLP improves impact and crack resistance in composites and coatings and improves the toughness and long-term durability of epoxy-based structural adhesives. RLP growth is anticipated to exceed overall growth of the high-end adhesives industry, as the product is increasingly utilized for its superior performance characteristics relative to other binding agents.

Our antioxidant products are used in rubber, plastics and lubricants and are marketed under the Good-Rite® name, a leading industry brand. Antioxidants prevent oxidative degradation and primarily are utilized by rubber manufacturers and, to a lesser extent, plastic manufacturers, to impart durability and prevent the loss of functional attributes such as flexibility. In motor oil and other lubricants, antioxidants prevent thermal breakdown and extend product life. We also manufacture a line of accelerators marketed under our brand Cure-Rite®, which are utilized by rubber manufacturers to reduce the vulcanization/curing time, and thereby improve manufacturing productivity.

The following is a list of representative uses for and a description of our polymer additives products:

Category	Product/Brand	Description
Polymer Additives	***Reactive Liquid Polymer***	
	Hycar®	Used as a toughener and flexibilizer in thermoset resin formulations (construction, composites, coatings and structural adhesives).
	Antioxidants	
	Good-Rite®	Primarily used by rubber manufacturers to prevent oxidative degradations, impart durability and prevent loss of flexibility.
	Accelerators	
	Cure-Rite®	Helps reduce vulcanization/curing time.

Performance Coatings. We are a leading supplier of specialty resins and additives for the coatings and ink markets worldwide. We offer a wide range of products for formulating paints, coatings and inks. In 2005, our performance coatings products generated total revenues of $583.9 million.

Our business strategy for performance coatings is centered on our ability to formulate and compound polymer emulsions to create customized solutions meeting the specific needs of our customers. Many of our coatings customers have expanded their operations around the world. In response, Noveon International expanded its product lines and geographic coverage with a focus on strategic international account customers. We also recognize the importance of middle tier and local customers, who we service economically with our trained local agents and distributor network. Noveon International had success with water-borne acrylic and polyurethane technologies as global restrictions targeting the reduction of the volatile organic compounds prevalent in solvent-based products have become more stringent. We continue to develop innovative products based on these technologies to enhance our portfolio. We expect water-borne formulations to continue to grow faster than the overall industry growth rate for the niche industries in which we participate.

Specialty Resins and Polymers

Our water-based polymer emulsions and dispersions, including resins and auxiliaries, are used in the production of high-end paint and coatings for wood, paper, metal, concrete, plastic, textiles and other surfaces. Our acrylic emulsions and polyurethane dispersions, which are environmentally attractive substitutes for solvent-based and hydrocarbon products, are valued for the superior gloss and durability properties they provide. In addition, our polymers are used as ink vehicles, overprint varnishes and functional coatings for specialty paper, printing and packaging applications. We supply acrylic emulsions used to improve the appearance, texture, durability and flame retardance of high-end specialty textiles sold to the home furnishings, technical fabrics and apparel industries. In addition, we believe we are the only fully integrated U.S. supplier of glyoxal and glyoxal-based resins for durable press and wrinkle-resistant textile additives.

In addition to water-based polymers, we specialize in unique, non-aqueous acrylic and other proprietary polymer resins for the paint and coatings, printing ink, laminating, adhesives and sealants, and grease markets. These value-added Doresco® specialty resins not only function as carriers for pigment, but also provide surface protection and adhesion properties. We work closely with our customers to develop resins that address their specific problems.

The following is a list of representative uses for and a description of our polymer products:

Category	Product-line	Description
Specialty Resins and Polymers	Acrylic Emulsions, Polyurethane Dispersions and Other Water-based Systems, Hycar®, Sancure®, Algan®, Performax®	Provide superior gloss and durability properties to paints and coatings. End markets include wood, paper, metal, concrete, plastic and textiles.
	Acrylic and Other Polymer Resins, Doresco®	Function as carriers for pigments, and provide surface protection and adhesion properties. End-markets include paint and coatings, printing ink, laminating, adhesives and sealants and grease.

Coating Additives

Our additives for coatings and inks are used to enhance the appearance and durability of coatings in architectural and industrial uses, as well as to improve their processing and application characteristics. Additives such as pigment dispersants enhance the processing and performance of printing ink, while also maximizing color strength and stability in coatings and plastics. We expanded this product line by purchasing the additives business of Avecia in January 2004. We are a leading global supplier of surface modifiers that improve the abrasion resistance properties and film characteristics of printing ink and coatings. Our products include:

High-performance hyperdispersants for coatings, inks, thermoplastics and thermoset composites. We are a world leader in polymeric hyperdispersant technology, sold under the Solsperse® and Solplus® trade names. Hyperdispersants improve the dispersion of almost any solid particulate (including pigments, fillers, flame retardants and fibers) into almost any liquid medium (water, solvents and resins). They are primarily used to achieve even color saturation. They enrich and strengthen color, while reducing production costs and solvent emissions. We also produce Ircosperse® pigment dispersants for coatings and COLORBURST pigment dispersants for printing inks.

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Surface modifiers improve the performance of industrial, architectural, can, coil, wood and powder coatings by enhancing and protecting surfaces. Lanco®, Lanco® Glidd, Lanco® Matt and Aquaslip surface modifiers impart a variety of properties to a coating, including enhanced slip, improved abrasion and scratch resistance, matting, texturing and a silky, soft feel.

Rheology control additives improve the performance of coatings by providing thickening, sag control, pigment anti-settling and improved surface appearance. Rheology control additives are sold under the brand names Ircothix®, Ircogel® and Solthix®.

Foam control additives for paints and coatings minimize air bubbles and are sold under the FOAM BLAST® and Antibubble brands.

Specialized additives for inks improve rub resistance properties and film characteristics.

The following is a list of representative uses for and a description of our coating additives products:

Category	Product/Brand	Description
Coating Additives	Dispersants, Solsperse® Ircosperse®, COLORBURST	Improve the dispersion of almost any solid particulate into almost any liquid medium. End-markets include coatings and printing inks.
	Surface Modifiers Lanco®, Lanco® Glidd, Lanco® Matt, Aquaslip	Impart a variety of properties to a coating, including enhanced slip, improved abrasion and scratch resistance, matting, texturing and a silky, soft feel. End markets include industrial, architectural, can and coil, wood and powder coatings.
	Rheology Control Additives, Ircothix®, Ircogel® and Solthix®	Provide thickening, sag control and improved surface appearance of coatings.
	Foam Control Additives, FOAM BLAST® and Antibubble	Minimize air bubbles in paints and coatings.
	Specialized Additives for Inks, Duotron®, Liquitron®, Fluotron®	Improve the processing, performance and rub resistance properties.

Specialty Materials. We are a leading global supplier of engineered polymers (EP) resins and compounds sold under the trademark TempRite. We are also a leading producer of cross-linked polyethylene compounds (PEX) sold under the trademark TempRite. Applications for TempRite resins and compounds include piping for residential and commercial plumbing and fire sprinkler systems. In addition to TempRite, we are also a leading producer of thermoplastic polyurethane (TPU) sold under the trademark Estane. Applications for Estane TPU include plastic film and sheet for various coatings processes. In 2005, the specialty materials product line generated total revenues of $440.5 million.

Engineered Polymers

TempRite EP is a technologically advanced heat, fire and chemical resistant polymer that we developed to serve technically demanding applications not well served by traditional PVC and other commodity plastics. Our TempRite EP are sold to customers who produce plastic piping for residential and commercial plumbing, fire sprinkler systems and industrial piping applications. TempRite EP piping has inherent advantages over copper and other metals due to its heat and corrosion resistance, increased insulation properties, mold resistance, ease of installation and lower installed cost. We market our branded TempRite EP products for specific applications: FlowGuard® and FlowGuard Gold® for residential and commercial plumbing, BlazeMaster® for fire sprinkler systems and Corzan® for industrial piping. We believe we have built strong end-user awareness of our brands by using a sales force that markets directly to builders, contractors, plumbers, architects, engineers and building owners.

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In 2001, Noveon International purchased select assets and technology to manufacture PEX compounds, further used to produce PEX pipe. TempRite PEX enables us to add a flexible piping compound to our rigid piping product offering. TempRite PEX is a small but growing product for applications that demand flexible piping systems.

The following is a list of representative uses for and a description of our EP and PEX products:

Category	Product/Brand	Description
EP	TempRite®	Residential plumbing
	FlowGuard®	Residential and commercial plumbing
	FlowGuard Gold®	Residential and commercial plumbing
	Corzan®	Industrial and commercial piping
	BlazeMaster®	Fire sprinkler piping
PEX	TempRite®	Flexible piping systems

Thermoplastic Polyurethane

Estane TPU, an engineered, highly versatile thermoplastic, provides a high performance alternative to rigid plastics and flexible rubber. Performance attributes of Estane TPU include abrasion, heat and chemical resistance, minimal fatigue from bending, ease of processing and good paintability. These performance characteristics make Estane TPU attractive for use in a broad range of end-uses, including film and sheet for various coating processes, wire and cable insulation, athletic equipment (such as footwear), medical applications, pneumatic tubing and automotive molded parts. Noveon International recently introduced several new product families that extend the uses for Estane TPU. This includes products that can be melt spun into elastic spandex fibers and materials that offer enhanced breathability for garments. We believe that Estane TPU is one of the industry s leading brand names. We also market Stat-Rite® thermoplastics, which are static dissipative materials used in packaging for the electronics industry. In addition, we market fiber-reinforced TPU under the Estaloc® brand. Estaloc reinforced engineering thermoplastics offer the functional properties of traditional TPU, yet are reinforced for higher stiffness to provide the strength, dimensional stability and impact resistance required to withstand a variety of tough applications and harsh environments. Applications include sporting goods, agricultural equipment and other mechanical components.

In October 2003, Noveon International purchased select assets and technology of Thermedics Polymer Products, LLC, a manufacturer of aliphatic TPU, which has allowed us to enter high-value optical film, medical tubing and other applications.

The following is a list of representative uses for and a description of our TPU products:

Category	Product/Brand	Description
TPU	Estane®	Aromatic grades for film and sheet, wire and cable insulation, athletic equipment, medical applications, pneumatic tubing, automotive molded parts and adhesives.
	Estaloc®	Automotive trim, sporting goods, agricultural equipment and other mechanical components.
	Stat-Rite®	Packaging of semiconductors, sensitive electronic components, disk drive heads and cell phone components.
	Tecoflex®	Aliphatic grades for optical film, medical tubing and general industrial applications.

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Competition

Our Lubricant Additives business is highly competitive in terms of price, technology development, product performance and customer service. Our principal competitors, both in the United States and overseas, are: Infineum, a joint venture involving Shell Oil Company and Exxon Mobil Corporation; Chevron Oronite Company, a subsidiary of ChevronTexaco Corporation; and Afton Chemical Corporation, a subsidiary of NewMarket Corporation (formerly Ethyl Corporation). Petroleum companies also produce, either directly or indirectly, lubricants and fuel additives for their own use and also sell additives to others. These petroleum companies also are our customers, and some of them sell raw materials to us. We believe, based on volume sold, that we are a leading supplier of performance additives for lubricants to the petroleum industry.

Our Specialty Chemicals business faces a variety of competitors in each of our product lines, but we believe no single company competes with us across all of our existing product lines. The specialty chemicals industry is highly fragmented. Individual products or service offerings compete on a global, regional and local level due to the nature of the businesses and products, as well as the applications and customers served. The following chart sets forth our principal competitors of the Specialty Chemicals business by product line:

Product Line	**Principal Competitors**
Consumer specialties	Cognis, CP Kelco, Croda, DSM, FMC, Hercules, ISP, Nihon Junkayu, Quest, Rhodia, Rohm and Haas, Sensient, Sigma/3V, Sumitomo Seika, Symrise, Tessenderlo, Velsicol
Performance coatings	Avecia, BASF, Bayer, Byk, Ciba, Clariant, Dow Chemical, Eastman, Johnson Polymer, OMNOVA, Parachem, PolymerLatex, Reichhold, Rohm and Haas, Tego, UCB
Specialty materials	Atofina, BASF, Bayer, Dow, Georgia Gulf, Huntsman, Kaneka, Sekisui Chemical, Victaulic

Sales and Marketing

We primarily market our lubricant and fuel additives products worldwide through our own direct sales organization. In addition, we use sales agents and distributors where necessary. Our additive customers primarily consist of oil refiners and independent oil blenders and are located in more than 100 countries. Our 10 largest customers, most of which are international oil companies and a number of which are groups of affiliated entities, accounted for approximately 35% of our consolidated net sales in 2005.

In order to maximize our understanding of customer needs as well as emerging trends, our sales and marketing activities for our specialty chemicals products are organized by end-use applications. Each sales team includes representatives from sales, marketing and research and development.

Our sales and marketing staff is technically oriented and works closely with customers to develop products and formulations that deliver the desired product attributes. Some of our laboratories are equipped with small-scale equipment that replicates our customers processing capabilities, which ensure our solutions are easily and efficiently implemented at our customers facilities.

Finally, many of our sales and marketing resources are dedicated to stimulating end-use demand for our products. For example, in the case of our TempRite plumbing, fire sprinkler and industrial piping applications, our resources are focused on marketing to building contractors, plumbers, distributors and construction code officials to convince them to specify our products in their projects or building codes.

Research, Development and Technology

Technology leadership in design and formulation of additives and specialty chemicals drives our business. Historically, we have emphasized consistent investment in research. Excluding acquisitions, research and testing expense consistently has been about 8% of sales for the last two decades higher than most chemical companies. We have developed internally a large percentage of the products we manufacture and sell. Our internal technical resources encompass chemical synthesis, world-class physical and analytical science, statistical and computer modeling expertise and extensive applications technology and testing laboratories. We balance centralized research facilities with applications technology capabilities that are closely tied to their counterparts in the commercial organizations. Our technical facilities are located all over the world. We provide tools and processes for knowledge sharing and for leveraging our technology globally and across product lines.

Lubricant Additives. In our Lubricant Additives segment, the majority of the additives we manufacture and sell are developed by our in-house research group. Technological advances in materials and in the design of engines and other automotive equipment, combined with rising demands for environmental protection and fuel economy, require increasingly sophisticated research capabilities to meet industry performance standards.

We have technical facilities in Wickliffe, Ohio; Hazelwood, United Kingdom; and Kinuura, Japan for lubricant additives research. We also conduct a limited program of corporate research designed to leverage technology across our product lines. We maintain mechanical testing laboratories at those three locations, equipped with a variety of gasoline and diesel engines, driveline and other mechanical equipment to evaluate the performance of additives for lubricants and fuels. In addition, we make extensive use of independent research firms. Global field testing is conducted through various arrangements with fleet operators and others.

We maintain offices in Southfield, Michigan; Hazelwood, United Kingdom; Paris, France; Hamburg, Germany; Shanghai, China; Mumbai, India; Tokyo, Japan; and Seoul, South Korea to maintain close contact with the principal automotive OEMs of the world and to keep us abreast of the performance requirements for our products. These liaison activities also serve as contacts for cooperative development and evaluation of products for future applications.

Specialty Chemicals. Our Specialty Chemicals segment has had a long history as an industry innovator, creating proprietary, high-performance materials for our customers, including ingredients for personal care products, the invention of Carbopol acrylic thickener, additives for coatings and the commercial development of TempRite engineered polymers. We have leveraged our core surface activity chemistry into new specialty chemicals and materials markets through acquisitions and application technology expertise. Our specialty chemical and materials products are derived from a broad range of technology platforms developed either internally or externally through licensing, acquisition or joint technological alliances with global suppliers and customers.

Our primary research facility for our Specialty Chemicals segment is located in Brecksville, Ohio, where we develop new technologies and products and conduct applications development and technical service for our customers. We maintain other smaller technical facilities in various locations in the United States, Europe and Asia.

Patents. We own approximately 1,900 patents worldwide relating to our products and manufacturing processes. Although these domestic and foreign patents expire from time to time, we continue to apply for and obtain patent protection for new products on an ongoing basis. We believe that, in the aggregate, our patents constitute an important asset. However, we do not regard our business as being materially dependent upon any single patent or any group of related patents. We use patents in both of our reporting segments.

Research, Testing and Development Expenditures. Our consolidated research and development expenditures were $133.8 million in 2005, $107.4 million in 2004, and $93.3 million in 2003. These amounts were equivalent to 3.3%, 3.4% and 4.6% of the respective consolidated total revenues for those years. These amounts include expenditures for the performance evaluation of additive developments in engines and other types of mechanical equipment as well as expenditures for the development of specialty chemicals for industrial applications. In addition, we spent $71.0 million, $81.5 million, and $72.0 million in 2005, 2004 and 2003, respectively, for technical service (testing) activities, principally for evaluation in mechanical equipment of specific lubricant formulations designed for the needs of petroleum industry customers throughout the world.

Our research and development staff works with both our sales force and customers to use our wide spectrum of technology platforms and processing capabilities to enhance our product offerings in the specialty chemicals industry. We have developed many of our products in cooperation with our customers, often as a result of their specific needs, resulting in long-standing customer relationships.

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Raw Materials

We use a broad variety of specialty and commodity chemical raw materials in our manufacturing processes, and use oil in processing and blending additives. These raw materials are obtainable from several sources. The materials that we choose to purchase from a single source generally have long-term supply contracts as a basis to guarantee supply reliability. For the most part, our raw materials are derived from petroleum and petrochemical-based feedstocks.

Lubricant base oil is our single largest purchased raw material, representing about one-third of our purchases, by weight, for the Lubricant Additives segment. Other major categories of raw materials for the Lubricant Additives segment include olefins and esters (approximately 22% of purchases); inorganic acids, bases and oxides (approximately 11%); and alcohols and glycols (approximately 6%). We believe that raw materials derived from petrochemicals are approximately 80% of our purchases for the Lubricant Additives segment. For our Specialty Chemicals segment, no single raw material represents more than 7% of purchases. The top eight raw materials total about one-third of our purchases for the Specialty Chemicals segment. Principal raw materials for the Specialty Chemicals segment include acrylates for personal care and coatings, styrene for coatings, toluene for food and beverages, and PVC, PTMEG and MDI for specialty materials.

Environmental Matters

We are subject to foreign, federal, state and local laws and regulations designed to protect the environment and limit manufacturing wastes and emissions. We believe that, as a general matter, our policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage and the consequent financial liability to us. Compliance with environmental laws and regulations requires continuing management effort and expenditures. We have incurred, and will continue to incur, costs and capital expenditures to comply with these laws and regulations and to obtain and maintain all necessary permits. We believe that the cost of complying with environmental laws and regulations will not have a material affect on our earnings, liquidity or competitive position, although we cannot provide you assurance in that regard.

We believe that our business, operations and facilities are being operated in compliance, in all material respects, with applicable environmental laws and regulations, many of which provide for substantial fines, penalties and criminal sanctions for violations. The operation of manufacturing plants entails environmental risks, and we may incur material costs or liabilities in the future that could adversely affect us. For example, we may be required to comply with evolving environmental laws, regulations or requirements that may be adopted or imposed in the future or to address newly discovered contamination or other conditions or information that require a response on our part.

Among other environmental laws, we are subject to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (commonly known as Superfund), under which we have been designated as a potentially responsible party that may be liable for cleanup costs associated with various waste or operating sites, some of which are on the U.S. Environmental Protection Agency Superfund priority list. Our experience, consistent with what we believe to be the experience of others in similar cases, is that Superfund site liability tends to be apportioned among parties based upon the contribution of materials to the Superfund site. Accordingly, we measure our liability and carry out our financial reporting responsibilities with respect to Superfund sites based upon this standard, even though Superfund site liability is technically joint and several in nature. We accrue for estimated environmental liabilities with charges to cost of sales. We believe our environmental accrual is adequate to provide for our portion of the costs of all such known environmental liabilities. Based upon consideration of currently available information, we believe liabilities for environmental matters will not have a material adverse affect on our financial position, operating results or liquidity, although we cannot provide you assurance in that regard.

Noveon International is the beneficiary of agreements with Goodrich Corporation (Goodrich) that require Goodrich to indemnify Noveon International for, among other things, certain environmental liabilities and costs relating to facilities of the former Performance Materials Segment of Goodrich. However, we cannot assure you that Goodrich or other third party indemnitors will, in the future, honor their indemnification obligations to us.

Employees

At December 31, 2005, we had approximately 7,500 employees of which approximately 56% were in the United States. We believe that our relationship with our employees is good. Seven of our U.S. sites, and

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approximately 11% of our domestic employees, are organized by labor unions with collective bargaining agreements that are subject to periodic renegotiation. The durations of these collective bargaining agreements vary from three to five years, with one agreement expiring in 2006 and five agreements covering two plants expiring in 2007. We expect to enter into new agreements with these unions as the current agreements expire.

Manufacturing and Properties

We possess global manufacturing, laboratory and sales and technical service facilities enabling us to provide customers with worldwide service and a reliable supply of products. Our corporate headquarters are located in Wickliffe, Ohio. We have manufacturing facilities and laboratories, which we own or lease, at 30 sites in the United States and approximately 41 sites in 19 other countries. We also have entered into long-term contracts for the exclusive use of major marine terminal facilities at various ports and leases for storage facilities. We maintain a capital expenditure program to support our operations and believe our facilities are adequate for our present operations and for the foreseeable future.

Geographic Area Information

Financial information with respect to our domestic and foreign operations is contained in Note 15 to our consolidated financial statements, which is included in our 2005 Annual Report to shareholders, and is incorporated herein by reference.

We supply our customers abroad through exports from the United States and from overseas manufacturing plants. We believe the political and economic risks related to our foreign operations are mitigated due to the stability of the countries in which our largest foreign operations are located.

ITEM 1A. RISK FACTORS

If any of the events contemplated by the following discussion of risks should occur, our business, results of operations and financial condition could suffer significantly. The risks described below are not the only risks that we face. Additional risks not currently known to us or that we currently deem immaterial may also impair our business.

Financial Risks

The limits imposed on us by the restrictive covenants contained in our credit facilities could prevent us from making acquisitions or capital improvements or cause us to lose access to these facilities.

Our existing credit facilities contain restrictive covenants that limit our ability to, among other things:

- borrow money or guarantee the debts of others;
- use assets as security in other transactions;
- make investments or other restricted payments or distributions;
- change our business or enter into new lines of business; and
- sell or acquire assets or merge with or into other companies.

In addition, our credit facilities require us to meet financial ratios, including debt to consolidated EBITDA (as defined in the credit facility) and consolidated EBITDA (as defined in the credit facility) to interest expense. These restrictions could limit our ability to plan for or react to market conditions or meet extraordinary capital needs and could otherwise restrict our financing activities.

Our ability to comply with the covenants and other terms of our credit facilities will depend on our future operating performance. If we fail to comply with such covenants and terms, we will be in default and the maturity of the related debt could be accelerated and become immediately due and payable. We may be required to obtain waivers from our lenders in order to maintain compliance under our credit facilities, including waivers with respect to our compliance with certain financial covenants. If we are unable to obtain any necessary waivers and the debt under our credit facilities is accelerated, our financial condition would be adversely affected.

We may not have access to capital in the future.

We may need new or additional financing in the future to expand our business or refinance existing indebtedness. If we are unable to access capital on satisfactory terms and conditions, we may not be able to expand our business or meet our payment requirements under our existing credit facilities. Our ability to obtain new or additional financing will depend on a variety of factors, many of which are beyond our control. We may not be able to obtain new or additional financing because we have substantial debt or because we may not have sufficient cash flow to service or repay our existing or future debt. In addition, depending on market conditions and our financial performance, equity financing may not be available on satisfactory terms or at all.

We could be adversely affected if our debt is downgraded.

Our ability to complete offerings of debt securities on satisfactory terms in the future will depend on the status of our credit rating. The current rating of our senior unsecured long-term indebtedness is BBB- by Standard & Poor s Ratings Group (S&P) and Baa3 by Moody s Investors Service, Inc. (Moody s). Either S&P or Moody s or both may downgrade our credit rating at any time, which would make it more difficult to complete offerings of debt securities on satisfactory terms and generally would result in increased future borrowing costs and adversely affect our access to capital.

Risks Relating to our Business

Increases in raw material prices could reduce our profitability and reductions in the availability of raw material supplies could disrupt our operations.

Some of the raw materials that we use are derived from petrochemical-based feedstocks, such as crude oil and natural gas, which have been subject to historical periods of rapid and significant movements in price. These fluctuations in price could be aggravated by political instability, terrorist attacks or other hostilities in oil-producing countries or elsewhere in the world, and supply and demand factors, including OPEC production quotas and increased global demand for petroleum-based products. We also use natural gas as fuel at our facilities, and increases in the price of natural gas may reduce our profitability. Any significant variations in the cost and availability of our specialty and commodity materials or energy may negatively affect our business, financial condition or results of operations. We typically do not enter into hedging arrangements with respect to raw materials or energy, other than for natural gas and electricity. We selectively pass changes in the prices of raw materials to our customers from time to time. However, we cannot always do so, and any limitation on our ability to pass through any price increases could affect our financial performance.

We use significant quantities of a variety of specialty and commodity chemicals in our manufacturing processes, such as lubricant base oils (a derivative of crude oil); C4 feedstreams; acrylates; toluene; PVC; inorganic acids, bases and oxides; alcohols, glycols and polyols; olefins and esters; sulfonates; phenates; alkylates; sulfonic acids; and amines. These raw materials generally are available from numerous independent suppliers. However, some of our raw material needs are met by a sole supplier or only a few suppliers. If any supplier that we rely on for raw materials ceases or limits production, we may incur significant additional costs, including capital costs, in order to find alternate, reliable raw material suppliers. We may also experience significant production delays while locating new supply sources.

We face competition from other chemical companies, which could adversely affect our revenue and financial condition.

We actively compete with companies producing the same or similar products and, in some instances, with companies producing different products designed for the same uses. We encounter competition in price, delivery, service, performance, product innovation and product recognition and quality, depending on the product involved. For some of our products, our competitors are larger and have greater financial resources and less debt than we do. As a result, these competitors may be better able to withstand a change in conditions within the industries in which we operate, a change in the prices of raw materials or a change in the economy as a whole.

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Our competitors can be expected to continue to develop and introduce new and enhanced products, which could cause a decline in market acceptance of our products. Current and future consolidation among our competitors and customers also may cause a loss of market share as well as put downward pressure on pricing. Additionally, a number of our niche product applications are customized or sold for highly specialized uses. Our competitors could cause a reduction in the prices for some of our products as a result of intensified price competition. Competitive pressures can also result in the loss of major customers. If we cannot compete successfully, our business, financial condition and consolidated results of operations could be adversely affected.

Failure to make continued improvements in our technology and productivity could hurt our competitive position.

We believe that we must continue to enhance our existing products and to develop and manufacture new products with improved capabilities in order to continue to be a market leader. We also believe that we must continue to make improvements in our productivity in order to maintain our competitive position. When we invest in new technologies, processes or production facilities, we face risks related to construction delays, cost over-runs and unanticipated technical difficulties. Our inability to anticipate, respond to or utilize changing technologies could have a material adverse effect on our business and our consolidated results of operations.

Our and our suppliers production facilities are subject to operating risks that may adversely affect our operations.

We are dependent upon the continued safe operation of our and our suppliers production facilities. These production facilities are subject to hazards associated with the manufacture, handling, storage and transportation of chemical materials and products, including leaks and ruptures, explosions, fires, inclement weather and natural disasters, unscheduled downtime and environmental hazards. Incidents at our or our suppliers production facilities could temporarily shut down or otherwise disrupt our manufacturing operations, causing production delays and, with respect to our facilities, resulting in liability for workplace injuries and fatalities. In addition, some of our and our suppliers production facilities are highly specialized, which limits our ability to shift production to other facilities in the event of an incident at a particular facility. If a production facility, or a critical portion of a production facility, were temporarily shut down, we likely would incur higher costs for alternate sources of supply for our products. Some of our products involve the manufacture and/or handling of a variety of reactive, explosive and flammable materials. Use of these products by our customers also could result in liability if an explosion, fire, spill or other accident were to occur. We cannot assure you that we will not experience these types of incidents in the future or that these incidents will not result in production delays or otherwise have a material adverse effect on our business, financial condition or results of operations.

Some of our businesses are cyclical and demand by our customers for our products weakens during economic downturns.

A portion of our product sales is attributable to industries and markets, such as the construction and metalworking industries, that historically have been cyclical and sensitive to relative changes in supply and demand and general economic conditions. The demand for our products depends, in part, on the general economic conditions of the industries or national economies of our customers. Downward economic cycles in our customers industries or countries may reduce sales of some of our products. It is not possible to predict accurately the factors that will affect demand for our products in the future. Any significant downturn in the health of the general economy, either globally or regionally, or the markets in which we sell products could have an adverse effect on our revenues and financial performance.

We face numerous risks relating to our foreign operations, including foreign currency exchange rate fluctuations, exchange controls and currency devaluations, that may adversely affect our results of operations.

Approximately 31.4% of our consolidated revenues in 2005 was generated in currencies other than the U.S. dollar, which is our reporting currency. We recognize foreign currency transaction gains and losses arising from our operations in the period incurred. As a result, currency fluctuations between the U.S. dollar and the currencies in which we do business have caused and will continue to cause foreign currency transaction gains and losses, which historically have been material and could continue to be material. We cannot predict the effects of exchange rate fluctuations upon our future operating results because of the number of currencies involved, the variability of currency exposures and the potential volatility of currency exchange rates. We take actions to manage our foreign currency exposure such as entering into hedging transactions, where available, but we cannot assure you

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that our strategies will adequately protect our consolidated operating results from the effects of exchange rate fluctuations.

We also face risks arising from the imposition of exchange controls and currency devaluations. Exchange controls may limit our ability to convert foreign currencies into U.S. dollars or to remit dividends and other payments by our foreign subsidiaries or businesses located in or conducted within a country imposing controls. Currency devaluations result in a diminished value of funds denominated in the currency of the country instituting the devaluation and, if they occur or continue for significant periods, could adversely affect our earnings or cash flow.

International social, political and economic conditions may adversely affect our operating performance.

Our international operations are also subject to the risk of labor unrest, regional economic uncertainty, political instability, terrorism, expropriation of property, restrictions on the transfer of funds into or out of a country, trade restrictions, export duties, taxes and quotas, domestic and foreign customs and tariffs, and current and changing regulatory environments. Any of these events could have an adverse effect on our international operations in the future by reducing the demand for our products, increasing the prices at which we can sell our products or otherwise having an adverse effect on our operating performance.

Our production facilities are of the type that may attract terrorist attacks, and any attack may disrupt our operations and cause us to incur significant costs and liabilities.

Uncertainty surrounding the possibility and scope of terrorist attacks may affect our operations in unpredictable ways, including the possibility that our chemical production facilities may become direct targets, or indirect casualties, of terrorist attacks. Although our production facilities are under a heightened level of security, this level of security may be insufficient to prevent a terrorist attack. The resulting damage may be severe and could include loss of life and property damage. In addition, some of our production and other facilities are located at sites near to other chemical plants that may be potential targets of terrorist attacks. The resulting collateral damage may be significant and substantial. Available insurance coverage may not be sufficient to cover all of the damage incurred or may be prohibitively expensive.

Certain of our employees are covered by collective bargaining agreements, and the failure to renew these agreements could result in labor disruptions and increased labor costs.

Employees at seven of our U.S. sites, who constitute approximately 11% of our domestic employees, are organized by labor unions that have collective bargaining agreements with us that are subject to renegotiation. One agreement expires in 2006 and five agreements covering two plants expire in 2007. Although we believe that our present labor relations are satisfactory, our failure to renew these agreements on reasonable terms as the current agreements expire could result in labor disruptions and increased labor costs, which could adversely affect our financial performance.

The applicability of numerous environmental laws to our manufacturing facilities could cause us to incur material costs and liabilities.

We are subject to extensive federal, state, local and foreign environmental, safety and health laws and regulations concerning, among other things, emissions to the air, discharges to land and water and the generation, handling, treatment and disposal of hazardous waste and other materials. Under certain environmental laws, we can be held strictly liable for hazardous substance contamination of any real property we have ever owned, operated or used as a disposal site or for natural resource damages associated with such contamination. We are also required to maintain various environmental permits and licenses, many of which require periodic modification and renewal. Our operations entail the risk of violations of those laws and regulations, many of which provide for substantial fines and criminal sanctions for violations. We cannot assure you that we have been or will be at all times in compliance with all of these requirements.

In addition, these requirements and their enforcement may become more stringent in the future. Although we cannot predict the ultimate cost of compliance with any such requirements, the costs could be material. Non-compliance could subject us to material liabilities, such as government fines, third-party lawsuits or the suspension of non-compliant operations. We also may be required to make significant site or operational modifications at substantial cost. Future developments also could restrict or eliminate the use of or require us to make modifications to our products, which could have a significant negative impact on our results of operations and cash flows.

At any given time, we are involved in claims, litigation, administrative proceedings and investigations of various types in a number of jurisdictions involving potential environmental liabilities, including clean-up costs associated with hazardous waste disposal sites, natural resource damages, property damage and personal injury. We cannot assure you that the resolution of these environmental matters will not have a material adverse effect on our results of operations or cash flows.

The ultimate costs and timing of environmental liabilities are difficult to predict. Liability under environmental laws relating to contaminated sites can be imposed retroactively and on a joint and several basis. One liable party could be held responsible for all costs at a site, regardless of fault, percentage of contribution to the site or the legality of the original disposal. We may also face liability with respect to acquired businesses for violations under environmental laws occurring prior to the date of our acquisition, and some or all of these liabilities may not be covered by indemnification from the sellers from which we acquired these businesses. We could incur significant costs, including cleanup costs, natural resources damages, civil or criminal fines and sanctions and third-party claims, as a result of past or future violations of, or liabilities under, environmental laws.

If we are unable to protect our intellectual property rights, our product sales and financial performance could be adversely affected.

We rely on a combination of patent, trade secret, copyright and trademark law, nondisclosure agreements and technical security measures to protect our intellectual property rights in our various lines of business. Our performance may depend in part on our ability to establish, protect and enforce intellectual property rights with respect to our patented technologies and proprietary rights and to defend against any claims of infringement, which involves complex legal, scientific and factual questions and uncertainties.

In the future, we may have to rely on litigation to enforce our intellectual property rights and contractual rights. In addition, we may face claims of infringement that could interfere with our ability to use technology or other intellectual property rights that are material to our business operations. If litigation that we initiate is unsuccessful, we may not be able to protect the value of some of our intellectual property. In the event a claim of infringement against us is successful, we may be required to pay royalties or license fees to continue to use technology or other intellectual property rights that we have been using or we may be unable to obtain necessary licenses from third parties at a reasonable cost or within a reasonable time. If we are unable to obtain licenses on reasonable terms, we may be forced to cease selling or using any of our products that incorporate the challenged intellectual property, or to redesign or, in the case of trademark claims, rename our products to avoid infringing the intellectual property rights of third parties, which may not be possible and may be time-consuming if possible. Any litigation of this type, whether successful or unsuccessful, could result in substantial costs to us and diversions of some of our resources. Our intellectual property rights may not have the value we believe them to have, which could result in a competitive disadvantage or adversely affect our business and financial performance.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no unresolved Securities and Exchange Commission staff comments at this time.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Wickliffe, Ohio. Our commercial centers for Lubricant Additives and Specialty Chemicals are located in Wickliffe, Ohio and Brecksville, Ohio, respectively. We have other offices and facilities around the world. The locations of our manufacturing and laboratory facilities are indicated below in the following chart.

Location	Owned/ Leased	Laboratory (R&D/Testing) or Manufacturing	Size (approx.) in square feet	Reporting Segments Lubricant Additives	Specialty Chemicals
Sydney, Australia	Owned	Manufacturing	45,000	x	x
Antwerp, Belgium	Owned	Laboratory, Manufacturing	81,000		x
Oevel, Belgium	Owned	Manufacturing	215,000		x
Vilvoorde, Belgium	Owned	Manufacturing	27,000		x
Rio de Janeiro, Brazil	Owned	Manufacturing	270,000	x	x
Niagara Falls, Ontario, Canada	Owned	Manufacturing	175,000	x	
Lanzhou, China(1)	Plant is owned; land is leased	Manufacturing	35,500	x	
Hong Kong, China	Leased	Laboratory	1,300		x
Qingpu, China	Leased	Laboratory, Manufacturing	45,000		x
Shanghai, China	Leased	Laboratory	5,000		x
Songjiang, China	Leased	Manufacturing	54,000		x
Tianjin, China (1)	Leased	Manufacturing	320,000	x	
Wenzhou, China(1)	Leased	Manufacturing	53,000		x
Zhejiang, China(1)	Owned	Manufacturing	13,700		x
Le Havre, France	Owned	Manufacturing	960,000	x	
Lyon, France(2)	Leased	Laboratory, Manufacturing	13,500		x
Mourenx, France	Owned	Manufacturing	40,000	x	
Rouen, France	Owned	Manufacturing	760,000	x	
Hamburg, Germany	Leased	Laboratory, Manufacturing	65,000	x	
Raubling, Germany	Leased/Owned	Laboratory, Manufacturing	134,500		x
Ritterhude, Germany	Owned	Laboratory, Manufacturing	85,000		x
Chennai, India	Leased	Manufacturing	114,000		x
Mumbai, India(1)	Plant is owned; land is leased	Manufacturing	230,000	x	
Vadadora, India	Owned	Manufacturing	294,000		x
Kinuura, Japan	Owned	Laboratory, Manufacturing	710,400	x	x
Seremban, Malaysia	Owned	Manufacturing	38,000		x
Apodaca, Mexico(1)	Owned	Manufacturing	135,000	x	
Delfzijl, The Netherlands	Leased	Manufacturing	50,000		x
Yanbu, Saudi Arabia(1)	Owned	Laboratory, Manufacturing	4,900	x	
Singapore	Plant is owned; land is leased	Manufacturing	500,000	x	
Singapore	Leased	Laboratory	1,300		x
Durban, South Africa	Owned	Manufacturing	75,000	x	x
Pohang, South Korea	Leased/Owned	Manufacturing	49,000		x
Barcelona, Spain	Leased/Owned	Laboratory, Manufacturing	76,000		x
Muang, Thailand	Jointly Owned	Laboratory, Manufacturing	15,000		x
Barnsley, United Kingdom	Owned	Laboratory, Manufacturing	50,000		x
Blackley, Manchester, United Kingdom	Leased	Laboratory	13,000		x
Bromborough, United Kingdom (3)	Owned	Manufacturing	140,000	x	x

Location	Owned/ Leased	Laboratory (R&D/Testing) or Manufacturing	Size (approx.) in square feet	Reporting Segments Lubricant Additives	Specialty Chemicals
Hazelwood, United Kingdom	Owned	Laboratory	77,000	x	
Huddersfield, United Kingdom	Plant is owned; land is leased	Laboratory, Manufacturing	37,000		x
Grangemouth, Scotland, United Kingdom	Leased	Laboratory	900		x
Paso Robles, CA	Plant is owned; land is leased	Laboratory, Manufacturing	26,000		x
Peachtree City, GA	Owned	Manufacturing	42,500		x
Countryside, IL	Owned	Laboratory, Manufacturing	60,000		x
Henry, IL	Owned	Manufacturing	100,000		x
McCook, IL	Leased	Laboratory, Manufacturing	68,000		x
Calvert City, KY	Owned	Manufacturing	75,000		x
Louisville, KY	Owned	Manufacturing	232,000		x
Lawrence, MA	Owned	Laboratory, Manufacturing	160,000		x
Wilmington, MA	Leased	Manufacturing	83,600		x
Midland, MI	Owned	Laboratory, Manufacturing	68,700	x	
Linden, NJ(4)	Owned	Laboratory, Manufacturing	9,500		x
Pedricktown, NJ	Owned	Manufacturing	40,000		x
Charlotte, NC	Leased	Laboratory	2,000		x
Charlotte, NC	Owned	Manufacturing	270,000		x
Gastonia, NC	Owned	Laboratory, Manufacturing	116,000		x
Akron, OH	Owned	Manufacturing	236,000		x
Avon Lake, OH	Owned	Manufacturing	240,000		x
Bowling Green, OH	Owned	Laboratory, Manufacturing	75,000		x
Brecksville, OH	Owned	Laboratory	142,000		x
Chagrin Falls, OH	Owned	Manufacturing	49,000		x
Cincinnati, OH	Leased	Laboratory, Manufacturing	450,000		x
Painesville, OH	Owned	Manufacturing	450,000	x	x
Wickliffe, OH	Owned	Laboratory	233,000	x	
Spartanburg, SC	Leased	Laboratory	22,300	x	
Spartanburg, SC	Owned	Laboratory, Manufacturing	71,000	x	x
Bayport, TX	Owned	Manufacturing	810,000	x	x
Deer Park, TX	Owned	Manufacturing	1,570,000	x	x
Houston, TX	Owned	Manufacturing	39,000		x
Kalama, WA	Owned	Laboratory, Manufacturing	550,000		x
Cheyenne, WY	Owned	Laboratory, Manufacturing	32,000		x

(1) These manufacturing plants are owned and operated by joint venture companies licensed by Lubrizol.

(2) Operations are expected to cease by the end of the first quarter of 2006.

(3) Operations are expected to cease by the end of 2006.

(4) Operations are expected to cease by the end of the second quarter of 2006.

In some cases, the ownership or leasing of these facilities is through a subsidiary or affiliate.

We have entered into long-term contracts for our exclusive use of major marine terminal facilities at the Port of Houston, Texas. In addition, we have leases for storage facilities in Australia, Chile, Denmark, France, The Netherlands, Singapore, Spain, South Africa, Sweden, Turkey and United Kingdom; Paso Robles, Bakersfield and Los Angeles, California; St. Paul, Minnesota; Bayonne and Edison, New Jersey; Perrysburg, Ohio; Oklahoma City, Oklahoma; Odessa, Texas and Tacoma, Washington.

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In the first quarter of 2005, we announced our plans to close two Specialty Chemicals performance coatings production facilities in the United States. Production from these sites will be transferred to other facilities in the United States. The facility in Mountaintop, Pennsylvania was closed in October 2005 and sold in January 2006, while the facility in Linden, New Jersey is scheduled to close in the second quarter of 2006. These closures will result in a workforce reduction of 62 employees by the second quarter of 2006. The aggregate restructuring charge recorded for these closures for the year ended December 31, 2005 was $6.6 million, comprised of $4.2 million in asset impairments, $0.9 million in exit costs and $1.5 million in severance costs. We estimate that we will incur cumulative severance costs of approximately $2.1 million relating to these closures. We recorded an impairment charge for both plants in the first quarter of 2005 to reflect the related assets at their estimated fair values. We also recorded a small Specialty Chemicals European restructuring during the fourth quarter amounting to a $0.4 million in severance costs and $0.1 million in other exit costs.

In January 2005, we announced that we are closing our Lubricant Additives manufacturing plant in Bromborough, United Kingdom. Production phase-out of this site began in the third quarter of 2005 and is expected to be completed by the third quarter of 2006. During this phase-out, United Kingdom production will be transferred to facilities in France and the United States. Approximately 69 employees will be impacted by this closure. A $17.0 million impairment charge was recorded in December 2004 to reflect the related assets at their estimated fair values. The aggregate restructuring charge recorded for this closure during 2005 was $6.1 million, comprised of $0.7 million in asset impairment, $1.7 million in exit costs and $3.7 million in severance costs. We currently anticipate that pre-tax charges of approximately $16.0 million will be incurred through 2007 to satisfy severance and retention obligations, plant dismantling, site restoration and other site environmental evaluation costs and lease-related costs, including the $5.4 million recorded through December 31, 2005.

In addition, we expect to invest approximately $20.0 million in capital related to the plant closures, primarily Bromborough, through the first quarter of 2007, for capacity upgrades at alternative manufacturing facilities. Of the total projected capital expenditures, $3.4 million was incurred through December 31, 2005.

We maintain a capital expenditure program to support our operations and believe our facilities are adequate for our present operations and for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

In the third quarter of 2005, we were notified by the U.S. Environmental Protection Agency (EPA) Region 6 that it was proposing a penalty against the company in connection with a small release of ammonia that occurred at our Specialty Chemicals Kalama, Washington plant in May 2005. The most recent proposal by the EPA is a penalty of approximately $140,000-$175,000. We currently are discussing those circumstances with the EPA. No enforcement proceeding has been commenced at this time.

Also in the third quarter of 2005, we voluntarily notified the U.S. Departments of Treasury and Commerce that an internal review of certain export transactions within the personal care and pharmaceuticals business of the Specialty Chemicals segment has indicated that some exports were made that were not in compliance with current U.S. trade sanctions. We have voluntarily completed a thorough review of all possibly non-complying transactions and detailed our findings in a subsequent report that was made to the government in the third quarter of 2005. While the sales involved were not substantial in relation to the company or the Specialty Chemicals segment, we consider legal compliance to be very important. At this time, we cannot determine what the penalties, or fines, if any, will be assessed against us, but applicable regulations provide that the company s voluntary self-disclosure will be an important mitigating factor.

The patent infringement suit filed against the company by Afton Chemical Company in federal court in Virginia in the second quarter of 2005 was dismissed with finality on October 27, 2005. We incurred no liability.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to the vote of the security holders during the three months ended December 31, 2005.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The following sets forth the name, age, recent business experience and certain other information relative to each person who was an executive officer as of February 28, 2006.

Name	Age	Position
James L. Hambrick	51	Chairman of the Board, President and Chief Executive Officer
Joseph W. Bauer	52	Vice President and General Counsel
Donald W. Bogus	58	Senior Vice President and President Specialty Chemicals
Charles P. Cooley	50	Senior Vice President and Chief Financial Officer
W. Scott Emerick	41	Corporate Controller
Stephen F. Kirk	56	Senior Vice President and President Lubricant Additives
Annora C. Marcus	43	Director Foreign Audits / Transfer Pricing
Mark W. Meister	51	Vice President and Chief Ethics Officer
Rosanne S. Potter	46	Treasurer
Leslie M. Reynolds	45	Corporate Secretary
Patrick Saunier	50	Vice President, Information Systems
Jeffrey A. Vavruska	45	Chief Tax Officer
Joanne Wanstreet	54	Vice President, Investor Relations

James L. Hambrick is chairman of the board of directors, president and chief executive officer of The Lubrizol Corporation. He was elected president in January 2003, chief executive officer in April 2004 and chairman of the board effective January 3, 2005. From May 2000 to January 2003, he was vice president responsible for managing corporate strategies in the Asia Pacific region.

Joseph W. Bauer has been the vice president and general counsel of The Lubrizol Corporation since April 1992.

Donald W. Bogus became a senior vice president of The Lubrizol Corporation in July 2004 and president of the Specialty Chemicals segment in April 2004. He joined Lubrizol in 2000 as vice president responsible for the Fluid Technologies for Industry segment. He also led Lubrizol s mergers and acquisitions committee.

Charles P. Cooley is a senior vice president and the chief financial officer of The Lubrizol Corporation. He joined Lubrizol in 1998 as its chief financial officer and vice president. He was also treasurer from April 1998 to September 2001. Mr. Cooley became a senior vice president in July 2004.

W. Scott Emerick joined The Lubrizol Corporation as corporate controller in June 2004. Prior to that, Mr. Emerick was at Noveon International, where he held the positions of director of finance - TempRite products from September 2003 to June 2004 and director of accounting and external financial reporting from April 2001 to September 2003. Prior to joining Noveon International, Mr. Emerick served as director of finance for Flexalloy-Textron, a subsidiary of Textron, Inc., where he held several management positions since 1997.

Stephen F. Kirk became a senior vice president of The Lubrizol Corporation in July 2004 and the president of the Lubricant Additives segment in June 2004. Previously, he was vice president of sales and marketing for Lubrizol since January 1999.

Annora C. Marcus was the assistant secretary of The Lubrizol Corporation from April 2003 to December 2005. In addition, she has been the director foreign audits/transfer pricing since September 2004. Previously, she had held various tax positions with Lubrizol from October 1997 until September 2004.

Mark W. Meister has been the vice president of human resources for The Lubrizol Corporation since 1993 and chief ethics officer since 1994.

Rosanne S. Potter joined The Lubrizol Corporation and was named treasurer in September 2001. Previously, she was the vice president and treasurer to Dexter Corporation from 1999 to 2000.

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Leslie M. Reynolds is corporate secretary and counsel for The Lubrizol Corporation. She has been counsel since February 1991. She served as assistant secretary from 1997 until her appointment as corporate secretary in April 2001.

Patrick H. Saunier became the vice president for information systems and business processes for The Lubrizol Corporation in July 2004. From 1999 to 2004, Mr. Saunier led the European shared services organization.

Jeffrey A. Vavruska joined The Lubrizol Corporation as chief tax officer in April 2004. Previously, he worked at American Greetings Corporation, where he was executive director of tax from September 2001 to April 2004, and at Cleveland Cliffs, Inc. where he held various tax roles from 1995 to 2001.

Joanne Wanstreet was elected vice president with responsibility for global communications and investor relations for The Lubrizol Corporation in April 2002. From January 2001 to April 2002, Ms. Wanstreet was manager, investor relations.

All executive officers serve at the pleasure of the Board.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common shares are listed on the New York Stock Exchange under the symbol LZ. The number of shareholders of record of common shares was 3,468 as of February 15, 2006.

Information relating to the recent price and dividend history of our common shares follows:

	Common Share Price History				Dividends	
	2005		2004		Per Common Share	
	High	Low	High	Low	2005	2004
1st quarter	$ 43.57	$ 35.25	$ 33.55	$ 29.44	$ .26	$ .26
2nd quarter	44.51	36.74	36.81	30.67	.26	.26
3rd quarter	44.50	39.12	37.37	33.00	.26	.26
4th quarter	44.16	39.83	37.33	32.12	.26	.26
					$ 1.04	$ 1.04

We have no restrictions on the payment of dividends on Lubrizol common shares.

On October 1, 2005, 288 common shares were issued in a private placement transaction exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) of that Act. We issued the common shares to a former officer under a deferred compensation plan for officers.

On November 1, 2005, 90 common shares were issued in a private placement transaction exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) of that Act. We issued the common shares to a former officer under the deferred compensation plan for officers.

On December 1, 2005, 203 common shares were issued in a private placement transaction exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) of that Act. We issued the common shares to two former officers under a deferred compensation plan for officers.

The following table provides information regarding our purchases of Lubrizol common shares during the quarter.

Period	(a) Total Number of Shares (or Units) Purchased[1]	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs
Month #1 (Oct. 1, 2005 through Oct. 31, 2005)	5,076 Shares	$ 43.33	N/A	N/A
Month #2 (Nov. 1, 2005 through Nov. 30, 2005)	31 Shares	$ 41.59	N/A	N/A
Month #3 (Dec. 1, 2005 through Dec. 31, 2005)	81 Shares	$ 42.21	N/A	N/A
Total	5,188 Shares			

1 This column represents common shares that we purchased pursuant to:

(a) our option plan, whereby participants exchange already owned shares to us to pay for the exercise price of an option or whereby we withhold shares upon the exercise of an option to pay the withholding taxes on behalf of the employee.
(b) our deferred compensation plans, whereby we withhold shares upon a distribution to pay the withholding taxes on behalf of the employee.

ITEM 6. SELECTED FINANCIAL DATA

The summary of selected financial data for each of the last five years included in the Historical Summary contained on pages 58 and 59 of our 2005 Annual Report to shareholders is incorporated herein by reference.

Total debt reported in the Historical Summary includes the following amounts classified as long-term at December 31: $1,662.9 million in 2005, $1,964.1 million in 2004, $386.7 million in 2003, $384.8 million in 2002, and $388.1 million in 2001.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Management s Discussion and Analysis of Financial Condition and Results of Operations, including the information appearing under the heading Cautionary Statements for Safe Harbor Purposes, contained on pages 9 through 26, inclusive, of our 2005 Annual Report to shareholders is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information appearing under the heading Quantitative and Qualitative Disclosures about Market Risk contained on page 26 of our 2005 Annual Report to shareholders is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements, together with the report of the independent registered public accounting firm relating thereto, contained on pages 28 through 57, inclusive, of our 2005 Annual Report to shareholders, and the Quarterly Financial Data (Unaudited) contained on page 57 of the 2005 Annual Report to shareholders, are incorporated herein by reference.

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

We evaluated, under the supervision and with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of December 31, 2005. Based on that evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2005, our disclosure controls and procedures were effective in timely alerting them to material information relating to Lubrizol and our consolidated subsidiaries required to be included in our periodic SEC filings. There were no significant changes in our internal control over financial reporting that occurred during the fourth quarter of 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Management s report on internal control over financial reporting and the report of the independent registered public accounting firm relating thereto are contained on pages 27 and 28, inclusive, of our 2005 Annual Report to shareholders and are incorporated herein by reference.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained under the headings Election of Directors and Section 16(a) Beneficial Ownership Reporting Compliance of our proxy statement for the 2006 Annual Meeting of Shareholders is incorporated herein by reference. Information relative to executive officers is contained under Executive Officers of the Registrant in Part I of this Annual Report on Form 10-K. Information regarding the identification of a financial expert on the Audit Committee contained under the heading Audit Committee in our proxy statement for the 2006 Annual Meeting of Shareholders is incorporated herein by reference.

We have a code of ethics, entitled the Ethical and Legal Conduct Guidelines, that applies to our directors and all employees, including our chief executive officer, chief financial officer and controller. The Ethical and Legal Conduct Guidelines are posted at the company overview area of our website, *www.lubrizol.com*.

ITEM 11. EXECUTIVE COMPENSATION

The information relating to executive compensation contained under the headings Director Compensation, Executive Compensation Summary Compensation Table, Executive Compensation - Stock Incentive Plans, Executive Compensation Long-Term Incentive Plans, Employee and Executive Officer Benefit Plans Pension Plans, Employee and Executive Officer Benefit Plans Supplemental Retirement Plan and Employee and Executive Officer Benefit Plans Executive Agreements in our proxy statement for the 2006 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information relating to security ownership set forth under the heading Share Ownership of Directors, Executive Officers and Large Beneficial Owners in our proxy statement for the 2006 Annual Meeting of Shareholders is incorporated herein by reference.

The following table gives information about our common shares that may be issued under the company s equity compensation plans as of December 31, 2005.

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding Securities reflected in Column (a))
Equity compensation plans approved by security holders	4,283,917	$32.35	3,055,540(1)
Equity compensation plans not approved by security holders	(2)	N/A	(2)
Total	4,283,917	$32.35	3,055,540(1)

(1) The 1991 Stock Incentive Plan was terminated with respect to future grants effective November 15, 2004. The shares shown are with respect to the 2005 Stock Incentive Plan. In addition to the shares shown, effective January 1, 2003, pursuant to grants under the 1991 Stock Incentive Plan, Donald W. Bogus, Charles P. Cooley and Stephen F. Kirk each will be issued 15,000 shares if the officer remains an employee until January 1, 2008. There are no voting or dividend rights associated with these common shares unless and until they are issued.

(2) Under a deferred compensation plan, certain executive officers may defer any amount of their variable pay under the performance pay plan. Deferred amounts are converted into share units based on the current market price of

Lubrizol s common shares. There is a 25% company match. Additional share units are credited for quarterly dividends paid on Lubrizol common shares. At the end of the deferral period, which is at least three years, common shares are issued equal to the number of share units in the participant s account. Amounts attributable to the company match credited after January 1, 2004 will be paid in cash. As of December 31, 2005, there were 86,482 share units outstanding that are payable in shares.

Prior to January 1, 2004, under a deferred stock compensation plan for outside directors, each director who was not a Lubrizol employee received 500 share units on each October 1st and was credited with additional share units for quarterly dividends paid on Lubrizol common shares. When a person is no longer a director, Lubrizol common shares are issued equal to the number of share units in the person s account. As of December 31, 2005, there were 41,744 share units outstanding that are payable in shares. No additional share units other than those credited for quarterly dividends have been or will be granted after January 1, 2004.

Under a deferred compensation plan for directors, each director who is not a Lubrizol employee may defer all or any portion of his or her yearly fee and meeting attendance fees and have these amounts credited to various cash investment accounts and/or a share unit account. The number of share units credited to the share unit account is based on the price of Lubrizol common shares on the day the share units are credited to the account and includes share units credited for quarterly dividends paid on Lubrizol common shares. When a person is no longer a director, Lubrizol shares are issued equal to the number of share units in the person s share unit account. As of December 31, 2005, there were 49,596 share units outstanding.

Under a deferred compensation plan for officers, each executive officer may defer all or any portion of his or her total annual pay and have these amounts credited to various cash investment accounts and/or a share unit account. The number of share units credited to the share unit account is based on the price of Lubrizol common shares on the day the share units are credited to the account and includes share units credited for quarterly dividends paid on Lubrizol common shares. Upon the distribution date, Lubrizol common shares are issued equal to the number of share units in the person s share unit account. As of December 31, 2005, there were 62,735 share units outstanding.

Under a supplemental retirement plan for Donald W. Bogus, 500 share units are credited each anniversary date of the officer s employment to an officer s account and includes shares units credited for quarterly dividends paid on Lubrizol common shares. Upon retirement, Mr. Bogus may elect to receive cash or Lubrizol shares equal to the number of share units in the account. As of December 31, 2005, there were 2,281 share units outstanding that could be paid in shares. For units credited after January 1, 2004, the payment will be made in cash only.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There are no relationships or related transactions involving our executive officers or directors to disclose pursuant to Item 404 of Regulation S-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information included under the heading entitled Independent Registered Public Accountant Fees in our proxy statement for the 2006 Annual Meeting of Shareholders is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this Annual Report:

1. The following consolidated financial statements of The Lubrizol Corporation and its subsidiaries, together with the report of the independent registered public accounting firm relating thereto, contained on pages 27 through 57, inclusive, of our 2005 Annual Report to shareholders, and incorporated herein by reference:

   Management s Report on Internal Controls over Financial Reporting

   Report of Independent Registered Public Accounting Firm.

   Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003.

   Consolidated Balance Sheets at December 31, 2005 and 2004.

   Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003.

   Consolidated Statements of Shareholders Equity for the years ended December 31, 2005, 2004 and 2003.

   Notes to Consolidated Financial Statements.

2. Schedule

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF THE LUBRIZOL CORPORATION

We have audited the consolidated financial statements of The Lubrizol Corporation and subsidiaries (the Company) as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2005, and the effectiveness of the Company s internal control over financial reporting as of December 31, 2005, and have issued our reports thereon dated February 28, 2006; such consolidated financial statements and reports are included in the 2005 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the consolidated financial statement schedule of the Company listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company s management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP
Cleveland, Ohio
February 28, 2006

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SCHEDULE II Valuation and Qualifying Accounts
For the years ended December 31, 2005, 2004 and 2003
(in millions of dollars)

Description	Balance at Beginning of Year	Charged/(Credited) to Expenses	Charged/(Credited) to Other Accounts*	Deductions	Balance at End of Year
Year ended December 31, 2005					
Allowance for uncollectible accounts	$11.0	$ 1.9	$ (0.9)	$1.9	$10.1
Inventory reserves	$19.1	$ 12.4	$ (4.3)	$9.0	$18.2
Deferred tax asset valuation allowance	$18.8	$ 4.0	$ (4.7)		$18.1
Year ended December 31, 2004					
Allowance for uncollectible accounts	$ 4.2	$ 0.4	$ 7.7	$1.3	$11.0
Inventory reserves	$ 9.0	$ 5.9	$ 8.0	$3.8	$19.1
Deferred tax asset valuation allowance	$ 1.9	$ 2.4	$ 14.5		$18.8
Year ended December 31, 2003					
Allowance for uncollectible accounts	$ 4.4			$0.2	$ 4.2
Inventory reserves	$ 9.2	$ (0.1)		$0.1	$ 9.0
Deferred tax asset valuation allowance	$ 3.6	$ (1.7)			$ 1.9

* Valuation and qualifying accounts associated with acquired and discontinued operation companies.

All other schedules have been omitted because they are not applicable.

3. Exhibits

3.1 Amended Articles of Incorporation of The Lubrizol Corporation, as adopted September 23, 1991 (incorporated by reference to Exhibit 3.1 to The Lubrizol Corporation s Annual Report on Form 10-K for the year ended December 31, 2004).

3.2 Regulations of The Lubrizol Corporation, as amended effective April 27, 1992 ((incorporated by reference to Exhibit 3.2 to The Lubrizol Corporation s Annual Report on Form 10-K for the year ended December 31, 2004).

4.1 Amendment to Article Fourth of Amended Articles of Incorporation (incorporated by reference to Exhibit 4.1 to The Lubrizol Corporation s Annual Report on Form 10-K for the year ended December 31, 2004).

4.2 Amended and Restated Rights Agreement between The Lubrizol Corporation and American Stock Transfer & Trust Company dated as of July 26, 1999 (incorporated by reference to Exhibit 4.2 to The Lubrizol Corporation s Annual Report on Form 10-K for the year ended December 31, 2004).

4.3 Amended and Restated Indenture dated September 28, 2004 (originally dated June 1, 1995) by and among The Lubrizol Corporation, all of The Lubrizol Corporation s wholly owned direct and indirect domestic subsidiaries, as guarantors, and J.P. Morgan Trust Company, National Association, as successor trustee (incorporated by reference to Exhibit 99.1 of the Form 8-K of The Lubrizol Corporation filed with the SEC on September 29, 2004).

4.4 Amended and Restated Indenture dated September 28, 2004 (originally dated November 25, 1998), by and among The Lubrizol Corporation, all of The Lubrizol Corporation s wholly owned direct and indirect domestic subsidiaries, as guarantors, and J.P. Morgan Trust Company, National Association, as successor trustee (incorporated by reference to Exhibit 99.2 of the Form 8-K of The Lubrizol Corporation filed with the SEC on September 29, 2004).

4.5 Form of Indenture for Debt Securities of The Lubrizol Corporation (incorporated by reference to Exhibit 4.2 of Amendment No. 2 to the Registration Statement on Form S-3 of The Lubrizol Corporation filed with the SEC on August 24, 2004).

10.1* The Lubrizol Corporation 1991 Stock Incentive Plan, as amended (incorporated by reference to Exhibit (10)(h) to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on November 18, 2004).

10.2* The Lubrizol Corporation 2005 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to The Lubrizol Corporation s Current Report on Form 8-K/A filed with the SEC on March 2, 2005).

10.3* The Lubrizol Corporation Amended Deferred Compensation Plan for Directors (incorporated by reference to Exhibit (10)(b) to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on November 18, 2004).

10.4* The Lubrizol Corporation Deferred Stock Compensation Plan for Outside Directors, as amended (incorporated by reference to Exhibit (10)(i) to The Lubrizol Corporation s Annual Report on Form 10-K for the year ended December 31, 2003).

10.5* The Lubrizol Corporation Deferred Compensation Plan for Officers, as amended (incorporated by reference to Exhibit (10)(k) to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on November 18, 2004).

10.6* The Lubrizol Corporation Executive Council Deferred Compensation Plan, as amended (incorporated by reference to Exhibit (10)(l) to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on November 18, 2004).

10.7* The Lubrizol Corporation 2005 Deferred Compensation Plan for Directors (incorporated by reference to Exhibit (10)(v) to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on November 18, 2004).

10.8* The Lubrizol Corporation Senior Management Deferred Compensation Plan (fna The Lubrizol Corporation 2005 Deferred Compensation Plan for Officers) (incorporated by reference to Exhibit 10.8 to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on December 13, 2005).

10.9* The Lubrizol Corporation 2005 Executive Council Deferred Compensation Plan (incorporated by reference to Exhibit 10.7 to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on December 13, 2005).

10.10* The Lubrizol Corporation Excess Defined Benefit Plan, as amended (incorporated by reference to Exhibit (10)(d) to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on December 15, 2004).

10.11* The Lubrizol Corporation Excess Defined Contribution Plan, as amended (incorporated by reference to Exhibit (10)(e) to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on December 15, 2004).

10.12* The Lubrizol Corporation Officers Supplemental Retirement Plan, as amended (incorporated by reference to Exhibit (10)(j) to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on December 15, 2004).

10.13* The Lubrizol Corporation 2005 Excess Defined Benefit Plan (incorporated by reference to Exhibit 10.4 to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on December 13, 2005).

10.14* The Lubrizol Corporation 2005 Excess Defined Contribution Plan (incorporated by reference to Exhibit 10.3 to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on December 13, 2005).

10.15* The Lubrizol Corporation 2005 Officers Supplemental Retirement Plan (incorporated by reference to Exhibit 10.5 to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on December 13, 2005).

10.16* Supplemental Retirement for Donald W. Bogus (incorporated by reference to Exhibit 10.6 to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on December 13, 2005).

10.17* The Lubrizol Corporation Executive Death Benefit Plan, as amended (incorporated by reference to Exhibit 10.11 to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on December 13, 2005).

10.18* The Lubrizol Corporation Executive Officer Long Term Incentive Plan (incorporated by reference to Exhibit (10)(n) to The Lubrizol Corporation s Annual Report on Form 10-K for the year ended December 31, 2003).

10.19* Form of Employment Agreement between The Lubrizol Corporation and certain of its senior executive officers.

10.20* Employment Agreement effective January 1, 2003, between The Lubrizol Corporation and Charles P. Cooley (incorporated by reference to Exhibit (10)(o) to The Lubrizol Corporation s Quarterly Report on Form 10-Q for the period ended on March 31, 2003).

10.21* Employment Agreement effective January 1, 2003, between The Lubrizol Corporation and Stephen F. Kirk (incorporated by reference to Exhibit (10)(p) to The Lubrizol Corporation s Quarterly Report on Form 10-Q for the period ended on March 31, 2003).

10.22* Employment Agreement effective January 1, 2003, between The Lubrizol Corporation and Donald W. Bogus (incorporated by reference to Exhibit (10)(r) to The Lubrizol Corporation s Quarterly Report on Form 10-Q for the period ended on March 31, 2003).

10.23* The Lubrizol Corporation Annual Incentive Pay Plan (incorporated by reference to Exhibit 10.10 to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on December 13, 2005).

10.24* The Lubrizol Corporation Annual Incentive Pay Plan Award Letter, as amended (incorporated by reference to Exhibit 10.2 to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on December 13, 2005).

10.25* The Lubrizol Corporation 2005 Stock Incentive Plan Performance Shares Award, as amended for the 2005-2007 grant (incorporated by reference to Exhibit 10.1 to The Lubrizol Corporation s Current Report on Form 8-K/A filed with the SEC on March 11, 2005).

10.26* Named Executive Officer Salary Increases during 2005 (incorporated by reference to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on September 30, 2005).

10.27* Named Executive Officer Annual Incentive Pay Plan payments for incentive pay earned during 2004 (incorporated by reference to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on March 8, 2005).

10.28* The Lubrizol Corporation 2005 Stock Incentive Plan Performance Shares Award, as amended for the 2006-2008 grant (incorporated by reference to The Lubrizol Corporation s Current Report on Form 8K filed with the SEC on December 13, 2005).

10.29* The Lubrizol Corporation Long-Term Incentive Pay Plan Award Letter for the 2004-2006 period.

10.30 Credit Agreement dated as of August 24, 2004 among The Lubrizol Corporation, the Initial Lenders named therein, Citigroup Global Markets Inc. and KeyBanc Capital Markets, as co-lead arrangers and co-bookrunners, KeyBank National Association and ABN Amro Bank N.V., as co-syndication agents, Wachovia Bank, National Association, as documentation agent, and Citicorp North America, Inc., as agent (incorporated by reference to Exhibit 10.1 to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on August 30, 2004).

10.31 Amended and Restated Credit Agreement dated as of March 29, 2005 among The Lubrizol Corporation, the Initial Lenders named therein, Citicorp North America, Inc., as administrative agent, and Citigroup Global Markets, Inc., as arranger and syndication agent (incorporated by reference to Exhibit 10.5 to The Lubrizol Corporation s Quarterly Report on Form 10-Q for the period ended March 31, 2005).

10.32 Five Year Credit Agreement dated as of September 14, 2005 among Europe Chemical Holdings C.V., Noveon Holdings France S.A.S. and Noveon Europe BVBA, The Lubrizol Corporation, the Initial Lenders named therein, ABN AMRO Bank N.V. as administrative agent, and ABN AMRO Bank N.V., Calyon, Citigroup Global Markets Inc., and Fortis Capital Corp as mandated lead arrangers and bookrunners (incorporated by reference to Exhibit 10.1 to The Lubrizol Corporation s Current Report on Form 8-K filed with the SEC on September 16, 2005).

12.1 Computation of Ratio of Earnings to Fixed Charges.

13.1 The following portions of The Lubrizol Corporation 2005 Annual Report to its shareholders (the 2005 Annual Report is available on our website at *www.lubrizol.com* as a separate pdf file):

Pages 9-26 Management s Discussion and Analysis of Financial Condition and Results of Operations.

Page 27 Management s Report on Internal Control Over Financial Reporting.

Page 27 NYSE Certification.

Page 28 Reports of Independent Registered Public Accounting Firm.

Page 29 Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003.

Page 30 Consolidated Balance Sheets at December 31, 2005 and 2004.

Page 31 Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003.

Page 32 Consolidated Statements of Shareholders Equity for the years ended December 31, 2005, 2004 and 2003.

Pages 33-57 Notes to Consolidated Financial Statements.

Pages 58-59 Historical Summary.

21.1 List of Subsidiaries of The Lubrizol Corporation.

23.1 Consent of Independent Registered Public Accounting Firm.

31.1 Rule 13a-14(a) Certification of the Chief Executive Officer, as created by Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Rule 13a-14(a) Certification of the Chief Financial Officer, as created by Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer and Chief Financial Officer of The Lubrizol Corporation pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002.

*Indicates management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this annual report on Form 10-K to be signed on February 28, 2006, on its behalf by the undersigned, thereunto duly authorized.

THE LUBRIZOL CORPORATION

BY /s/ James L. Hambrick

James L. Hambrick, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on February 20, 2006, by the following persons on behalf of the Registrant and in the capacities indicated.

/s/ James L. Hambrick	Chairman of the Board, President and Chief Executive Officer
James L. Hambrick	(Principal Executive Officer)
/s/ Charles P. Cooley	Sr. Vice President and Chief Financial Officer
Charles P. Cooley	(Principal Financial Officer)
/s/ W. Scott Emerick	Corporate Controller
W. Scott Emerick	(Chief Accounting Officer)
/s/ Robert E. Abernathy	Director
Robert E. Abernathy	
/s/ Jerald A. Blumberg	Director
Jerald A. Blumberg	
/s/ Forest J. Farmer, Sr.	Director
Forest J. Farmer, Sr.	
/s/ Gordon D. Harnett	Director
Gordon D. Harnett	
/s/ Victoria F. Haynes	Director
Victoria F. Haynes	
/s/ William P. Madar	Director
William P. Madar	
/s/ Peggy Gordon Miller	Director
Peggy Gordon Miller	
/s/ Ronald A. Mitsch	Director
Ronald A. Mitsch	
/s/ Dominic J. Pileggi	Director
Dominic J. Pileggi	
/s/ Daniel E. Somers	Director
Daniel E. Somers	

Exhibit 10.19

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this Agreement), dated as of , by and between The Lubrizol Corporation, an Ohio corporation (the Company), and (the Executive);

WITNESSETH:

WHEREAS, the Executive is a senior executive of the Company and has made and is expected to continue to make major contributions to the profitability, growth and financial strength of the Company;

WHEREAS, the Company recognizes that, as is the case for most publicly held companies, the possibility of a Change in Control (as that term is hereafter defined) exists;

WHEREAS, the Company desires to assure itself of both present and future continuity of management in the event of a Change in Control and desires to establish certain minimum compensation rights of its key senior executive officers, including the Executive, applicable in the event of a Change in Control;

WHEREAS, the Company wishes to ensure that it s senior executives are not practically disabled from discharging their duties upon a Change in Control;

WHEREAS, this Agreement is not intended to alter materially the compensation and benefits which the Executive could reasonably expect to receive from the Company absent a Change in Control and, accordingly, although effective and binding as of the date hereof, this Agreement shall become operative only upon the occurrence of a Change in Control; and

WHEREAS, the Executive is willing to render services to the Company on the terms and subject to the conditions set forth in this Agreement;

NOW, THEREFORE, the Company and the Executive agree as follows:

1. Operation of Agreement

(a) This Agreement shall be effective and binding immediately upon its execution, but, anything in this Agreement to the contrary notwithstanding, this Agreement shall not be operative unless and until there shall have occurred a Change in Control. For purposes of this Agreement, a Change in Control shall have occurred if at any time during the Term (as that term is hereafter defined) any of the following events shall occur:

(i) The Company is merged, consolidated or reorganized into or with another corporation or other legal person, and immediately after such merger, consolidation or reorganization less than a majority of the combined voting power of the then-outstanding securities of such corporation or person immediately after such transaction are held in the aggregate by the holders of Voting Stock (as that term is hereafter defined) of the Company immediately prior to such transaction;

(ii) The Company sells all or substantially all of its assets to any other corporation or other legal person, less than a majority of the combined voting power of the then-outstanding securities of such corporation or person immediately after such sale are held in the aggregate by the holders of Voting Stock of the Company immediately prior to such sale;

(iii) There is a report filed on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report), each as promulgated pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), disclosing that any person (as the term person is used in Section 13(d)(3) or Section 14(d)(2) of the Exchange Act) has become the beneficial owner (as the term beneficial owner is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of securities representing 20% or more of the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors of the Company (Voting Stock);

(iv) The Company files a report or proxy statement with the Securities and Exchange Commission pursuant to the Exchange Act disclosing in response to Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) that a change in control of the Company has or may have occurred or will or may occur in the future pursuant to any then existing contract or transaction; or

(v) If during any period of 2 consecutive years, individuals who at the beginning of any such period constitute the Directors of the Company cease for any reason to constitute at least a majority thereof, provided, however, that for purposes of this clause (v), each Director who is first elected, or first nominated for election by the Company s stockholders by a vote of at least two-thirds of the Directors of the Company (or a committee thereof) then still in office who were Directors of the Company at the beginning of any such period will be deemed to have been a Director of the Company at the beginning of such period.

Notwithstanding the foregoing provisions of Section 1(a)(iii) or 1(a)(iv) hereof, unless otherwise determined in a specific case by majority vote of the Board of Directors of the Company (the Board), a Change in Control shall not be deemed to have occurred for purposes of this Agreement solely because (i) the Company, (ii) an entity in which the Company directly or indirectly beneficially owns 50% or more of the voting securities (a Subsidiary), or (iii) any Company-sponsored employee stock ownership plan or any other employee benefit plan of the Company, either files or becomes obligated to file a report or a proxy statement under or in response to Schedule 13D, Schedule 14D-1, Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) under the Exchange Act, disclosing beneficial ownership by it of shares of Voting Stock, whether in excess of 20% or otherwise, or because the Company reports that a change in control of the Company has or may have occurred or will or may occur in the future by reason of such beneficial ownership.

(b) Upon the occurrence of a Change in Control at any time during the Term, this Agreement shall become immediately operative.

(c) The period during which this Agreement shall be in effect (the Term) shall commence as of the date hereof and shall expire as of the later of (i) the close of business on December 31, 20__ and (ii) the expiration of the Period of Employment (as that term is hereinafter defined); provided, however, that (A) commencing on January 1, 20__ and each January 1 thereafter, the term of this Agreement shall automatically be extended for an additional year unless, not later than September 30 of the immediately preceding year, the Company or the Executive shall have given notice that it or he, as the case may be, does not wish to have the Term extended and (B) subject to Section 10 hereof, if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company and any Subsidiary, thereupon the Term shall be deemed to have expired and this Agreement shall immediately terminate and be of no further effect.

2. Employment; Period of Employment
(a) Subject to the terms and conditions of this Agreement, upon the occurrence of a Change in Control, the Company shall continue the Executive in its employ and the Executive shall remain in the employ of the Company and/or a Subsidiary, as the case may be, for the period set forth in Section 2(b) hereof (the Period of Employment), in the position and with substantially the same duties and responsibilities that he had immediately prior to the Change in Control, or to which the Company and the Executive may hereafter mutually agree in writing. Throughout the Period of Employment, the Executive shall devote substantially all of his time during normal business hours (subject to vacations, sick leave and other absences in accordance with the policies of the Company as in effect for senior executives immediately prior to the Change in Control) to the business and affairs of the Company, but nothing in this Agreement shall preclude the Executive from devoting reasonable periods of time during normal business hours to (i) serving as a director, trustee or member of or participant in any organization or business so long as such activity would not constitute Competitive Activity (as that term is hereafter defined) if conducted by the Executive after the Executive s Termination Date (as that term is hereafter defined), (ii) engaging in charitable and community activities, or (iii) managing his personal investments.
(b) The Period of Employment shall commence on the date of an occurrence of a Change in Control and, subject only to the provisions of Section 4 hereof, shall continue until the earliest of (i) the expiration of the third anniversary of the occurrence of the Change in Control, (ii) the Executive s death, (iii) by reason of the Executive s disability and the actual receipt of disability benefits in accordance with Section 4(a)(ii), or (iv) the Executive s attainment of age 65; provided, however, that commencing on each anniversary of the Change of Control, the Period of Employment shall automatically be extended for an additional year unless, not later than 90 calendar days prior to such anniversary date, either the Company or the Executive shall have given written notice to the other that the Period of Employment shall not be so extended.
3. Compensation During Period of Employment
(a) Upon the occurrence of a Change in Control, the Executive shall receive during the Period of Employment (i) annual base salary at a rate not less than the Executive s annual fixed or base compensation (payable monthly or otherwise as in effect for senior executives of the Company immediately prior to the occurrence of a Change in Control) or such higher rate as may be determined from time to time by the Board or the Compensation Committee thereof (which base salary at such rate is herein referred to as Base Pay, and 1 year s worth of such Base Pay is herein referred to as the Annual Base Pay Amount) and (ii) an annual amount (the Annual Incentive Pay Amount) equal to not less than the highest aggregate annual bonus, incentive or other payments of cash compensation in addition to the amounts referred to in clause (i) above made or to be made in regard to services rendered in any calendar year during the 3 calendar years immediately preceding the year in which the Change in Control occurred pursuant to any bonus, incentive, profit-sharing, performance, discretionary pay or similar agreement, policy, plan, program or arrangement (whether or not funded) of the Company or any successor thereto providing benefits at least as great as the benefits payable thereunder prior to a Change in Control (Incentive Pay); provided, however, that (A) with the prior written consent of the Executive, nothing herein shall preclude a change in the mix between Base Pay and Incentive Pay so long as that the aggregate cash compensation received by the Executive in any 1 calendar year is not reduced in connection therewith or as a result thereof, (B) in no event shall any increase in the Executive s aggregate cash compensation or any portion thereof in any way diminish any other obligation of the Company under this Agreement, and (C) no duplicate payment hereunder will be made in respect of any

amount actually paid to the Executive pursuant to any such agreement, policy, plan, program or arrangement.
(b) For his service pursuant to Section 2(a) hereof during the Period of Employment the Executive shall be a full participant in, and shall be entitled to the perquisites, benefits and service credit for benefits as provided under, any and all employee retirement income and welfare benefit policies, plans, programs or arrangements in which senior executives of the Company participate, including without limitation any stock option, stock purchase, stock appreciation, savings, pension, supplemental executive retirement or other retirement income or welfare benefit, deferred compensation, incentive compensation, group and/or executive life, health, medical/ hospital or other insurance (whether funded by actual insurance or self-insured by the Company), disability, salary continuation, expense reimbursement and other employee benefit policies, plans, programs or arrangements that may now exist or any equivalent successor policies, plans, programs or arrangements that may be adopted hereafter by the Company providing perquisites, benefits and service credit for benefits at least as great as are payable thereunder prior to a Change in Control (collectively, Employee Benefits); provided, however, that except as expressly provided in, and subject to the terms of, Section 3(a) hereof, the Executive s rights thereunder shall be governed by the terms thereof and shall not be enlarged hereunder or otherwise affected hereby. If and to the extent such perquisites, benefits or service credit for benefits are not payable or provided under any such policy, plan, program or arrangement as a result of the amendment or termination thereof, then the Company shall itself pay or provide therefor. Nothing in this Agreement shall preclude improvement or enhancement of any such Employee Benefits, provided that no such improvement shall in any way diminish any other obligation of the Company under this Agreement.
4. Termination Following a Change in Control
(a) In the event of the occurrence of a Change in Control, the Executive s employment may be terminated by the Company during the Period of Employment and the Executive shall not be entitled to the benefits provided by Sections 5 and 6 hereof only upon the occurrence of one or more of the following events:
(i) The Executive s death;
(ii) If the Executive shall become permanently disabled within the meaning of, and begins actually to receive disability benefits pursuant to, the long-term disability plan in effect for senior executives of the Company immediately prior to the Change in Control; or
(iii) The Executive s attainment of age 65;
(iv) Cause , which for purposes of this Agreement shall mean that, prior to any termination pursuant to Section 4(b) hereof, the Executive shall have committed:
(A) an intentional act of fraud, embezzlement or theft in connection with his duties or in the course of his employment with the Company and/or any Subsidiary;
(B) intentional wrongful damage to property of the Company and/or any Subsidiary;
(C) intentional wrongful disclosure of secret processes or confidential information of the Company and/or any Subsidiary; or
(D) intentional wrongful engagement in any Competitive Activity;

and any such act shall have been materially harmful to the Company. For purposes of this Agreement, no act, or failure to act, on the part of the Executive shall be deemed intentional if it was due primarily to an error in judgment or negligence, but shall be deemed intentional only if done, or omitted to be done, by the Executive not in good faith and without reasonable belief that his action or omission was in the best interest of the Company. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause hereunder unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the Board then in office at a meeting of the Board called and held for such purpose (after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive had committed an act set forth above in Section 4(a)(iv) and specifying the particulars thereof in detail. Nothing herein shall limit the right of the Executive or his beneficiaries to contest the validity or propriety of any such determination.

(b) In the event of the occurrence of a Change in Control, this Agreement may be terminated by the Executive during the Period of Employment with the right to severance compensation as provided in Sections 5 and 6 hereof upon the occurrence of one or more of the following events (regardless of whether any other reason, other than Cause as hereinabove provided, for such termination exists or has occurred, including without limitation other employment):

(i) Any termination by the Company of the employment of the Executive prior to the date upon which the Executive shall have attained age 65, which termination shall be for any reason other than for Cause or as a result of the death of the Executive or by reason of the Executive s disability and the actual receipt of disability benefits in accordance with Section 4(a)(ii) hereof; or

(ii) Termination by the Executive of his employment with the Company and any Subsidiary within 3 years after the Change in Control upon the occurrence of any of the following events:

(A) Failure to elect or reelect or otherwise to maintain the Executive in the office or the position, or a substantially equivalent office or position, of or with the Company and/or a Subsidiary, as the case may be, which the Executive held immediately prior to a Change in Control, or the removal of the Executive as a Director of the Company (or any successor thereto) if the Executive shall have been a Director of the Company immediately prior to the Change in Control;

(B) A significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position with the Company and any Subsidiary which the Executive held immediately prior to the Change in Control, a reduction in the aggregate of the Executive s Base Pay and Incentive Pay received from the Company and any Subsidiary, or the termination or denial of the Executive s rights to Employee Benefits as herein provided, any of which is not remedied within 10 calendar days after receipt by the Company of written notice from the Executive of such change, reduction or termination, as the case may be;

(C) A determination by the Executive made in good faith that as a result of a Change in Control and a change in circumstances thereafter significantly affecting his position, including without limitation a change in the scope of the business or other activities for which he was responsible immediately prior to a Change in Control, he has been rendered substantially unable to carry out, has been substantially hindered in the performance of, or has suffered a substantial reduction in, any of the authorities, powers, functions, responsibilities or duties attached to the position held by the Executive immediately prior to the Change in Control, which situation is not remedied within 10 calendar days after written notice to the Company from the Executive of such determination;

(D) The liquidation, dissolution, merger, consolidation or reorganization of the Company or transfer of all or a significant portion of its business and/or assets, unless the successor or successors (by liquidation, merger, consolidation, reorganization or otherwise) to which all or a significant portion of its business and/or assets have been transferred (directly or by operation of law) shall have assumed all duties and obligations of the Company under this Agreement pursuant to Section 12 hereof;

(E) The Company shall relocate its principal executive offices, or require the Executive to have his principal location of work changed, to any location which is in excess of 25 miles from the location thereof immediately prior to the Change of Control or to travel away from his office in the course of discharging his responsibilities or duties hereunder significantly more (in terms of either consecutive days or aggregate days in any calendar year) than was required of him prior to the Change of Control without, in either case, his prior written consent; or

(F) Without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company or any successor thereto.

(iii) Termination by the Executive of his employment with the Company and any Subsidiary, for any reason or for no reason, at any time during the 90 day period commencing on the first anniversary of the Change in Control, provided that the Executive remains employed by the Company up to the date of that termination by the Executive.

(c) A termination by the Company pursuant to Section 4(a) hereof or by the Executive pursuant to Section 4(b) hereof shall not affect any rights which the Executive may have pursuant to any agreement, policy, plan, program or arrangement of the Company providing Employee Benefits (except as provided in Section 5(a)(v) hereof), which rights shall be governed by the terms thereof. If this Agreement or the employment of the Executive is terminated under circumstances in which the Executive is not entitled to any payments under Sections 3, 5 or 6 hereof, the Executive shall have no further obligation or liability to the Company hereunder with respect to his prior or any future employment by the Company.

5. Severance Compensation

(a) If, following the occurrence of a Change in Control, the Company shall terminate the Executive s employment during the Period of Employment other than pursuant to Section 4(a) hereof, or if the Executive shall terminate his employment pursuant to Section 4(b) hereof, the Company shall continue to provide the following benefits and shall further pay to the Executive the following amounts within 5 business days after the date (the Termination Date) that the Executive s employment is terminated (the effective date of which shall be the date of termination, or such other date that may be specified by the Executive if the termination is pursuant to Section 4(b) hereof):

(i) Base Pay through the Termination Date, to the extent not previously paid to the Executive.
(ii) Incentive Pay for any calendar year ended before the Termination Date in the same amount that would have been payable to the Executive with respect to that calendar year if the Executive had remained in the employ of the Company through the end of the Period of Employment, to the extent not previously paid to the Executive.
(iii) An amount constituting a pro rata Incentive Pay award for the partial year ending on the Termination Date and equal to (A) the greater of (I) the Annual Incentive Pay Amount or (II) the aggregate Incentive Pay to which the Executive would have been entitled pursuant to this Agreement or any agreement, policy, plan, program or arrangement referred to therein had he remained in the employ of the Company through the end of the calendar year in which his employment is terminated, multiplied by (B) a fraction, the numerator of which is the number of days from January 1 of the calendar year in which the Termination Date occurs to the Termination Date, inclusive, and the denominator of which is 365.
(iv) In lieu of any further payments to the Executive for periods subsequent to the Termination Date, but without affecting the rights of the Executive referred to in Section 5(b) hereof, a lump sum payment (the Severance Payment) in an amount equal to 3 times the sum of (A) the Annual Base Pay Amount (at the highest rate in effect for any period prior to the Termination Date), plus (B) the Annual Incentive Pay Amount.
(v) For the period commencing on the Termination Date and ending on the third anniversary of the Termination Date (the Benefit Continuation Period), the Company shall arrange to provide the Executive with Employee Benefits that are welfare benefits, but not stock option, stock purchase, stock appreciation, or similar compensatory benefits, substantially similar to those which the Executive was receiving or entitled to receive immediately prior to the Termination Date (and if and to the extent that such benefits shall not or cannot be paid or provided under any policy, plan, program or arrangement of the Company or any Subsidiary, as the case may be, then the Company shall itself pay or provide for the payment to the Executive, his dependents and beneficiaries, such Employee Benefits). Without otherwise limiting the purposes or effect of Section 7 hereof, Employee Benefits otherwise receivable by the Executive pursuant to the first sentence of this Section 5(a)(ii) shall be reduced to the extent comparable welfare benefits are actually received by the Executive from another employer during the Benefit Continuation Period, and any such benefits actually received by the Executive shall be reported by the Executive to the Company. Notwithstanding the foregoing, the Benefit Continuation Period shall be considered service with the Company for the purpose of determining service credits and benefits due and payable to the Executive under the Company s retirement income, supplemental executive retirement and other benefit plans of the Company applicable to the Executive or his beneficiaries immediately prior to the Termination Date.
(b) Upon written notice given by the Executive to the Company prior to the occurrence of a Change in Control, the Executive, at his sole option, without reduction to reflect the present value of such amounts as aforesaid, may elect to have all or any of the Severance Payment payable pursuant to Section 5(a) hereof paid to him on a quarterly or monthly basis during the Benefit Continuation Period.

(c) There shall be no right of set-off or counterclaim in respect of any claim, debt or obligation against any payment to or benefit for the Executive provided for in this Agreement, except as expressly provided in Section 5(a)(v) hereof.
(d) Without limiting the rights of the Executive at law or in equity, if the Company fails to make any payment required to be made hereunder on a timely basis, the Company shall pay interest on the amount thereof at an annualized rate of interest equal to the then-applicable discount rate required to be utilized for purposes of Section 280G of the Code or any successor provision thereto, or if no such rate is so required to be used, a rate equal to the then applicable interest rate prescribed by the Pension Benefit Guarantee Corporation for benefit valuations in connection with non-multiemployer pension plan terminations assuming the immediate commencement of benefit payments.
(e) Notwithstanding any other provision hereof, the parties respective rights and obligations under this Section 5 will survive any termination or expiration of this Agreement or the termination of the Executive s employment for any reason whatsoever.
6. Certain Additional Payments by the Company
(a) Anything in this Agreement to the contrary notwithstanding, in the event that this Agreement shall become operative and it shall be determined (as hereafter provided) that any payment or distribution by the Company or any of its affiliates to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any stock option, stock appreciation right or similar right, or the lapse or termination of any restriction on or the vesting or exercisability of any of the foregoing (individually and collectively a Payment), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto) by reason of being considered contingent on a change in ownership or control of the Company, within the meaning of Section 280G of the Code (or any successor provision thereto), or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, being hereafter collectively referred to as the Excise Tax), then the Executive shall be entitled to receive an additional payment or payments (individually and collectively, a Gross-Up Payment). The Gross-Up Payment shall be in an amount such that, after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.
(b) Subject to the provisions of Section 6(e) hereof, all determinations required to be made under this Section 6, including whether an Excise Tax is payable by the Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required to be paid by the Company to the Executive and the amount of such Gross-Up Payment, if any, shall be made by a nationally recognized accounting firm (the Accounting Firm) selected by the Executive in his sole discretion. The Executive shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and the Executive within 30 calendar days after the Termination Date, if applicable, and any such other time or times as may be requested by the Company or the Executive. If the Accounting Firm determines that any Excise Tax is payable by the Executive, the Company shall pay the required Gross-Up Payment to the Executive within 5 business days after receipt of such determination and calculations with respect to any Payment to the Executive. The federal tax returns filed by the Executive shall be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by the Executive. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall, at the same time as it makes such

determination, furnish the Company and the Executive an opinion that the Executive has substantial authority not to report any Excise Tax on his federal income tax return. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) at the time of any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an Underpayment), consistent with the calculations required to be made hereunder. In the event that the Company exhausts or fails to pursue its remedies pursuant to Section 6(e) hereof and the Executive thereafter is required to make a payment of any Excise Tax, the Executive shall direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and the Executive as promptly as possible. Any such Underpayment shall be promptly paid by the Company to, or for the benefit of, the Executive within 5 business days after receipt of such determination and calculations.

(c) The Company and the Executive shall each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or the Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determinations and calculations contemplated by Section 6(b) hereof.

(d) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Section 6(b) hereof shall be borne by the Company. If such fees and expenses are initially paid by the Executive, the Company shall reimburse the Executive the full amount of such fees and expenses within 5 business days after receipt from the Executive of a statement therefor and reasonable evidence of his payment thereof.

(e) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of a Gross-Up Payment. Such notification shall be given as promptly as practicable but no later than 10 business days after the Executive actually receives notice of such claim and the Executive shall further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by the Executive). The Executive shall not pay such claim prior to the earlier of (i) the expiration of the 30-calendar-day period following the date on which he gives such notice to the Company and (ii) the date that any payment of amount with respect to such claim is due. If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) provide the Company with any written records or documents in his possession relating to such claim reasonably requested by the Company;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including without limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and shall indemnify and hold harmless the Executive on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limiting the foregoing provisions of this Section 6(e), the Company shall control all proceedings taken in connection with the contest of any claim contemplated by this Section 6(e) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided, however, that the Executive may participate therein at his own cost and expense) and may, at its option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay the tax claimed and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance; and provided further, however, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company s control of any such contested claim shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(f) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 6(e) hereof, the Executive receives any refund with respect to such claim, the Executive shall (subject to the Company s complying with the requirements of Section 6(e) hereof) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 6(e) hereof, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 calendar days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of any such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid by the Company to the Executive pursuant to this Section 6.

7. No Mitigation Obligation

The Company hereby acknowledges that it will be difficult, and may be impossible, for the Executive to find reasonably comparable employment following the Termination Date and that the noncompetition covenant contained in Section 8 hereof will further limit the employment opportunities for the Executive. In addition, the Company acknowledges that its severance pay plans applicable in general to its salaried employees do not provide for mitigation, offset or reduction of any severance payment received thereunder. Accordingly, the parties hereto expressly agree that the payment of the severance compensation by the company to the Executive in accordance with the terms of this Agreement will be liquidated damages, and that the Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor shall any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise, except as expressly provided in Section 5(a)(v) hereof.

8. Competitive Activity

During a period ending 1 year following the Termination Date, if the Executive shall have received or shall be receiving benefits under Section 5 hereof and, if applicable, Section 6 hereof, the Executive shall not, without the prior written consent of the Company, which consent shall not be unreasonably withheld, engage in any Competitive Activity. For purposes of this Agreement, the term Competitive Activity shall mean the Executive s participation, without the written consent of an officer of the Company, in the management of any business enterprise if such enterprise engages in substantial and direct competition with the Company and such enterprise s sales of any product or service competitive with any product or service of the Company amounted to 25% of such enterprise s net sales for its most recently completed fiscal year and if the Company s net sales of said product or service amounted to 25% of the Company s net sales for its most recently completed fiscal year. Competitive Activity shall not include (i) the mere ownership of securities in any such enterprise and exercise of rights appurtenant thereto or (ii) participation in management of any such enterprise other than in connection with the competitive operations of such enterprise.

9. Legal Fees and Expenses

(a) It is the intent of the Company that the Executive not be required to incur legal fees and the related expenses associated with the enforcement or defense of his rights under this Agreement by litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, if it should appear to the Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, the Executive the benefits provided or intended to be provided to the Executive hereunder, the Company irrevocably authorizes the Executive from time to time to retain counsel of his choice, at the expense of the Company as hereafter provided, to represent the Executive in connection with the initiation or defense of any litigation or other legal action, whether by or against the Company or any Director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to the Executive s entering into an attorney-client relationship with such counsel, and in that connection the Company and the Executive agree that a confidential relationship shall exist between the Executive and such counsel. Without respect to whether the Executive prevails, in whole or in part, in connection with any of the foregoing, the Company shall pay or cause to be paid and shall be solely responsible for any and all attorneys and related fees and expenses incurred by the Executive in connection with any of the foregoing.

(b) Without limiting the generality or effect of Section 9(a) hereof, in order to ensure the benefits intended to be provided to the Executive under Section 9(a) hereof, the Company will promptly use its best efforts to secure an irrevocable standby letter of credit (the Letter of Credit), issued by National City Bank or another bank having combined capital and surplus in excess of $500 million (the Bank) for the benefit of the Executive and certain other of the officers of the Company and providing that the fees and expenses of counsel selected from time to time by the Executive pursuant to this Section 9 shall be paid, or reimbursed to the Executive if paid by the Executive, on a regular, periodic basis upon presentation by the Executive to the Bank of a statement or statements prepared by such counsel in accordance with its customary practices. The Company shall pay all amounts and take all action necessary to maintain the Letter of Credit during the Period of Employment and for 2 years thereafter and if, notwithstanding the Company s complete discharge of such obligations, such Letter of Credit shall be terminated or not renewed, the Company shall obtain a replacement irrevocable clean letter of credit drawn upon a commercial bank selected by the Company and reasonably acceptable to the Executive, upon substantially the same terms and conditions as contained in the Letter of Credit, or any similar arrangement which, in any case, assures the Executive the benefits of this Agreement without incurring any cost or expense in connection therewith.

(c) Notwithstanding any other provision hereof, the parties respective rights and obligations under this Section 9 will survive any termination or expiration of this Agreement or the termination of the Executive s employment for any reason whatsoever.

10. Employment Rights

Nothing expressed or implied in this Agreement shall create any right or duty on the part of the Company or the Executive to have the Executive remain in the employment of the Company prior to any Change in Control; provided, however, that any termination of employment of the Executive or the removal of the Executive from his office or position in the Company or any Subsidiary following the commencement of any discussion with a third person that ultimately results in a Change in Control shall be deemed to be a termination or removal of the Executive after a Change in Control for purposes of this Agreement.

11. Withholding of Taxes

The Company may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as shall be required pursuant to any law or government regulation or ruling.

12. Successors and Binding Agreement

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform if no such succession had taken place. This Agreement shall be binding upon and inure to the benefit of the Company and any successor to the Company, including without limitation any persons acquiring directly or indirectly all or substantially all of the business and/or assets of the Company whether by purchase, merger, consolidation, reorganization or otherwise (and such successor shall thereafter be deemed the Company for the purposes of this Agreement), but shall not otherwise be assignable, transferable or delegable by the Company.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive s personal or legal representatives, executors, administrators, successors, heirs, distributees and/or legatees.

(c) This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign, transfer or delegate this Agreement or any rights or obligations hereunder except as expressly provided in Sections 12(a) and 12(b) hereof. Without limiting the generality of the foregoing, the Executive s right to receive payments hereunder shall not be assignable, transferable or delegable, whether by pledge, creation of a security interest or otherwise, other than by a transfer by his will or by the laws of descent and distribution and, in the event of any attempted assignment or transfer contrary to this Section 12(c), the Company shall have no liability to pay any amount so attempted to be assigned, transferred or delegated.

(d) The Company and the Executive recognize that each party will have no adequate remedy at law for breach by the other of any of the agreements contained herein and, in the event of any such breach, the Company and the Executive hereby agree and consent that the other shall be entitled to a decree of specific performance, mandamus or other appropriate remedy to enforce performance of this Agreement.

13. Notice

For all purposes of this Agreement, all communications including without limitation notices, consents, requests or approvals, provided for herein shall be in writing and shall be deemed to have been duly given when delivered or 5 business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed to the Company (to the attention of the Secretary of the Company) at its principal executive office and to the Executive at his principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of change of address shall be effective only upon receipt.

14. Governing Law

The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Ohio, without giving effect to the principles of conflict of laws of such State.

15. Validity

If any provision of this Agreement or the application of any provision hereof to any person or circumstances is held invalid, unenforceable or otherwise illegal, the remainder of this Agreement and the application of such provision to any other person or circumstances shall not be affected, and the provision so held to be invalid, unenforceable or otherwise illegal shall be reformed to the extent (and only to the extent) necessary to make it enforceable, valid and legal.

16. Miscellaneous

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto or compliance with any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, expressed or implied with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement.

17. Counterparts

This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed and delivered as of the date first above written.

EXECUTIVE

THE LUBRIZOL CORPORATION

By:

Chairman and Chief Executive Officer

Exhibit 10.29

TO: _________
Wickliffe

RE: Long Term Incentive Pay Plan

Dear _________:

January 1, 2004

The Organization and Compensation Committee (Committee) of the Board of Directors of The Lubrizol Corporation (the Company) has, under The Lubrizol Corporation Executive Officer Long Term Incentive Pay Plan, granted you a target award (the Award). This letter explains the terms and conditions of the Award.

1. You will be eligible to receive $___in accordance with the three-year operating earnings per share performance target chart as shown in Exhibit A attached to this letter. Operating earnings is defined as total earnings excluding special items other than gains from patent litigation.

2. You will also be eligible to receive cash in an amount equal to ___share units granted under the Award times the closing price of Lubrizol stock on the date the payment of the Award is approved by the Committee. This portion of the Award will be paid in cash or, if an applicable shareholder approved stock plan is available, and in the Committee s sole discretion, in Lubrizol shares.

3. If there is a Change of Control, as defined under the Plan, prior to the receipt of cash and/or shares under the Award, you will receive a pro-rata amount of the Award upon the Change of Control. The pro-rata amount will be determined as shown on Exhibit B attached to this letter.

4. If you retire, separate from service or die prior to the receipt of the cash and/or shares under the Award, you or your beneficiary will receive a pro-rata amount of the Award upon the end of the three-year cycle based on the number of full months which have elapsed since the date of this letter at the time or your separation from service or death.

You may at any time specify in writing a beneficiary to receive the cash if you die before the receipt of the cash and/or shares under the Award. If the Company does not have a beneficiary election on file at the time of your death, the cash and/or shares under the Award will be paid to your spouse, or if your spouse is not living at the time of issuance, your children who are living, or if you have no living children at the time of issuance, your estate.

5. The Award is not transferable by you during your life.

6. Prior to the issuance of the cash and/or shares under this Award you will have no rights to any amounts with respect to the Award, nor will you have any rights as a shareholder of the Company. No dividends or other amounts will be allocated or paid to you with respect to the Award.

7. If there is a stock split, reverse stock split or stock dividend, the number of share units specified in Section 2, above will be increased or decreased in direct proportion to the increase or decrease in the number of outstanding Lubrizol shares by reason of the stock split or stock dividend.
8. When the cash and/or shares are distributable to you under the Award, you may be subject to income and other taxes on the date of distribution. The Company will withhold a sufficient amount from your Award to cover your income tax withholding obligation.
9. Prior to the distribution of cash and/or shares under the Award, the Committee has the right in its sole discretion to increase or decrease the amount of this Award.
10. The Committee has conclusive authority, subject to the express provisions of the Plan, as in effect from time to time, and this Award, to interpret this Award and the Plan, and to establish, amend and rescind rules and regulations for the administration of the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in this Award in the manner and to the extent it deems expedient to carry the Plan into effect, and it is the sole and final judge of such expediency. The Board of Directors of the Company may from time to time grant to the Committee such further powers and authority as the Board determines to be necessary or desirable.
11. Notwithstanding any other provision of this Award, your Award will be subject to all of the provisions of the Plan in force from time to time.

THE LUBRIZOL CORPORATION

By

W. G. Bares
Chief Executive Officer

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Three-Year (2004-2006) EPS Performance Target Chart

	Three-year Compound Growth Rate	Payout	Cash Award	Restricted Shares	Restricted Share Value	Total Payout
Cliff						
Target						
200%						
300%						

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EXHIBIT B

Determination of Pro-Rata Amount Upon a Change of Control Under Section 3

Pursuant to the terms of Section 3, the pro-rata amount of the Award upon a Change of Control will be determined as follows:

1. No payout if 12 months has not elapsed since the date of this letter.
2. If more than 12 months has elapsed since the date of this letter:
   (a) Determine the growth rate in operating EPS for each full year that has elapsed in the 3-year period as of the date of the Change of Control,

   (b) The 3-year cumulative operating EPS growth will be imputed as either the 1-year EPS growth (if the Change of Controls occurs during the second year) or the 2-year cumulative operating EPS growth (if the Change of Control occurs during the third year).

   (c) Payout is then pro-rated based on number of full months that have elapsed since the date of this letter.

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Exhibit 12.1

THE LUBRIZOL CORPORATION AND SUBSIDIARIES
Computation of Ratio of Earnings to Fixed Charges
(all amounts except ratios are shown in millions)

	2005	2004	2003	2002	2001
Pretax income from continuing operations	$ 274.9	$ 142.7	$ 128.5	$ 180.9	$ 145.0
Add (deduct) earnings of less than 50% owned affiliates (net of distributed earnings) included in pretax income	0.1	(0.8)	0.8	1.6	(0.6)
Add losses of less than 50% owned affiliates included in pretax income			0.2		2.1
Add fixed charges net of capitalized interest	114.9	85.8	30.4	28.5	29.7
Add previously capitalized interest amortized during period	1.1	1.2	1.3	1.1	1.6
Earnings	$ 391.0	$ 228.9	$ 161.2	$ 212.1	$ 177.8
Gross interest expense including capitalized interest	$ 105.8	$ 77.6	$ 25.3	$ 22.2	$ 24.1
Interest portion of rental expense	9.8	8.8	5.3	5.2	4.7
Fixed charges	$ 115.6	$ 86.4	$ 30.6	$ 27.4	$ 28.8
Ratio of earnings to fixed charges	3.38	2.65	5.27	7.74	6.17

Exhibit 13.1

This Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements, the notes thereto and the historical summary appearing elsewhere in this annual report. Historical results and percentage relationships set forth in the consolidated financial statements, including trends that might appear, should not be taken as indicative of future operations. The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under the section Cautionary Statements for Safe Harbor Purposes included elsewhere in this annual report.

OVERVIEW

General

We are an innovative specialty chemical company that produces and supplies technologies that improve the quality and performance of our customers products in the global transportation, industrial and consumer markets. Our business is founded on technological leadership. Innovation provides opportunities for us in growth markets as well as advantages over our competitors. From a base of approximately 1,900 patents, we use our product development and formulation expertise to sustain our leading market positions and fuel our future growth. We create additives, ingredients, resins and compounds that enhance the performance, quality and value of our customers products, while minimizing their environmental impact. Our products are used in a broad range of applications, and are sold into stable markets such as those for engine oils, specialty driveline lubricants and metalworking fluids, as well as higher-growth markets such as personal care and over-the-counter pharmaceutical products and performance coatings and inks. Our specialty materials products are also used in a variety of industries, including the construction, sporting goods, medical products and automotive industries. We are an industry leader in the majority of our product lines.

We are geographically diverse, with an extensive global manufacturing, supply chain, technical and commercial infrastructure. We operate facilities in 27 countries, including production facilities in 20 countries and laboratories in 11 countries, through the efforts of more than 7,500 employees. We sell our products in more than 100 countries and believe that our customers value our ability to provide customized, high-quality, cost-effective performance formulations and solutions worldwide. We also believe that our customers value our global supply chain capabilities.

In December 2005, we sold certain assets, liabilities and stock of our Engine Control Systems (ECS) business and, in September 2005, we sold certain assets and liabilities of our U.S. and U.K. Lubrizol Performance Systems (LPS) operations, which were both included in the Lubricant Additives segment. We have reflected the results of these businesses as discontinued operations in the consolidated statements of income for all periods presented. Accordingly, historical consolidated statements of income amounts included in Management s Discussion and Analysis of Financial Condition and Results of Operations have been restated to reflect the discontinued operations. We recorded a gain on sale of discontinued operations of $4.5 million ($3.0 million net of tax) in 2005.

In addition, a definitive sale agreement was signed on November 4, 2005 for the Specialty Chemicals segment s Telene® resins business. At December 31, 2005, the Telene resins business was classified as held for sale pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets and included in discontinued operations. The sale of this business closed on February 3, 2006.

On June 3, 2004, we completed the acquisition of Noveon International, Inc. (Noveon International), a leading global producer and marketer of technologically advanced specialty materials and chemicals used in the industrial and consumer markets. With the acquisition of Noveon International, we have accelerated our program to attain a substantial presence in the personal care and coatings markets by adding a number of higher-growth, industry-leading products under highly recognizable brand names, including Carbopol®, to our already strong portfolio of lubricant and fuel additives and consumer products. Additionally, Noveon International has a number of industry-leading and strong, cash flow-generating specialty materials businesses, including TempRite® and Estane® engineered polymers.

We acquired Noveon International for cash of $920.2 million (inclusive of certain seller expenses of $32.9 million) plus transaction costs of $11.4 million and less cash acquired of $103.0 million. In addition, we assumed $1,103.1 million of long-term indebtedness from Noveon International.

We initially financed the acquisition and related costs with the proceeds of a $2,450.0 million 364-day bridge credit facility. Shortly after the acquisition, we repaid substantially all of the assumed long-term debt with proceeds of the temporary bridge loan. In addition, we repaid the temporary bridge loan in full in September 2004 when we secured permanent financing that included the issuance of senior notes, debentures, a bank term loan and equity.

Our consolidated balance sheets as of December 31, 2005 and 2004 reflect the acquisition of Noveon International under the purchase method of accounting. We recorded the various assets acquired and liabilities assumed, primarily working capital accounts, of Noveon International at their estimated fair values determined as of the acquisition date. Actuarial valuations were completed for the projected pension and other postemployment benefit obligations and were reflected in the purchase price allocation. We also obtained appraisals of long-lived assets and identifiable intangible assets, including an evaluation of in-process research and development (IPR&D) projects. Through June 2005, we finalized certain aspects of the purchase price allocation primarily related to the valuation of the property, plant and equipment and the deferred tax accounts. In addition, through June 2005, we continued the process of completing the reconciliation of the underlying fixed-asset records to the respective appraisals. As a result of both of these efforts, we reduced the amount allocated to property, plant and equipment by $55.2 million since December 31, 2004. Depreciation expense in 2005 included a related adjustment of $2.3 million representing the reduction in depreciation expense associated with the change in the estimated fair values assigned to property, plant and equipment. In addition, the deferred tax accounts were adjusted resulting in a decrease of $17.3 million to the net deferred tax liabilities since December 31, 2004. The goodwill associated with the transaction increased by $34.0 million since December 31, 2004 representing the net impact of all adjustments recorded. The allocation of the purchase price and the related actuarial valuations and appraisals were complete as of June 2005.

The purchase price included the estimated fair value of IPR&D projects totaling $34.0 million that, as of the acquisition date, had not yet reached technological feasibility and had no alternative future use. As a result, the full amount allocated to IPR&D was expensed in 2004. The inventory step-up to fair value totaled $24.2 million, of which $9.8 million was expensed in 2004. As the remaining step-up relates to inventories accounted for on the last-in, first-out (LIFO) method of accounting, we do not anticipate that additional amounts of step-up will be expensed in the near term.

In connection with the acquisition of Noveon International, we targeted non-core businesses with total revenues of approximately $500.0 million for disposition. This plan was contemplated at the time of acquisition and activities have been underway since the fourth quarter of 2004. During 2005, we made progress in our plan to divest non-core businesses. The sales of our equipment businesses, ECS and LPS, were completed in the second half of 2005. The sale of the Telene resins business closed on February 3, 2006. Negotiations currently are in progress for the sale of another small business that is targeted for divestiture. Together with the 2005 completed sales of ECS and LPS, these four businesses have revenues of approximately $100.0 million. Also, negotiations currently are in progress for the largest business targeted for divestiture, consisting of approximately $390.0 million in revenues. Other than the Telene resins business, we do not believe the businesses or assets we are evaluating are considered held for sale pursuant to the provisions of SFAS No. 144 at December 31, 2005.

LUBRICANT ADDITIVES SEGMENT

A variety of industry market forces and conditions continue to influence the Lubricant Additives business. A key factor is the low global growth rate for this market, which we believe is in the range of approximately 0% to 1% per year. Additional characteristics of this market are:

Consolidation of the additive industry and capacity reductions in recent years, which has tightened the supply of lubricant additive components and packages.

Frequent product specification changes primarily driven by original equipment manufacturers (OEMs) and the impact of environmental and fuel economy regulations on the OEMs. The specification changes require us to incur product development and testing costs, but also enable us to apply our technology know-how to create products and solve problems. We believe our technology, and our expertise in applying it, are key strengths.

Improved engine design, which can result in longer lubricant drain intervals. Longer drain intervals reduce demand for finished lubricants.

New vehicle production levels, which affect our specialty driveline fluids in particular because the initial factory fill is an important market factor in that product line.

Raw material costs have been changing more rapidly than we have been able to respond through pricing of our products in the market place.

In recent years, especially in 2005, a general tightening of supplies leading to significant increases in raw material and energy costs.

We believe we are the market leader in lubricant additives and intend to remain the leader by continuing to invest in this business. Our strategy is to continue to optimize our product line mix with existing production capacity.

SPECIALTY CHEMICALS SEGMENT

Our Specialty Chemicals segment s growth strategy involves a combination of internal growth and acquisitions. Since 2000 and prior to the Noveon International acquisition, we made eight acquisitions with aggregate annual revenues at the time of acquisition of approximately $200.0 million. In 2002, we completed four acquisitions having aggregate annual revenues at the time of acquisition of $85.0 million, including Chemron Corporation, a supplier of specialty surfactants principally for the personal care market. In 2003, we acquired personal care ingredients product lines from Amerchol Corporation, a subsidiary of The Dow Chemical Company. Also in 2003, we acquired silicone product lines, which expanded our foam control additives business to $40.0 million in annual revenues in 2004. In January 2004, we acquired the additives business of Avecia, with annual revenues of approximately $50.0 million. This business develops, manufactures and markets high-value additives used in coatings and inks. Our Specialty Chemicals segment represents approximately 44% of consolidated revenues.

We have a strategy to continue to achieve internal growth in the Specialty Chemicals segment by using our strengths, including our technology, formulating skills and broad geographic infrastructure, to develop and invest in new performance technologies in higher-growth industrial and consumer markets. Key factors to our success continue to be the introduction of new products, development of new applications for existing products, cross selling of products, the integration of acquisitions and geographic expansion.

PRIMARY FACTORS AFFECTING 2005 RESULTS

In addition to the contribution from the Noveon International acquisition, the factors that most affected our 2005 results were:

- increased raw material and utility costs;
- our ability to raise selling prices;
- spot volumes in the Lubricant Additives segment;
- integration of Noveon International;
- cost control initiatives, including restructuring programs; and
- our ability to reduce interest costs through debt reduction.

Raw material costs were influenced significantly by the price of crude oil and natural gas, which have been subject to periods of rapid and significant increases in price. In 2005, the cost of our other raw materials and utilities also increased significantly. Our results were affected by how quickly and the extent to which we were able to raise selling prices in response to raw material and utility cost and operating cost increases. The Lubricant Additives segment implemented five price increases in 2005 in response to rapid escalation of these costs. The Specialty Chemicals segment also implemented several price increases across all product lines in 2005.

We continued to integrate the Noveon International acquisition ahead of schedule. We realized savings of approximately $40.0 million during 2005, which is two years ahead of schedule. In addition, we believe we are currently saving at an annual run-rate of approximately $45.0 million as compared to our original run-rate target of $40.0 million.

Our operating cost structure has been pressured by higher energy, maintenance, pension and health care expenses. Additionally, a large portion of our manufacturing expenses are fixed in the short term. As a result of these cost pressures, we implemented several restructuring programs in 2004 and 2005 to lower our cost structure further while maintaining or improving service capabilities for our customers. We achieved approximately $18.3 million of pre-tax savings in 2005 from the 2004 restructuring programs.

Interest expense was impacted favorably by our ability to fully prepay our remaining $500.0 million bank term loan, which was offset, in part, by borrowings of 182.0 million ($215.6 million) under our 250.0 million revolving credit agreement in 2005.

2005 RESULTS OF OPERATIONS COMPARED WITH 2004

Our 2005 revenues as compared to 2004, excluding acquisitions, increased primarily due to improvements in the combination of price and product mix, offset by a slight decrease in shipment volume. The increased revenues partially were offset by higher raw material costs and higher utility costs. Primarily as a result of these factors and acquisitions, gross profit increased 27% in 2005 compared with 2004. Excluding acquisitions, gross profit increased 6% in 2005 compared to 2004.

ANALYSIS OF REVENUES The changes in consolidated revenues are summarized as follows:

					Excluding Acquisitions	
(In Millions of Dollars)	2005	2004	$ Change	% Change	$ Change	% Change
Net sales	$ 4,039.2	$ 3,108.9	$ 930.3	30%	$ 344.8	11%
Royalties and other revenues	3.5	3.9	(0.4)	(10%)	(0.4)	(9%)
Total revenues	$ 4,042.7	$ 3,112.8	$ 929.9	30%	$ 344.4	11%

The 2004 acquisitions contributed $585.5 million toward the increase in 2005 consolidated revenues compared with 2004. Acquisitions in 2004 included Noveon International and the hyperdispersants business purchased from Avecia.

Excluding acquisitions, the increase in consolidated revenues in 2005 compared to 2004 was due to a 12% increase in the combination of price and product mix, offset by a decrease in ongoing shipment volume of 1%.

ANALYSIS OF VOLUME 2005 VS. 2004 Shipment volume patterns vary in different geographic zones. The following table shows our 2005 shipment volume by geographic zone as well as the changes compared with 2004:

	2005 Volume	% Change	Excluding Acquisitions % Change
North America	50%	12%	(5%)
Europe	25%	8%	2%
Asia-Pacific / Middle East	20%	15%	8%
Latin America	5%	9%	
Total	100%	11%	(1%)

Segment shipment volume variances by geographic zone, as well as the factors explaining the changes in segment revenues for 2005 compared with 2004, are contained under the Segment Analysis section.

ANALYSIS OF COSTS AND EXPENSES

					Excluding Acquisitions	
(In Millions of Dollars)	2005	2004	$ Change	% Change	$ Change	% Change
Cost of sales	$ 3,048.9	$ 2,327.2	$ 721.7	31%	$ 295.8	13%
Selling and administrative expenses	367.7	297.1	70.6	24%	10.8	4%
Research, testing and development expenses	204.8	188.9	15.9	8%	(6.0)	(3%)
Amortization of intangible assets	25.2	18.0	7.2	40%		*
Write-off of acquired in-process research and development		34.0	(34.0)	*	(34.0)	*
Restructuring and impairment charges	22.2	37.9	(15.7)	*	(17.5)	*
Total costs and expenses	$ 3,668.8	$ 2,903.1	$ 765.7	26%	$ 249.1	9%

** Calculation not meaningful*

Cost of sales increased due to acquisitions, higher average raw material cost and higher manufacturing expenses. Excluding acquisitions, average raw material cost increased 17% in 2005 compared with 2004. Sequentially, the fourth quarter 2005 average raw material cost increased 7% compared to the third quarter and 9% compared to the second quarter, primarily due to higher prices of crude oil and natural gas. The increase in the material costs during the latter half of 2005 largely was driven by supply disruptions caused by the U.S. Gulf Coast hurricanes. Material cost, including acquisitions, also included inventory step-up adjustments associated with the increased valuation of inventory of $12.5 million in 2004 for the Noveon International and hyperdispersants acquisitions. The Noveon International portion of the inventory step-up adjustment was $9.8 million, or $0.11 per share.

Total manufacturing expenses, which are included in cost of sales, increased 23% (3% excluding acquisitions) in 2005 compared with 2004, primarily due to acquisitions. Excluding acquisitions, the increase primarily was due to a 24% increase in utility costs. In addition, the currency impact was unfavorable by approximately $3.3 million. On a per-unit-sold basis, manufacturing costs increased 3% in 2005 compared to 2004, excluding acquisitions.

Gross profit (net sales less cost of sales) increased $208.6 million, or 27% ($49.0 million, or 6%, excluding acquisitions), in 2005 compared with 2004. Excluding acquisitions, the increase primarily was due to higher average selling price, partially offset by higher unit average raw material cost and higher utility costs. Our 2005 gross profit percentage (gross profit divided by net sales) decreased to 24.5% (24.1% excluding acquisitions) compared to 25.1% in 2004. The decrease primarily was due to higher raw material costs outpacing our ability to raise selling prices sufficiently to sustain gross profit percentages.

Selling and administrative expenses increased $70.6 million or 24% ($10.8 million, or 4%, excluding acquisitions), in 2005 compared with 2004. The increase in selling and administrative expenses, excluding acquisitions, primarily was due to an increase in base and incentive compensation expense of approximately $12.9 million, offset by a non-recurring litigation expense of $1.9 million incurred in 2004.

The timing and amount of research, testing and development expenses (technology expenses) are affected by lubricant additives product standards, which change periodically to meet new emissions, efficiency, durability and other performance factors as OEMs improve engine and transmission designs. Technology expenses, excluding acquisitions, decreased 3% in 2005 compared with 2004. The decrease was primarily due to decreases in base and incentive compensation mostly related to the 2004 reduction in workforce. During 2005 and 2004, approximately 87% of our technology costs were incurred in company-owned facilities and approximately 13% were incurred at third-party facilities. Testing costs for Noveon International primarily occurred at company-owned facilities.

The increased amortization expense in 2005 compared with 2004 primarily was due to the Noveon International and hyperdispersants acquisitions in 2004. These two acquisitions resulted in an increase in gross amortizable intangible assets of approximately $320.3 million with useful lives ranging between 3 and 20 years.

We included a one-time, non-cash charge of $34.0 million, or $0.39 per share, in total costs and expenses in 2004 to write off the estimated fair value of acquired IPR&D projects associated with the Noveon International acquisition. Costs to acquire IPR&D projects that have no alternative future use and that have not yet reached technological feasibility at the date of acquisition are expensed upon acquisition. We obtained appraisals to determine the estimated fair value of IPR&D projects. There were approximately nine projects acquired in the Noveon International transaction in several different product lines. The projects were at varying stages of completeness ranging from the early development stage to prototype testing at the time of acquisition. No further adjustments were made in 2005 to the valuation in connection with the completion of the Noveon International purchase accounting.

In 2005, we recorded restructuring charges aggregating $16.0 million, or $0.16 per share, primarily related to the decision to close three manufacturing facilities in both the Lubricant Additives and Specialty Chemicals segments, as well as other workforce reductions. We also recorded an impairment charge that reduced earnings by $6.2 million, or $0.06 per share, related to one of our European facilities based on the fair value estimates obtained in our divestiture proceedings. The components of the 2005 restructuring and impairment charges are detailed as follows:

(In Millions of Dollars)	Asset Impairments	Other Plant Exit Costs	Severance	Total
Specialty Chemicals plant closures and workforce reductions	$ 4.2	$ 1.0	$ 3.8	$ 9.0
Bromborough, U.K. closure	0.7	1.7	3.7	6.1
Corporate / other workforce reductions			0.7	0.7
European facility impairment	6.2			6.2
Noveon International restructuring liabilities assumed			0.2	0.2
Total restructuring and impairment charges	$ 11.1	$ 2.7	$ 8.4	$ 22.2

In May 2005, we announced the reorganization of the Specialty Chemicals performance coatings product line. This product line includes businesses acquired from Noveon International as well as businesses included in our legacy operations. In connection with the reorganization, we eliminated 26 positions in North America and Europe. These reductions were completed during 2005 and resulted in a severance charge of $1.9 million in 2005.

In the first quarter of 2005, we made the decision and the announcement to close two Specialty Chemicals performance coatings production facilities in the United States. The aggregate restructuring charge recorded for these closures for the year ended December 31, 2005 was $6.6 million, comprised of $4.2 million in asset impairments, $0.9 million in exit costs and $1.5 million in severance costs. We estimate we will incur cumulative severance costs of approximately $2.1 million relating to these closures. We recorded an impairment charge for both plants in the first quarter of 2005 to reflect the related assets at their estimated fair values. The estimated fair value of the assets was determined primarily from third-party appraisals. Production from these sites will be transferred to other facilities in the United States. The facility in Mountaintop, Pennsylvania was closed in October 2005 and sold in January 2006, while the facility in Linden, New Jersey is scheduled to close in the second quarter of 2006. These closures will result in a workforce reduction of 62 employees by the second quarter of 2006. We also recorded a small Specialty Chemicals European restructuring during the fourth quarter amounting to $0.4 million in severance costs and $0.1 million in other exit costs.

In December 2004, we made the decision to close the Lubricant Additives manufacturing facility in Bromborough, United Kingdom. We announced this decision in January 2005. A $17.0 million impairment charge was recorded in December 2004 to reflect the related assets at their estimated fair values. Production phase-out of this site began in the third quarter of 2005 and is expected to be completed by the third quarter of 2006. During this phase-out, United Kingdom production will be transferred to facilities in France and the United States. Approximately 69 employees will be impacted by this closure. The aggregate restructuring charge recorded for this closure during 2005 was $6.1 million, comprised of $0.7 million in asset impairments, $1.7 million in exit costs and $3.7 million in severance costs. We currently anticipate that total pre-tax charges of approximately $16.0 million will be incurred through 2007 to satisfy severance and retention obligations, plant dismantling, site restoration and other site environmental evaluation costs and lease-related costs, including $5.4 million recorded through December 31, 2005.

In addition, we expect to invest approximately $20.0 million in capital related to plant closures, primarily Bromborough, through the first quarter of 2007 for capacity upgrades at alternative manufacturing facilities. Of the total projected capital expenditures, $3.4 million was incurred through December 31, 2005. We expect these workforce reductions, facility closures and transfer of production to more efficient manufacturing locations to generate annual pre-tax savings of approximately $3.2 million for the Specialty Chemicals segment and $10.0 million for the Lubricant Additives segment by 2007.

In the second quarter of 2005, we continued a process of identifying further opportunities to increase efficiency and productivity, reduce costs and support our integration strategy of the Noveon International acquisition. As a result, we reduced headcount in the general and administrative area of our Ohio headquarters. Through these restructuring efforts, we eliminated seven positions resulting in a severance-related charge of $0.7 million in 2005. All of the affected employees had left their positions by June 30, 2005 and the remaining personnel-related costs are expected to be paid by 2006. We continue to evaluate other opportunities to integrate general and administrative functions. As such opportunities are identified in future periods, we expect further restructuring charges.

In addition, we realized approximately $18.3 million of pre-tax savings in 2005 relating to the 2004 restructuring programs.

The charges for these cost reduction initiatives and impairments are reported as a separate line item in the consolidated income statements, entitled Restructuring and impairment charges and are included in the Total cost and expenses subtotal on the consolidated income statements.

ANALYSIS OF OTHER ITEMS AND NET INCOME

					Excluding Acquisitions	
(In Millions of Dollars)	2005	2004	$ Change	% Change	$ Change	% Change
Other (expense) income net	$ (2.0)	$ 5.3	$ 7.3	*	$ 7.9	*
Interest expense net	97.0	72.3	24.7	*	(8.8)	*
Income from continuing operations before income taxes	274.9	142.7	132.2	93%	96.2	67%
Provision for income taxes	93.6	52.1	41.5	80%	29.4	56%
Income from continuing operations	181.3	90.6	90.7	100%	66.8	74%
Discontinued operations net of tax	8.0	2.9	5.1	*	4.1	*
Net income	$ 189.3	$ 93.5	$ 95.8	102%	$ 70.9	76%

** Calculation not meaningful*

The change in net other (expense) income in 2005 predominantly was due to the non-recurring 2004 gain of $6.4 million on a currency forward contract to purchase pound sterling related to the acquisition of the hyperdispersants business. We secured the forward contract in December 2003 and completed the acquisition at the end of January 2004.

The increase in net interest expense in 2005, compared with 2004, primarily was due to the Noveon International acquisition-related financing costs of $82.0 million, or $0.78 per share, in 2005 compared to $56.7 million, or $0.66 per share, in 2004. These costs were comprised of the interest incurred relating to the permanent financing as well as interest on the bridge loan and assumed Noveon International debt not repaid at the time of the acquisition of $42.6 million, amortization of bridge loan fees of $11.2 million and termination of an interest rate swap of $2.9 million. We obtained permanent financing for the Noveon International acquisition in the third quarter of 2004.

We had an effective tax rate of 34.1% in 2005 as compared with 36.5% in 2004. Items driving the decrease in tax rate included reduced tax costs associated with actual and planned foreign dividends, the more favorable impact of foreign tax rate differences and higher U.S. tax benefits on exports. These factors partially were offset by increased state income taxes and lower non-taxable currency gains as compared to 2004.

As of December 31, 2005, we had U.S. net operating loss carryforwards (NOLs) of $178.4 million. These NOLs are a combination of NOLs acquired from Noveon International, as well as those generated in 2004 primarily as a result of transaction-related costs. We expect that these NOLs will be fully utilized during the carryforward period.

Primarily as a result of the above factors, our basic net income per share from continuing operations was $2.67 for the year ended December 31, 2005 as compared to $1.63 in 2004. Basic net income per share from discontinued operations was $0.12 for the year ended December 31, 2005 as compared to $0.05 for the prior-year period. The per share amounts from discontinued operations for the year ended December 31, 2005 consisted of a $0.04 per share gain on the sale of LPS and ECS. We also included in discontinued operations the results of the Telene resins business that were considered held for sale pursuant to the provisions of SFAS No. 144 at December 31, 2005. These discontinued operations added $0.08 of operating income to net income per share from discontinued operations. Restructuring and impairment charges recorded in 2005 reduced earnings by $0.22 per share. Earnings in 2004 included a one-time write-off for IPR&D projects from the Noveon International acquisition of $0.39 per share, a purchase adjustment associated with the increased valuation of Noveon International-acquired inventory of $0.11 per share, a restructuring charge of $0.46 per share, acquisition-related financing costs of $0.66 per share and a gain on a foreign currency forward contract of $0.07 per share.

2004 RESULTS OF OPERATIONS COMPARED WITH 2003

Our 2004 revenues as compared to 2003, excluding acquisitions, increased primarily due to higher ongoing shipment volume and higher average selling price. The increased revenues partially were offset by higher raw material costs and higher manufacturing expenses. Primarily as a result of these factors and acquisitions, gross profit increased 47% in 2004 compared with 2003.

ANALYSIS OF REVENUES The changes in consolidated revenues are summarized as follows:

					Excluding Acquisitions	
(In Millions of Dollars)	2004	2003	$ Change	% Change	$ Change	% Change
Net sales	$ 3,108.9	$ 2,017.3	$ 1,091.6	54%	$ 263.0	13%
Royalties and other revenues	3.9	3.0	0.9	30%	0.5	18%
Total revenues	$ 3,112.8	$ 2,020.3	$ 1,092.5	54%	$ 263.5	13%

The 2004 and 2003 acquisitions accounted for the majority of the increase in consolidated revenues in 2004. Acquisitions in 2004 included Noveon International and the hyperdispersants business purchased from Avecia. Acquisitions in 2003 included the personal care ingredients product lines purchased from Amerchol Corporation, a subsidiary of The Dow Chemical Company, and the silicone product lines purchased from BASF. The 2004 and 2003 acquisitions contributed $835.6 million toward the increase in 2004 consolidated revenues compared with 2003.

Excluding acquisitions, the increase in consolidated revenues in 2004 compared to 2003 was due to a 7% increase in ongoing shipment volume, a 3% increase in average selling price and a 3% favorable currency impact.

ANALYSIS OF VOLUME 2004 VS. 2003 Shipment volume patterns vary in different geographic zones. The following table shows our 2004 shipment volume by geographic zone as well as the changes compared with 2003:

	2004 Volume	% Change	Excluding Acquisitions % Change
North America	49%	39%	4%
Europe	26%	22%	9%
Asia-Pacific / Middle East	19%	31%	16%
Latin America	6%	8%	(8%)
Total	100%	30%	7%

Segment shipment volume variances by geographic zone, as well as the factors explaining the changes in segment revenues for 2004 compared with 2003, are contained under the Segment Analysis section.

ANALYSIS OF COSTS AND EXPENSES

					Excluding Acquisitions	
(In Millions of Dollars)	2004	2003	$ Change	% Change	$ Change	% Change
Cost of sales	$ 2,327.2	$ 1,484.4	$ 842.8	57%	$ 221.4	15%
Selling and administrative expenses	297.1	196.7	100.4	51%	14.1	7%
Research, testing and development expenses	188.9	165.3	23.6	14%	(9.7)	(6%)
Amortization of intangible assets	18.0	4.9	13.1	*	0.1	2%
Write-off of acquired in-process research and development	34.0		34.0	*		*
Restructuring and impairment charges	37.9	22.5	15.4	*	(1.0)	*
Total costs and expenses	$ 2,903.1	$ 1,873.8	$ 1,029.3	55%	$ 224.9	12%

** Calculation not meaningful*

Cost of sales increased due to acquisitions, higher average raw material cost and higher manufacturing expenses. Excluding acquisitions, average raw material cost increased 10% in 2004 compared with 2003, primarily due to higher unit raw material cost and, to a lesser extent, unfavorable currency effects. Sequentially, the fourth quarter 2004 average raw material cost, excluding acquisitions, increased 7% compared to the third quarter and 11% compared to the second quarter, primarily due to higher prices of crude oil and natural gas and unfavorable currency effects. Material cost, including acquisitions, also included inventory step-up adjustments associated with the increased valuation of inventory of $12.5 million in 2004 for the Noveon International and hyperdispersants acquisitions. The Noveon International portion of the inventory step-up adjustment was $9.8 million, or $0.11 per share.

Total manufacturing expenses, which are included in cost of sales, increased 50% (9% excluding acquisitions) in 2004 compared with 2003, primarily due to acquisitions. We estimate that currency effects accounted for approximately 51% of the increase excluding acquisitions. The remainder of the increase primarily was due to higher shipment volumes and an increase in base and incentive compensation expense of $4.4 million. In addition, manufacturing expenses included an increase of $3.3 million for environmental accruals and $2.4 million for increased utility costs. Excluding acquisitions, currency effects and environmental accruals, manufacturing expenses increased 3% in 2004 compared with 2003. On a per-unit-sold basis, manufacturing costs were flat in 2004 compared to 2003, excluding acquisitions.

Gross profit increased $248.8 million, or 47% ($41.6 million, or 8%, excluding acquisitions), in 2004 compared with 2003. Excluding acquisitions, the increase primarily was due to higher shipment volume and higher average selling price, partially offset by higher unit average raw material cost and higher manufacturing expenses. Our 2004 gross profit percentage decreased to 25.1% (25.2% excluding acquisitions) compared to 26.4% in 2003. Sequentially, our gross profit percentage decreased 90 basis points to 23.9% in the fourth quarter of 2004 compared to 24.8% in the third quarter of 2004. The decrease for both periods primarily was due to higher raw material costs outpacing our ability to raise selling prices sufficiently to sustain gross profit percentages.

The selling and administrative expenses increase, excluding acquisitions, primarily was due to an increase in incentive compensation expense of $12.2 million. We estimate that currency effects accounted for approximately 30% of the increase, excluding acquisitions. Technology expenses, excluding acquisitions, decreased 6% in 2004 compared with 2003. Despite an approximate 3% unfavorable currency impact in 2004, this decrease primarily was due to greater utilization of inside testing facilities as compared to outside laboratories, leading to a decrease in testing at outside laboratories of $8.3 million in 2004 compared with 2003, along with a $3.1 million reduction in salary and benefit expenses as a result of the reduction in workforce. During 2004, approximately 87% of our technology cost was incurred in company-owned facilities and approximately 13% was incurred at third-party facilities, compared with approximately 82% and 18%, respectively, in 2003. Testing costs for Noveon International primarily occurred at company-owned facilities, which also contributed to the decrease in the percentage of testing performed at third-party facilities.

The increased amortization expense in 2004 compared with 2003 primarily was due to the Noveon International and hyperdispersants acquisitions in 2004 and the personal care specialty ingredients business acquisition in 2003. These three acquisitions resulted in an increase in gross amortized intangible assets of approximately $334.5 million with useful lives ranging between 3 and 20 years.

We included a one-time, non-cash charge of $34.0 million, or $0.39 per share, in total costs and expenses in 2004 to write-off the estimated fair value of acquired IPR&D projects associated with the Noveon International acquisition. Costs to acquire IPR&D projects that have no alternative future use and that have not yet reached technological feasibility at the date of acquisition are expensed upon acquisition. We obtained appraisals to determine the estimated fair value of IPR&D projects. There were approximately nine projects acquired in the Noveon International transaction in several different product lines. In 2004, the projects were at varying stages of completeness ranging from the early development stage to prototype testing.

In 2004, we recorded aggregate restructuring and impairment charges of $37.9 million, or $0.46 per share, primarily related to asset impairments and workforce reductions. The components of the 2004 restructuring and impairment charges are detailed as follows:

(In Millions of Dollars)	Asset Impairments	Severance / Pension Settlement	Total
Bromborough, U.K. closure	$ 17.0	$	$ 17.0
Corporate / other workforce reductions		18.8	18.8
PuriNOx^{TM} asset impairment	2.1		2.1
Total restructuring and impairment charges	$ 19.1	$ 18.8	$ 37.9

In December 2004, we made the decision to close our Lubricant Additives manufacturing facility in Bromborough, United Kingdom to lower our cost structure further while simultaneously improving our service capabilities for our customers. We announced this decision in January 2005. We determined, as of December 31, 2004, that an impairment of certain of the facility s long-lived assets had been triggered by this decision in the fourth quarter of 2004. As a result, a $17.0 million impairment charge was recorded in December 2004 to reflect the related assets at their estimated fair values. The estimated fair value of the assets was determined using a discounted cash flow model. Production phase-out of this site began in the third quarter of 2005 and is expected to be completed by the third quarter of 2006. During this phase-out, United Kingdom production will be transferred to facilities in France and the United States. Approximately 69 employees will be impacted by this closure.

In 2004, we eliminated more than 100 positions, primarily affecting technical and commercial employees located at our Wickliffe, Ohio headquarters. Most of these workforce reductions were related to our restructuring following our acquisition of Noveon International. In addition to the employee severance costs, we incurred a non-cash pension benefit settlement charge. These reductions were completed by December 31, 2004 and resulted in pre-tax savings of approximately $7.1 million in 2004.

In addition, we realized approximately $10.4 million of pre-tax savings in 2004 relating to the 2003 restructuring programs.

ANALYSIS OF OTHER ITEMS AND NET INCOME

					Excluding Acquisitions	
(In Millions of Dollars)	2004	2003	$ Change	% Change	$ Change	% Change
Other income net	$ 5.3	$ 3.3	$ 2.0	*	$ 0.1	*
Interest expense net	72.3	21.3	51.0	*	(4.4)	*
Income from continuing operations before income taxes	142.7	128.5	14.2	11%	43.1	34%
Provision for income taxes	52.1	37.9	14.2	37%	23.9	63%
Income from continuing operations	90.6	90.6			19.2	21%
Discontinued operations net of tax	2.9	0.2	2.7	*	2.7	*
Net income	$ 93.5	$ 90.8	$ 2.7	3%	$ 21.9	24%

** Calculation not meaningful*

The net other income in 2004 included a gain of $6.4 million, or $0.07 per share, on a currency forward contract to purchase pound sterling related to the acquisition of the hyperdispersants business in the first quarter. We secured the forward contract in December 2003 and completed the acquisition at the end of January 2004. This gain partially was offset by other currency translation losses.

The increase in net interest expense in 2004, compared with 2003, primarily was due to the Noveon International acquisition-related financing costs of $56.7 million, or $0.66 per share. These costs were comprised of the interest incurred relating to the permanent financing as well as interest on the bridge loan and assumed Noveon International debt not repaid at the time of the acquisition of $42.6 million, amortization of bridge loan fees of $11.2 million and termination of an interest rate swap of $2.9 million.

During 2004, the U.S. dollar weakened against most currencies, especially the euro. The change in currency exchange rates in 2004, as compared with 2003 exchange rates, had a favorable effect on 2004 net income.

We had an effective tax rate of 36.5% in 2004 as compared with 29.5% in 2003 as the result of the net impact of a number of factors. Items driving the increased tax rate included an increase in tax on unrepatriated earnings of foreign subsidiaries, a reduction in our ability to claim both U.S. foreign tax credits and to obtain U.S. tax benefits on exports following the Noveon International acquisition, and less significant non-taxable currency gains than occurred in 2003. These factors partially were offset by the favorable impact of foreign tax rate differences and other less significant items.

Primarily as a result of the above factors, our net income per share, basic was $1.68 in 2004 compared with $1.76 in 2003. Earnings for 2004 benefited from Noveon International s operating income, before financing costs, inventory step-up charges and the write-off of IPR&D projects, of $78.3 million, or $0.91 per share. Earnings in 2004 included a one-time write-off of IPR&D projects from the Noveon International acquisition of $0.39 per share, a purchase adjustment associated with the increased valuation of Noveon International acquired inventory of $0.11 per share, restructuring charges of $0.46 per share, acquisition-related financing costs of $0.66 per share and a gain on a foreign currency forward contract of $0.07 per share. The 2003 restructuring charge reduced earnings by $0.29 per share in 2003.

SEGMENT ANALYSIS

We primarily evaluate performance and allocate resources based on segment operating income, defined as revenues less expenses identifiable to the product lines included within each segment, as well as projected future returns. Segment operating income will reconcile to consolidated income from continuing operations before income taxes by deducting corporate expenses and corporate other (expense) income that are not attributable to the operating segments, the write-off of acquired IPR&D projects, restructuring and impairment charges and net interest expense.

The Lubricant Additives segment represents approximately 56% and 58% of our consolidated revenues and segment operating income, respectively, for 2005. The Specialty Chemicals segment represents approximately 44% and 42% of our consolidated revenues and segment operating income, respectively, for 2005.

OPERATING RESULTS BY SEGMENT

				2005 vs. 2004					**2004 vs. 2003**	
						Excluding Acquisitions			Excluding Acquisitions	
(In Millions of Dollars)	**2005**	**2004**	**2003**	**$ Change**	**% Change**	**$ Change**	**% Change**		**$ Change**	**% Change**
Revenues:										
Lubricant Additives	$ 2,280.1	$ 1,998.6	$ 1,767.1	$ 281.5	14%	$ 281.5	14%		$ 231.5	13%
Specialty Chemicals	1,762.6	1,114.2	253.2	648.4	*	62.9	6%		31.9	13%
Total	$ 4,042.7	$ 3,112.8	$ 2,020.3	$ 929.9	30%	$ 344.4	11%		$ 263.4	13%
Gross Profit:										
Lubricant Additives	$ 531.2	$ 508.4	$ 472.9	$ 22.8	4%	$ 22.8	4%		$ 35.5	8%
Specialty Chemicals	459.1	273.3	60.0	185.8	*	26.1	10%		5.9	10%
Total	$ 990.3	$ 781.7	$ 532.9	$ 208.6	27%	$ 48.9	6%		$ 41.4	8%
Segment Operating Income:										
Lubricant Additives	$ 266.6	$ 240.9	$ 200.9	$ 25.7	11%	$ 25.7	11%		$ 40.0	20%
Specialty Chemicals	193.6	83.9	0.9	109.7	*	38.3	*		6.2	*
Total	$ 460.2	$ 324.8	$ 201.8	$ 135.4	42%	$ 64.0	20%		$ 46.2	23%

** Calculation not meaningful*

LUBRICANT ADDITIVES SEGMENT

2005 COMPARED WITH 2004 Segment revenues increased 14% in 2005 compared to 2004, due to a 12% improvement from the combination of price and product mix, and 1% increases in both volume and currency.

Shipment volume patterns vary in different geographic zones. The following table shows our shipment volume by geographic zone in 2005 as well as the changes compared with 2004:

	2005 Volume	% Change
North America	38%	(5%)
Europe	31%	3%
Asia-Pacific / Middle East	25%	9%
Latin America	6%	2%
Total	100%	1%

Total volume increased 1% in 2005 compared to 2004. Our results reflect some spot business or temporary business gains during 2005 due to a competitor s supply difficulties. This increase partially was offset by the final piece of lost business of a major international customer in the second half of 2004 and the impact on shipment volumes of the higher concentration associated with the new passenger car technical standard GF-4 as compared to GF-3. Excluding these three specific factors, volume increased 3% globally and 1% in North America compared to 2004.

Higher shipment volume in Europe in 2005 compared with 2004 primarily was due to increases in our engine additives product line due to improved product mix and market share gains. The Asia-Pacific / Middle East region benefited from overall expanded growth in that market, particularly China, as well as spot business gains due to a competitor s supply difficulties. Excluding the spot business gains, volumes increased 5% in Asia-Pacific / Middle East.

The Lubricant Additives segment implemented a series of price increases in 2005 in response to continued raw material cost increases as well as higher prices for natural gas and electricity used in our plants. The effective dates of the price increases varied by geographic shipment zone. We have received further raw material cost increases since December 31, 2005 that will result in higher raw material costs in the first quarter of 2006 as compared to the fourth quarter of 2005. We have announced our first price increase in 2006 to become effective during the first quarter to address these higher costs.

Segment gross profit increased $22.8 million, or 4%, in 2005 compared to 2004. The increase primarily was due to the cumulative impact of the selling price increases as well as an increase in volume, largely offset by higher average raw material cost and to a lesser extent, higher utility costs. In 2005, average unit raw material cost increased 22% compared to 2004. Manufacturing expenses increased 3% in 2005, however, on a per-unit-sold-basis, manufacturing expenses increased only 1% as compared to the prior year. The increase in manufacturing expenses was driven by higher utilities and maintenance costs in 2005 partially offset by lower employee benefit expense and lower environmental accruals.

Gross profit as a percentage of net sales for the segment was 23.3% for 2005 compared with 25.5% in 2004. The decline primarily was due to the time lag between the effective date of selling price increases in the wake of continuing raw material cost increases and raw material costs rising proportionally faster than selling prices.

Selling, technical, administrative and research (STAR) expenses decreased 1% in 2005 compared to 2004, primarily due to lower technical expenses of $3.1 million. The decrease in technical expenses primarily was due to lower outside technical expenses impacted by delays in the industry specifications for new lubricant additive programs.

Segment operating income (revenues less expenses attributable to the product lines aggregated within each segment) increased 11% in 2005 compared with 2004 due to the factors previously discussed.

2004 COMPARED WITH 2003 Segment revenues increased 13% in 2004 compared to 2003, due to 7% higher volume and 6% higher average selling price, approximately one-half of which was due to favorable currency.

The following table shows our shipment volume by geographic zone in 2004 as well as the changes compared with 2003:

	2004 Volume	% Change
North America	41%	4%
Europe	30%	8%
Asia-Pacific / Middle East	23%	16%
Latin America	6%	(9%)
Total	100%	7%

The shipment volume increase in North America in 2004 compared with 2003 primarily resulted from increases in our specialty driveline and industrial oil additives product line and in our emulsion fuels products, which more than offset a modest decline in the engine additives product line due to lost business. Higher shipment volume in Europe in 2004 compared with 2003 primarily was due to increases in our engine additives product line and market share gains in our specialty driveline and industrial oil additives product line. The shipment volume increase in Asia-Pacific / Middle East in 2004 compared with 2003 primarily was due to economic recovery in the region, market share gains in China primarily in our engine additives and specialty driveline and industrial oil additives product lines, along with favorable timing of orders. The decrease in Latin America in 2004 compared with 2003 substantially was due to some lost business primarily within our engine additives product line and changes in order pattern for a major customer in that region.

The Lubricant Additives segment implemented a series of price increases in 2004 in response to continued raw material cost increases, particularly during the second half of the year, and higher prices for natural gas used for utilities in our plants.

The increase in segment gross profit of $35.5 million, or 8%, in 2004 compared with 2003, primarily was due to higher revenues partially offset by higher average raw material cost and higher manufacturing expenses. In 2004, average material cost increased 11% and manufacturing expenses increased 8% compared with 2003. The increase in manufacturing expenses primarily was due to unfavorable currency, higher manufacturing throughput, environmental accruals, higher utilities and higher compensation expense including increased variable pay.

Gross profit as a percentage of net sales for the segment was 25% for 2004 compared with 27% in 2003. The decrease primarily was due to raw material costs increasing faster than selling price increases.

STAR expenses decreased $3.7 million, or 1%, in 2004 compared with 2003, primarily due to lower outside testing expenses as a result of higher utilization of our internal testing facilities and the effects of the reductions in workforce discussed previously, partially offset by a $3.9 million charge related to an employee offsite personal injury along with higher incentive compensation expense.

Segment operating income increased 20% in 2004 compared with 2003 due to the factors previously discussed.

SPECIALTY CHEMICALS SEGMENT

2005 COMPARED WITH 2004 In 2005, revenues for the Specialty Chemicals segment increased 58% compared with 2004 primarily due to the 2004 acquisitions of Noveon International and the hyperdispersants business. Excluding acquisitions, segment revenues increased 6% in 2005 compared with 2004 due to a 12% improvement in the combination of price and product mix partially offset by a 6% decrease in shipment volume. The improvements in price and product mix occurred relatively evenly across all three of our product lines as we have implemented price increases to offset rising raw material costs.

Shipment volume patterns vary in different geographic zones. The following table shows our shipment volume by geographic zone in 2005 as well as the changes compared with 2004:

	2005 Volume	% Change	Excluding Acquisitions % Change
North America	72%	36%	(6%)
Europe	14%	32%	(6%)
Asia-Pacific / Middle East	10%	50%	(2%)
Latin America	4%	32%	(9%)
Total	100%	37%	(6%)

Excluding acquisitions, the shipment volume decrease in North America was due to decreases in our consumer specialties and performance coatings product lines. These decreases primarily were due to our exiting certain low-margin business and some market share loss as a result of competitive activity in response to our price increases. The decrease in North American volume partially was offset by a slight increase in our specialty materials product line primarily due to a record 2005 fourth quarter in our TempRite engineered polymers business. Increased customer demand offset lower volume in the first part of the year, which resulted from the merger of two large customers and reduced business in military applications in our Estane engineered polymers business. The volume decrease in Europe primarily was in our consumer specialties product line and was due to market share loss as a result of competitive activity in response to our price increases. The volume decrease in Latin America resulted from a decrease in our consumer specialties product line, which primarily was due to order pattern, and a decrease in our specialty materials product line as a result of the loss of a major customer in the region.

Segment gross profit increased $185.8 million, or 68% (increased $26.1 million, or 10%, excluding acquisitions), in 2005 compared with 2004. Excluding acquisitions, the increase in segment gross profit in 2005 resulted from higher revenues due to an improvement in the combination of price and product mix partially offset by lower volume and higher raw material costs and utility expenses. Average raw material cost increased 11% in 2005 compared with 2004. Raw material cost for 2004 included the impact of $9.8 million of inventory step-up amortization from acquisition accounting. Excluding the impact of the step-up in 2004, average raw material cost increased 13% in 2005 compared with 2004. Manufacturing expenses increased 4% in 2005 compared with 2004 primarily due to higher spending related to utilities partially offset by a favorable depreciation adjustment of $2.3 million related to a purchase accounting adjustment. Average unit manufacturing expense increased 10% due to the combination of lower volumes and higher utility expenses.

Gross profit as a percentage of net sales was 26.0% (25.4% excluding acquisitions) in 2005, compared with 24.5% in 2004. Excluding the impact of the inventory step-up amortization, the gross profit percentage for 2004 was 25.4%. The gross profit percentage was flat with the prior year as the impact of the selling price increases was offset by higher raw material costs and a higher average unit manufacturing cost.

STAR expenses increased $70.5 million, or 40%, in 2005 (decreased $11.8 million, or 7%, excluding acquisitions), compared with 2004. Excluding acquisitions, the decrease in STAR expenses primarily was due to reduced corporate administrative and technical services provided to the segment, the consolidation of some segment administrative functions into corporate functions and savings from a restructuring in our performance coatings product line.

Segment operating income increased $109.7 million in 2005 (increased $38.3 million, excluding acquisitions) compared with segment operating income of $83.9 million in 2004. Excluding acquisitions, the increase in segment operating income primarily was due to the increase in segment gross profit and lower STAR expenses.

2004 COMPARED WITH 2003 In 2004, revenues for the Specialty Chemicals segment increased 340% compared with 2003 primarily due to the 2004 acquisitions of Noveon International and the hyperdispersants business and the 2003 acquisition of the personal care specialty ingredients business from The Dow Chemical Company. Excluding acquisitions, segment revenues increased 13% in 2004 compared with 2003 due to a 7% increase in shipment volume, 4% improvement in the combination of price and product mix and 2% favorable currency impact. The higher-priced product mix for 2004 primarily occurred in our consumer specialties product line.

The following table shows our shipment volume by geographic zone in 2004 as well as the changes compared with 2003:

	2004 Volume	% Change	Excluding Acquisitions % Change
North America	72%	173%	6%
Europe	15%	224%	13%
Asia-Pacific / Middle East	9%	825%	21%
Latin America	4%	184%	8%
Total	100%	200%	7%

Excluding acquisitions, the shipment volume increase in North America for 2004 was due to increases in our specialty emulsifier products in our consumer specialties product line resulting from market share gains and improvements in the mining sector, and increased customer demand and market share gains in our personal care products in our consumer specialties product line. The increase in Europe was due to increased customer demand and market share gains in our performance coatings product line and new business in our specialty emulsifier products. The increase in Asia-Pacific / Middle East was due to market share gains in our consumer specialties product line and higher shipment volumes in our performance coatings product line as some approvals we have obtained in the United States and Europe have been extended by our customers into Asia.

Segment gross profit increased $213.3 million, or 356% (increased $5.9 million, or 10%, excluding acquisitions), in 2004 compared with 2003. Excluding acquisitions, the increase in segment gross profit in 2004 was due to higher revenues partially offset by higher material costs and manufacturing expenses. Average material cost increased 9% in 2004 compared with 2003. Manufacturing expenses increased 5% in 2004 compared with 2003, however average unit manufacturing expense decreased 2% due to the higher shipment volumes.

Gross profit as a percentage of net sales for this segment was 24.5% (23.2% excluding acquisitions) in 2004, compared with 23.8% in 2003. The decrease in gross profit percentage excluding acquisitions was due to higher raw material costs that were only partially offset by an improvement in the combination of price and product mix and lower average unit manufacturing expense. We implemented price increases across most of the businesses during 2004 in response to the rising raw material costs.

STAR expenses increased $117.2 million, or 203%, in 2004 (decreased $2.3 million, or 4%, excluding acquisitions), compared with 2003. Segment operating income increased $83.0 million in 2004 (increased $6.2 million, excluding acquisitions) compared with income of $0.9 million in 2003. Excluding acquisitions, the increase in segment operating income primarily was due to the increase in segment gross profit.

PRO FORMA ANALYSIS

The following table presents major components of and information derived from the pro forma consolidated statement of income and pro forma consolidated statement of cash flows. The major components of the pro forma consolidated statement of income and pro forma consolidated statement of cash flows reflect the effect of the acquisition of Noveon International on June 3, 2004 as if the acquisition occurred as of January 1, 2004. We believe that this data provides the financial statement reader with information that is useful in understanding the impact of the acquisition of Noveon International on our results of operations and cash flows.

The components of and information derived from the pro forma consolidated statement of income and the pro forma consolidated statement of cash flows for the year ended December 31, 2004 are derived from our consolidated financial statements for the year ended December 31, 2004 and the unaudited consolidated financial statements of Noveon International for the period from January 1, 2004 to the acquisition date.

Our consolidated balance sheets as of December 31, 2005 and 2004 reflect the acquisition of Noveon International under the purchase method of accounting. The allocation of the purchase price was completed in June 2005.

The pro forma data gives effect to actual operating results of Noveon International prior to the acquisition. Adjustments to cost of sales for the inventory step-up charge, fixed-asset depreciation, intangible asset amortization, the write-off of acquired IPR&D, interest expense and income taxes related to the acquisition are reflected in the pro forma data. The entire inventory step-up charge was attributable to the Specialty Chemicals segment. In addition, we assumed that the bridge loan obtained at the time of the transaction closing was not replaced with the permanent long-term financing of both debt and equity until the end of April, the fourth month in the period presented. This pro forma data is consistent with the pro forma data that is disclosed in Note 3 to the consolidated financial statements for the year ended December 31, 2004. These pro forma amounts are presented for informational purposes only and do not purport to be indicative of the results that actually would have been obtained if the acquisition had occurred as of the beginning of the period presented or that may be obtained in the future.

The following table summarizes the actual results for 2005 compared to pro forma data for 2004. All of the information in the table reflects data and activity from continuing operations.

(In Millions of Dollars)	Actual 2005	Pro Forma 2004
Consolidated Data		
Total revenues	$ 4,042.7	$ 3,645.3
Gross profit	$ 990.3	$ 939.0
Income before income taxes	$ 274.9	$ 172.5
Income from continuing operations	$ 181.3	$ 110.4
Net income	$ 189.3	$ 114.3
Depreciation expense	$ 154.0	$ 162.4
Amortization of intangible assets	$ 25.2	$ 24.9
Capital expenditures	$ 136.3	$ 155.8
Segment Data		
Lubricant Additives segment:		
Total revenues	$ 2,280.1	$ 1,998.6
Gross profit	$ 531.2	$ 508.4
Segment operating income	$ 266.6	$ 240.9
Depreciation expense	$ 79.7	$ 86.1
Amortization of intangible assets	$ 3.0	$ 3.0
Capital expenditures	$ 70.1	$ 82.4
Specialty Chemicals segment:		
Total revenues	$ 1,762.6	$ 1,646.7
Gross profit	$ 459.1	$ 430.6
Segment operating income	$ 193.6	$ 152.8
Depreciation expense	$ 73.6	$ 75.1
Amortization of intangible assets	$ 22.2	$ 21.9
Capital expenditures	$ 65.6	$ 73.3
Unallocated corporate depreciation expense	$ 0.7	$ 1.0
Corporate capital expenditures	$ 0.6	$ 0.1

COMPARATIVE PRO FORMA DATA (continued)

(In Millions of Dollars)	Actual 2005	Pro Forma 2004
Reconciliation of Segment Operating Income to Income from Continuing Operations before Income Taxes		
Segment operating income:		
Lubricant Additives	$ 266.6	$ 240.9
Specialty Chemicals	193.6	152.8
Total segment operating income	460.2	393.7
Corporate expenses	(62.3)	(44.1)
Corporate other (expense) income net	(3.8)	6.2
Write-off of acquired IPR&D		(34.0)
Restructuring and impairment charges	(22.2)	(41.1)
Interest expense net	(97.0)	(108.2)
Income from continuing operations before income taxes	$ 274.9	$ 172.5

RETURN ON AVERAGE SHAREHOLDERS EQUITY

Return on average shareholders equity was 12.2% in 2005, 7.6% in 2004 and 10.0% in 2003. The return on average shareholders equity is calculated as current year net income divided by the rolling 12-month average of shareholders equity for the current and prior years. The restructuring and impairment charges in 2005, 2004 and 2003 and the write-off of acquired IPR&D in 2004 lowered the return on average shareholders equity by approximately 0.8%, 4.7% and 1.6% in 2005, 2004 and 2003, respectively.

WORKING CAPITAL, LIQUIDITY AND CAPITAL RESOURCES

SELECTED MEASURES OF LIQUIDITY AND CAPITAL RESOURCES The following table summarizes our financial performance indicators of liquidity:

	2005	2004
Cash and short-term investments (in millions of dollars)	$ 262.4	$ 335.9
Working capital (in millions of dollars)	$ 907.4	$ 940.7
Current ratio	2.4	2.4
Debt as a % of capitalization	51.6%	56.2%
Net debt as a % of capitalization	47.3%	51.6%

SUMMARY OF CASH FLOWS The following table summarizes the major components of cash flows:

(In Millions of Dollars)	2005	2004	2003
Cash provided by (used for):			
Operating activities	$ 362.2	$ 328.2	$ 194.8
Investing activities	(106.8)	(1,088.8)	(155.9)
Financing activities	(312.8)	811.9	(59.5)
Effect of exchange-rate changes on cash	(16.1)	25.9	12.9
Net (decrease) increase in cash and short-term investments	$ (73.5)	$ 77.2	$ (7.7)

OPERATING ACTIVITIES

The increase in cash provided by operating activities in 2005 compared with 2004 primarily was due to an increase in earnings after adjusting for non-cash items partially offset by an increase in working capital net of currency effects.

We manage our levels of inventories and accounts receivables on the basis of average days sales in inventory and average days sales in receivables. Our target for accounts receivable is established taking into consideration the weighted average of our various terms of trade for each segment. Our target for days sales in inventory for each segment is established with the goal of minimizing our investment in inventories while at the same time ensuring reliable supply for our customers. Improvement in both the timing of cash collections and inventory turns helped mitigate the increase in these working capital components due to higher average selling price and higher inventory costs.

INVESTING ACTIVITIES

Our capital expenditures in 2005 were $136.7 million, as compared with $133.2 million and $88.5 million in 2004 and 2003, respectively. Capital expenditures for the Lubricant Additives segment primarily are to maintain existing manufacturing capacity. Approximately 27% of the capital expenditures in the Specialty Chemicals segment related to increasing capacity. In 2006, we estimate annual capital expenditures will be approximately $170.0 million to $175.0 million, including additional expenditures related to the phase-out of the Bromborough facility.

The net decrease in cash used to fund acquisitions in 2005 as compared to the prior year related to the acquisitions of the hyperdispersants business of Avecia and Noveon International in 2004. In June 2004, we completed the acquisition of Noveon International that utilized cash of $920.2 million plus transaction costs of $11.4 million and less cash acquired of $103.0 million. In January 2004, we completed the acquisition of the hyperdispersants business of Avecia for cash totaling $129.7 million.

The increase in net proceeds from divestitures and sales of property primarily relates to net cash received from the sales of the ECS and LPS businesses of $23.2 million in 2005.

FINANCING ACTIVITIES

The cash used for financing activities of $312.8 million in 2005 primarily was due to the $500.0 million in term-loan principal payments, offset, in part, by borrowings of 182.0 million ($215.6 million) under our 250.0 million revolving credit agreement in 2005. This compares to $811.9 million provided by financing activities in 2004 primarily due to the aggregate net proceeds of $2,170.0 million received relating to: the issuance of 14.7 million of our common shares, $1,150.0 million in unsecured senior notes and debentures and a $575.0 million bank term loan that were used to repay the temporary bridge loan that funded the Noveon International acquisition and the repayment of $1,103.1 million in assumed debt.

CAPITALIZATION AND CREDIT FACILITIES

At December 31, 2005, our total debt outstanding of $1,670.8 million consisted of 63% fixed-rate debt and 37% variable-rate debt, including $400.0 million of fixed-rate debt that has been effectively swapped to a variable rate. Our weighted-average interest rate as of December 31, 2005 was approximately 5.5%.

In September 2005, three of our wholly owned foreign subsidiaries entered into a new five-year unsecured 250.0 million revolving credit agreement. This credit agreement permits these foreign subsidiaries to borrow at variable rates based on EURIBOR plus a specified credit spread. We have guaranteed all obligations of the borrowers under the credit agreement. On September 20, 2005, Europe Chemical Holdings C.V. borrowed 175.0 million under this agreement, of which 10.0 million was repaid in December 2005. On October 25, 2005, Noveon Europe BVBA borrowed 17.0 million under this agreement.

One of our major cash management activities during 2005 was to repatriate overseas cash. We repatriated $482.2 million consisting of $268.4 million of existing foreign subsidiary cash and $213.8 million financed by the euro bank facility executed in September 2005.

Our net debt to capitalization ratio at December 31, 2005 was 47.3%. Net debt is the total of short-term and long-term debt, reduced by cash and short-term investments excluding original issue discounts and unrealized gains and losses on derivative instruments designated as fair-value hedges of fixed-rate debt. Capitalization is shareholders equity plus net debt. Total debt as a percent of capitalization was 51.6% at December 31, 2005.

Our ratio of current assets to current liabilities was 2.4 at December 31, 2005 and 2004.

At December 31, 2005, we had a $500.0 million revolving credit facility that matures in August 2009, which allows us to borrow at variable rates based upon the U.S. prime rate or LIBOR plus a specified credit spread. As of December 31, 2005, we had no outstanding borrowings under this agreement.

CONTRACTUAL CASH OBLIGATIONS

The following table shows our contractual cash obligations under debt agreements, leases, non-cancelable purchase commitments and other long-term liabilities at December 31, 2005:

		Payments Due by Period			
(In Millions of Dollars)	Total	2006	2007 2008	2009 - 2010	2011 and After
Total debt (1)	$ 1,675.6	$ 7.9	$ 200.5	$ 615.8	$ 851.4
Interest (2)	1,039.0	81.9	163.5	121.5	672.1
Operating leases	82.5	22.7	30.9	15.4	13.5
Non-cancelable purchase commitments (3)	153.7	55.9	66.6	24.8	6.4
Other long-term liabilities (4)(5)	56.8	27.1	16.9	5.9	6.9
Total contractual cash obligations	$ 3,007.6	$ 195.5	$ 478.4	$ 783.4	$ 1,550.3

(1) Total debt includes both the current and long-term portions of debt as reported in Note 7 to the consolidated financial statements, excluding original issue discounts and unrealized gains on derivative instruments designated as fair-value hedges of fixed-rate debt.

(2) Represents estimated contractual interest payments for fixed-rate debt only. We are not able to estimate reasonably the cash payments for interest associated with variable-rate debt due to the significant estimation required relating to both market interest rates as well as projected principal payments.

(3) Non-cancelable purchase commitments primarily include raw materials purchased under take-or-pay contracts, drumming, warehousing and service contracts, utility purchase agreements, terminal agreements and toll processing arrangements.

(4) Other long-term liabilities disclosed in the table represent long-term liabilities reported in our consolidated balance sheet at December 31, 2005 under noncurrent liabilities, excluding pension, postretirement, postemployment, environmental and other non-contractual liabilities.

(5) We are required to make minimum contributions to our U.S. defined benefit pension plans pursuant to the minimum funding requirements of the Internal Revenue Code of 1986, as amended, and the Employee Retirement Income Security Act of 1974, as amended. Funding requirements for plans outside the United States are subject to applicable local regulations. In 2006, we expect to make employer contributions of approximately $15.3 million to the qualified plans to satisfy these minimum statutory funding requirements. In 2006, we expect to make payments of approximately $6.9 million relating to our unfunded pension plans. The expected payments associated with the unfunded plans represent an actuarial estimate of future assumed payments based upon retirement and payment patterns. Actual amounts paid could differ from this estimate. In addition, non-pension postretirement benefit payments are expected to approximate $4.9 million in 2006. We have included these expected contributions of $27.1 million in the above table. Due to uncertainties regarding significant assumptions involved in estimating future required contributions to our defined benefit pension and other plans, such as interest rate levels, the amount and timing of asset returns and future restructurings, if any, we are not able to reasonably estimate our contributions beyond 2006.

In addition, we have contingent obligations aggregating $40.3 million under standby letters of credit issued in the ordinary course of business to financial institutions, customers and insurance companies to secure short-term support for a variety of commercial transactions, insurance and benefit programs.

We had $1,670.8 million of debt outstanding at December 31, 2005 compared to $1,972.3 million outstanding at December 31, 2004. The decrease is due to the repayment of $500.0 million against the bank term loan, offset by borrowings of 182.0 million from the euro revolving credit facility. As a result, our total debt as a percent of capitalization has decreased from 56.2% at December 31, 2004 to 51.6% at December 31, 2005. We believe our future operating cash flows will be sufficient to cover our debt repayments, other contractual obligations, capital expenditures and dividends. In addition, we have untapped borrowing capacity that can provide us with additional financial resources. We currently have a shelf registration statement filed with the Securities and Exchange Commission (SEC) under which $359.8 million of debt securities, preferred shares or common shares may be issued. In addition, as of December 31, 2005, we maintained cash and short-term investment balances of $262.4 million and had $500.0 million available under our U.S. revolving credit facility and 68.0 million under our euro revolving credit facility.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America requires us to make judgments, assumptions and estimates at a specific point in time that affect the amounts reported in the accompanying consolidated financial statements and related notes. In preparing these financial statements, we have utilized available information including our past history, industry standards and the current economic environment, among other factors, in forming our estimates and judgments of certain amounts included in the consolidated financial statements, giving due consideration to materiality. It is possible that the ultimate outcome as anticipated by management in formulating our estimates inherent in these financial statements may not materialize. Application of the critical accounting policies described below involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates, which may impact the comparability of our results of operations to similar businesses.

ACCOUNTING FOR RESERVES AND CONTINGENCIES

Our accounting policies for reserves and contingencies cover a wide variety of business activities, including reserves for potentially uncollectible receivables, slow-moving or obsolete inventory, legal and environmental exposures and tax exposures. We accrue these reserves when our assessments indicate that it is probable that a liability has been incurred or an asset will not be recovered and an amount can be reasonably estimated. We review these estimates quarterly based on currently available information. Actual results may differ from our estimates and our estimates may be revised upward or downward, depending upon the outcome or changed expectations based on the facts surrounding each exposure. We discuss annually with the audit committee of our board of directors our reserves and contingencies, as well as our policies and processes for evaluating them.

ACCOUNTING FOR SALES DISCOUNTS AND REBATES

Sales discounts and rebates are offered to certain customers to promote customer loyalty and to encourage greater product sales. These rebate programs provide that upon the attainment of pre-established volumes or the attainment of revenue milestones for a specified period, the customer receives credits against purchases. We estimate the provision for rebates based upon the specific terms in each agreement at the time of shipment and an estimate of the customer s achievement of the respective revenue milestones. Customer claims, returns and allowances and discounts are accrued based upon our history of claims and sales returns and allowances. The estimated provisions could be significantly affected if future occurrences and claims differ from these assumptions and historical trends.

DETERMINATION OF NET PERIODIC PENSION COST

Each year we review with our actuaries the actuarial assumptions used in the determination of net periodic pension cost, as prescribed by SFAS No. 87, Employers Accounting for Pensions. The determination of net periodic pension cost is based upon a number of actuarial assumptions. The two critical assumptions are the expected return on plan assets and the discount rate for determining the funded status. Other assumptions include the rate of compensation increase and demographic factors such as retirement age, mortality and turnover. We review the critical assumptions for our U.S. pension plans with the audit committee of our board of directors. Our net periodic pension cost for all pension plans was $40.9 million in 2005, $34.9 million in 2004 and $14.1 million in 2003. The net periodic pension cost includes a settlement loss of $0.3 million, $7.7 million and $0.3 million in 2005, 2004 and 2003, respectively. In accordance with generally accepted accounting principles, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, affect expense recognized and obligations recorded in future periods.

In developing our assumption for the expected long-term rate of return on plan assets, we considered historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. In 2005, we lowered our assumption for the U.S. pension plans by 50 basis points to 8.50% (7.72% on a weighted-average basis for all plans) due to declining asset return trends in the last five years and projected market conditions. We believe 8.50% represents a reasonable return that could be achieved over the long term using our current asset allocation. In January 2005, we transferred the Noveon International U.S. pension plan assets into one master trust arrangement with our existing U.S. pension plans. As a result, commencing in 2005 the combined assets are subject to the same overall investment strategy and management going forward. At December 31, 2005, our U.S. pension plans assets had an investment mix that approximated 76% in equity securities and 24% in debt securities.

A change in the rate of return of 100 basis points would have the following effects on the net periodic pension cost:

Effect on net periodic pension cost from change in the rate of return

	100 Basis Point	
(In Millions of Dollars)	Increase	Decrease
U.S. pension plans	$ (2.0)	$ 2.0
International pension plans	(1.5)	1.5
All pension plans	$ (3.5)	$ 3.5

The selection of a discount rate for pension plans is required to determine the value of future pension obligations and represents our best estimate of our cost in the marketplace to settle all pension obligations through annuity purchases. We determined the discount rate based upon current market indicators, including yields from dedicated bond portfolios that provide for a general matching of bond maturities with the projected benefit cash flows from our plans. The dedicated bond portfolios consist of non-callable corporate bonds that are at least Aa quality. The 2005 year-end discount rate assumption for our U.S. pension plans was set at 5.75%, which is a decrease from 6.25% used in 2004. On a worldwide basis, the 2005 weighted-average discount rate utilized decreased to 5.28% from 5.74% used in 2004. A change in the discount rate of 100 basis points would have the following effects on the net periodic pension cost:

Effect on net periodic pension cost from change in the discount rate

	100 Basis Point	
(In Millions of Dollars)	Increase	Decrease
U.S. pension plans	$ (4.6)	$ 7.3
International pension plans	(4.1)	5.1
All pension plans	$ (8.7)	$ 12.4

The accumulated benefit obligation for all pension plans worldwide exceeds the value of plan assets by $112.6 million. This represents a $44.6 million increase from the $68.0 million in the total unfunded accumulated benefit obligation reported in 2004. The accumulated benefit obligation exceeded the plan assets for the U.S. pension plans by $40.5 million and the non-U.S. plans by $72.1 million in 2005. The two primary drivers behind the $44.6 million increase in the unfunded benefit obligations are a $15.6 million increase due to unfavorable economic and demographic assumption changes in the United Kingdom and a $22.1 million increase in the United States due to the planned integration of benefits between Noveon International and our pension benefit formula.

Changes in pension plan assumptions are expected to increase pension expense for most pension plans worldwide in 2006. The 2006 pension expense is expected to be approximately $47.0 million, excluding the impact of any settlement charges. The expected increase in pension expense in 2006, excluding the impact of settlement charges, is due to the decline in the expected return on plan assets, the decline in the discount rate for all plans and the recognition of loss amortization.

DETERMINATION OF POSTRETIREMENT BENEFIT COST

Annually, we review with our actuaries the key economic assumptions used in calculating postretirement benefit cost as prescribed by SFAS No. 106, Employers Accounting for Postretirement Benefits Other than Pensions. Postretirement benefits include health care and life insurance plans. The determination of postretirement benefit cost is based upon a number of actuarial assumptions, including the discount rate for determining the accumulated postretirement benefit obligation, the assumed health care cost trend rates and the ultimate health care trend rate. Except for the U.S. plans, the same discount rate selected for the pension plans generally is used for calculating the postretirement benefit obligation by country. Net non-pension postretirement benefit cost was $2.4 million in 2005, $5.8 million in 2004 and $5.6 million in 2003.

A change in the discount rate of 100 basis points would have the following effects on the postretirement benefit cost:

Effect on postretirement benefit cost from change in the discount rate

	100 Basis Point	
(In Millions of Dollars)	Increase	Decrease
U.S. postretirement plans	$ (0.6)	$ 0.8
International postretirement plans	(0.1)	0.1
All postretirement plans	$ (0.7)	$ 0.9

A change in the assumed health care cost trend rate of 100 basis points would have the following effects on the postretirement benefit cost:

Effect on postretirement benefit cost from change in assumed health care cost trend rate

	100 Basis Point	
(In Millions of Dollars)	Increase	Decrease
U.S. postretirement plans	$ 1.1	$ (0.9)
International postretirement plans	0.1	(0.1)
All postretirement plans	$ 1.2	$ (1.0)

ACCOUNTING FOR BUSINESS COMBINATIONS

During the past three years, we have completed several business combination transactions, the most significant of which was the Noveon International acquisition, which occurred on June 3, 2004. We allocate the purchase price to assets acquired and liabilities assumed based on their relative fair value at the date of acquisition pursuant to the provisions of SFAS No. 141, Business Combinations. In estimating the fair value of the tangible and intangible assets and liabilities acquired, we consider information obtained during our due diligence process and utilize various valuation methods including market prices, where available, appraisals, comparisons to transactions for similar assets and liabilities and present value of estimated future cash flows. We are required to make subjective estimates in connection with these valuations and allocations.

ACCOUNTING FOR IMPAIRMENT OF LONG-LIVED ASSETS

We review the carrying value of our long-lived assets, including property and equipment, whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. An impairment loss may be recognized when estimated undiscounted future cash flows expected to result from the use of the asset, including disposition, are less than the carrying value of the asset. The measurement of the impairment loss to be recognized is based on the difference between the fair value and the carrying amounts of the assets. Fair value is generally determined based upon a discounted cash flow analysis. In order to determine if an asset has been impaired, assets are grouped and tested at the lowest level for which identifiable, independent, cash flows are available.

The determination of both undiscounted and discounted cash flows requires us to make significant estimates and considers the expected course of action at the balance sheet date. Subsequent changes in estimated undiscounted and discounted cash flows arising from changes in anticipated actions could impact the determination of whether an impairment exists, the amount of the impairment charge recorded and whether the effects could materially impact our net income.

DISCONTINUED OPERATIONS

The results of a component of our business that either has been disposed of or is classified as held for sale are reported in discontinued operations in accordance with the requirements of SFAS No. 144. We classify a component of our business as held for sale if it meets the following criteria as of each balance sheet date:

- we commit to a plan to sell the disposal group;

the disposal group is available for immediate sale in its present condition, subject only to the terms that are usual and customary for sales of such disposal groups;

an active program to locate a buyer, and other actions required to complete the plan to sell have been initiated;

the sale of the disposal group is probable and the transfer is expected to qualify for recognition as a completed sale within one year;

the disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and

actions necessary to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

The results of operations of all entities that have been disposed of or are classified as held for sale in 2005 have been classified as discontinued operations in all periods presented in the consolidated statements of income. The 2005, 2004 and 2003 cash flow statements are presented on a consolidated basis, including both continuing operations and discontinued operations.

ACCOUNTING FOR GOODWILL IMPAIRMENT

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is to be tested annually and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of an operating segment below its carrying amount. We have elected October 1 as the annual evaluation date to test for potential goodwill impairment. The annual goodwill impairment test requires us to make a number of assumptions and estimates concerning future levels of earnings and cash flow, which are based upon our strategic plans. The combination of a discounted cash flow analysis and terminal value model is used to determine the fair value of each reporting unit. While we use available information to prepare estimates and to perform the impairment evaluation, actual results could differ significantly resulting in future impairment and losses related to recorded goodwill balances. No impairment of goodwill was identified in the annual impairment test completed in 2005. (See Note 6 to the consolidated financial statements.)

NEW ACCOUNTING STANDARDS

SFAS No. 154

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, Accounting Changes and Error Corrections. This standard establishes new standards on accounting for changes in accounting principles. Pursuant to the new rules, all such changes must be accounted for by retrospective application to the financial statements of prior periods unless it is impracticable to do so. SFAS No. 154 completely replaces Accounting Principles Board (APB) Opinion No. 20 and SFAS No. 3, though it carries forward the guidance in those pronouncements with respect to accounting for changes in estimates, changes in the reporting entity, and the correction of errors. This statement is effective for accounting changes and corrections of errors starting January 1, 2006. Our adoption of this standard will not have a material impact on our financial position, results of operations or cash flows.

FIN No. 47

We adopted FASB-issued Interpretation (FIN) No. 47, Accounting for Conditional Asset-Retirement Obligations, an interpretation of SFAS No. 143, Asset-Retirement Obligations, on December 31, 2005. FIN No. 47 requires the recognition of a liability for the fair value of a legal obligation to perform asset-retirement obligations (AROs) that are conditional on a future event if the amount can be reasonably estimated. The adoption of this standard did not have a material impact on our financial position, results of operations or cash flows. We have identified certain other AROs related to asbestos remediation activities that could be required in the future. However, due to the long-term, productive nature of our manufacturing operations, absent plans or expectations of plans to initiate asset retirement activities, we are unable to reasonably estimate the fair value of such liabilities since the potential settlement dates cannot be determined at this time.

SFAS No. 123R

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment. This standard will require compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards will be remeasured each reporting period. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. This standard replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and applies to all awards granted, modified, repurchased or cancelled after July 1, 2005. In April 2005, the SEC amended the compliance date of SFAS No. 123R through an amendment of Regulation S-X. The effective date for us is January 1, 2006. We currently are evaluating both the impact of SFAS No. 123R and the option pricing model we will use. If we continue to utilize the Black-Scholes pricing model and continue our current stock option practices, it is estimated that we would have additional annual expense ranging from $3.0 million to $4.0 million.

SFAS No. 151

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. This standard requires that such items be recognized as current-period charges. The standard also establishes the concept of normal capacity and requires the allocation of fixed production overhead to inventory based on the normal capacity of the production facilities. Any unallocated overhead must be recognized as an expense in the period incurred. This standard is effective for inventory costs incurred starting January 1, 2006. Our adoption of this standard will not have a material impact on our financial position, results of operations or cash flows.

CAUTIONARY STATEMENTS FOR SAFE HARBOR PURPOSES

This Management s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of the federal securities laws. As a general matter, forward-looking statements are those focused upon future plans, objectives or performance as opposed to historical items and include statements of anticipated events or trends and expectations and beliefs relating to matters not historical in nature. Forward-looking statements are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. These uncertainties and factors could cause our actual results to differ materially from those matters expressed in or implied by any forward-looking statements, although we believe our expectations reflected in those forward-looking statements are based upon reasonable assumptions. For this purpose, any statements contained herein that are not statements of historical fact should be deemed to be forward-looking statements.

We believe that the following factors, among others, could affect our future performance and cause our actual results to differ materially from those expressed or implied by forward-looking statements made in this annual report:

the cost, availability and quality of raw materials, including petroleum-based products;

our ability to increase the prices of our products in a competitive environment;

the effect of required principal and interest payments on our ability to fund capital expenditures and acquisitions and to meet operating needs;

the overall global economic environment and the overall demand for our products on a worldwide basis;

technology developments that affect longer-term trends for our products;

the extent to which we are successful in expanding our business in new and existing markets;

our ability to identify, complete and integrate acquisitions for profitable growth and operating efficiencies;

our success at continuing to develop proprietary technology to meet or exceed new industry performance standards and individual customer expectations;

our ability to continue to reduce complexities and conversion costs and modify our cost structure to maintain and enhance our competitiveness;

our success in retaining and growing the business that we have with our largest customers;

the cost and availability of energy, including natural gas and electricity;

the effect of interest rate fluctuations on our interest expense;

the effects of fluctuations in currency exchange rates upon our reported results from international operations, together with non-currency risks of investing in and conducting significant operations in foreign countries, including those relating to political, social, economic and regulatory factors;

the extent to which we achieve market acceptance of our commercial development programs;

significant changes in government regulations affecting environmental compliance;

the ability to identify, understand and manage risks inherent in new markets in which we choose to expand; and

our ability to maintain operating continuity for those businesses identified as divestiture candidates.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We operate manufacturing and blending facilities, laboratories and offices around the world and utilize fixed- and variable-rate debt to finance our global operations. As a result, we are subject to business risks inherent in non-U.S. activities, including political and economic uncertainties, import and export limitations, and market risks related to changes in interest rates and foreign currency exchange rates. We believe the political and economic risks related to our foreign operations are mitigated due to the stability of the countries in which our largest foreign operations are located.

In the normal course of business, we use derivative financial instruments including interest rate and commodity hedges and forward foreign currency exchange contracts to manage our market risks. Our objective in managing our exposure to changes in interest rates is to limit the impact of such changes on our earnings and cash flow. Our objective in managing the exposure to changes in foreign currency exchange rates is to reduce volatility on our earnings and cash flow associated with such changes. Our principal currency exposures are the euro, the pound sterling, the Japanese yen and certain Latin American currencies. Our objective in managing our exposure to changes in commodity prices is to reduce the volatility on earnings of utility expense. We do not hold derivatives for trading purposes.

We measure our market risk related to our holdings of financial instruments based on changes in interest rates, foreign currency rates and commodity prices utilizing a sensitivity analysis. The sensitivity analysis measures the potential loss in fair value, cash flow and earnings based on a hypothetical 10% change (increase and decrease) in interest, currency exchange rates and commodity prices. We use current market rates on our debt and derivative portfolios to perform the sensitivity analysis. Certain items such as lease contracts, insurance contracts and obligations for pension and other postretirement benefits are not included in the analysis.

Our primary interest rate exposures relate to our cash and short-term investments, fixed- and variable-rate debt and interest rate swaps. The calculation of potential loss in fair value is based on an immediate change in the net present values of our interest rate-sensitive exposures resulting from a 10% change in interest rates. The potential loss in cash flow and income before tax is based on the change in the net interest income/expense over a one-year period due to an immediate 10% change in rates. A hypothetical 10% increase in interest rates would have had a favorable impact and a hypothetical 10% decrease in interest rates would have had an unfavorable impact on fair values of $42.7 million in 2005 and $47.3 million in 2004. In addition, a hypothetical 10% increase in interest rates would have had an unfavorable impact and a hypothetical 10% decrease in interest rates would have had a favorable impact on cash flows and income before tax of $1.8 million in 2005 and $2.9 million in 2004.

Our primary currency exchange rate exposures are to foreign currency-denominated debt, intercompany debt, cash and short-term investments and forward foreign currency exchange contracts. The calculation of potential loss in fair value is based on an immediate change in the U.S. dollar equivalent balances of our currency exposures due to a 10% shift in exchange rates. The potential loss in cash flow and income before tax is based on the change in cash flow and income before tax over a one-year period resulting from an immediate 10% change in currency exchange rates. A hypothetical 10% increase in currency exchange rates would have had a favorable impact and a hypothetical 10% decrease in currency exchange rates would have had an unfavorable impact on fair values of $6.8 million in 2005. In 2004, a hypothetical 10% increase in currency exchange rates would have had an unfavorable impact and a hypothetical 10% decrease in currency exchange rates would have had a favorable impact on fair values of $26.1 million. In addition, a hypothetical 10% increase in currency exchange rates would have had an unfavorable impact and a hypothetical 10% decrease in currency exchange rates would have had a favorable impact on cash flows of $21.4 million and $43.7 million and income before tax of $4.4 million and $13.5 million in 2005 and 2004, respectively.

Our primary commodity hedge exposures relate to natural gas and electric utility expenses. The calculation of potential loss in fair value is based on an immediate change in the U.S. dollar equivalent balances of our commodity exposures due to a 10% shift in the underlying commodity prices. The potential loss in cash flow and income before tax is based on the change in cash flow and income before tax over a one-year period resulting from an immediate 10% change in commodity prices. A hypothetical 10% increase in commodity prices would have had a favorable impact and a hypothetical 10% decrease in commodity prices would have had an unfavorable impact on fair value, cash flows and income before tax of $0.9 million in 2005 and $0.3 million in 2004.

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of The Lubrizol Corporation and its subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Lubrizol Corporation s internal control system was designed to provide reasonable assurance to the Company s management and board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Lubrizol Corporation s management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on this assessment, management believes that, as of December 31, 2005, the Company s internal control over financial reporting is effective based on those criteria.

Management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, who expressed an unqualified opinion as stated in their report, a copy of which is included in this annual report.

James L. Hambrick
Chairman, President and Chief Executive Officer

Charles P. Cooley
Senior Vice President and Chief Financial Officer

W. Scott Emerick
Corporate Controller
February 28, 2006

NEW YORK STOCK EXCHANGE CERTIFICATIONS

On May 12, 2005, James L. Hambrick, as chief executive officer, certified, as required by Section 303A.12(a) of the New York Stock Exchange (NYSE) Listed Company Manual, that as of that date he was not aware of any violations by the Company of the NYSE s Corporate Governance listing standards other than the following, which was notified to the NYSE pursuant to Section 303A.12(b) and disclosed as Exhibit H to the Company s Section 303A Annual Written Affirmation:

Through inadvertence, the Company did not include in the proxy statement or the Annual Report on Form 10-K a statement that the charters, corporate governance guidelines and code of business conduct and ethics for executive officers or directors are available in print to any shareholder who requests them. This statement will appear in the 2006 proxy statement.

This certification has been delivered to the NYSE.

The chief executive officer and chief financial officer certifications created by Section 302 of the Sarbanes-Oxley Act of 2002 are included as exhibits to our Form 10-K and are incorporated herein by reference.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
The Lubrizol Corporation

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that The Lubrizol Corporation and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

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

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel 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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2005 of the Company and our report dated February 28, 2006 expressed an unqualified opinion on those financial statements.

Deloitte + Touche LLP

Cleveland, Ohio

February 28, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
The Lubrizol Corporation

We have audited the accompanying consolidated balance sheets of The Lubrizol Corporation and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Lubrizol Corporation and 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.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2006 expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

Deloitte + Touche LLP

Cleveland, Ohio
February 28, 2006

Consolidated Statements of Income

(In Millions of Dollars Except Per Share Data)	Year Ended December 31 2005	2004	2003
Net sales	$ 4,039.2	$ 3,108.9	$ 2,017.3
Royalties and other revenues	3.5	3.9	3.0
Total revenues	4,042.7	3,112.8	2,020.3
Cost of sales	3,048.9	2,327.2	1,484.4
Selling and administrative expenses	367.7	297.1	196.7
Research, testing and development expenses	204.8	188.9	165.3
Amortization of intangible assets	25.2	18.0	4.9
Write-off of acquired in-process research and development		34.0	
Restructuring and impairment charges	22.2	37.9	22.5
Total costs and expenses	3,668.8	2,903.1	1,873.8
Other (expense) income net	(2.0)	5.3	3.3
Interest income	8.1	4.8	3.8
Interest expense	(105.1)	(77.1)	(25.1)
Income from continuing operations before income taxes	274.9	142.7	128.5
Provision for income taxes	93.6	52.1	37.9
Income from continuing operations	181.3	90.6	90.6
Discontinued operations net of tax	8.0	2.9	0.2
Net income	$ 189.3	$ 93.5	$ 90.8
Basic earnings per share:			
Continuing operations	$ 2.67	$ 1.63	$ 1.76
Discontinued operations	0.12	0.05	
Net income per share, basic	$ 2.79	$ 1.68	$ 1.76
Diluted earnings per share:			
Continuing operations	$ 2.63	$ 1.62	$ 1.75
Discontinued operations	0.12	0.05	
Net income per share, diluted	$ 2.75	$ 1.67	$ 1.75
Dividends per share	$ 1.04	$ 1.04	$ 1.04

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheets

(In Millions of Dollars)	December 31 2005	2004
ASSETS		
Cash and short-term investments	$ 262.4	$ 335.9
Receivables	585.6	582.8
Inventories	586.0	568.7
Other current assets	138.3	110.6
Total current assets	1,572.3	1,598.0
Property and equipment at cost	2,621.5	2,731.3
Less accumulated depreciation	1,437.1	1,413.4
Property and equipment net	1,184.4	1,317.9
Goodwill	1,138.8	1,153.8
Intangible assets net	404.6	437.1
Investments in non-consolidated companies	7.6	7.4
Other assets	58.6	52.1
TOTAL	$ 4,366.3	$ 4,566.3
LIABILITIES AND SHAREHOLDERS EQUITY		
Short-term debt and current portion of long-term debt	$ 7.9	$ 8.2
Accounts payable	372.2	342.3
Accrued expenses and other current liabilities	284.8	306.8
Total current liabilities	664.9	657.3
Long-term debt	1,662.9	1,964.1
Postretirement health care obligations	102.6	106.4
Noncurrent liabilities	204.0	170.7
Deferred income taxes	113.7	90.7
Total liabilities	2,748.1	2,989.2
Minority interest in consolidated companies	51.0	53.6
Contingencies and commitments		
Preferred stock without par value unissued		
Common shares without par value 68,043,241 and 66,778,865 outstanding shares at December 31, 2005 and 2004, respectively	663.7	610.6
Retained earnings	1,016.0	897.4
Accumulated other comprehensive (loss) income	(112.5)	15.5
Total shareholders equity	1,567.2	1,523.5
TOTAL	$ 4,366.3	$ 4,566.3

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

(In Millions of Dollars)	Year Ended December 31 2005	2004	2003
CASH PROVIDED BY (USED FOR):			
OPERATING ACTIVITIES			
Net income	$ 189.3	$ 93.5	$ 90.8
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	179.8	154.7	100.4
Write-off of acquired in-process research and development		34.0	
Deferred income taxes	10.3	5.9	1.5
Restructuring and impairment charges	11.1	27.5	3.3
Change in current assets and liabilities, net of acquisitions and divestitures:			
Receivables	(52.9)	(38.4)	4.7
Inventories	(47.5)	(50.0)	17.4
Accounts payable, accrued expenses and other current liabilities	56.0	80.5	(26.8)
Other current assets	6.9	2.5	(4.3)
	(37.5)	(5.4)	(9.0)
Change in noncurrent liabilities	5.4	9.0	11.7
Other items net	3.8	9.0	(3.9)
Total operating activities	362.2	328.2	194.8
INVESTING ACTIVITIES			
Capital expenditures	(136.7)	(133.2)	(88.5)
Acquisitions net of cash received and liabilities assumed		(958.4)	(68.6)
Net proceeds from divestitures and sales of property and equipment	30.1	3.0	2.2
Other items net	(0.2)	(0.2)	(1.0)
Total investing activities	(106.8)	(1,088.8)	(155.9)
FINANCING ACTIVITIES			
Changes in short-term debt, net	(4.0)	(72.6)	(5.8)
Repayments of long-term debt	(512.2)	(1,193.0)	(9.2)
Proceeds from the issuance of long-term debt	235.8	1,743.3	4.5
Dividends paid	(70.4)	(57.6)	(53.6)
Proceeds from sale of common shares, net of underwriting commissions and offering expenses of $20.2 million		470.0	
Payment of debt issuance costs	(0.8)	(16.8)	
Payment of Treasury rate lock upon settlement		(73.9)	
Payment on termination of interest rate swaps		(2.9)	
Proceeds from the exercise of stock options	38.8	15.4	4.6
Total financing activities	(312.8)	811.9	(59.5)
Effect of exchange rate changes on cash	(16.1)	25.9	12.9
Net (decrease) increase in cash and short-term investments	(73.5)	77.2	(7.7)
Cash and short-term investments at the beginning of year	335.9	258.7	266.4
Cash and short-term investments at the end of year	$ 262.4	$ 335.9	$ 258.7

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Shareholders Equity

			Shareholders Equity		
(In Millions)	Number of Shares Outstanding	Common Shares	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
BALANCE, JANUARY 1, 2003	51.5	$ 119.0	$ 828.3	$ (78.1)	$ 869.2
Comprehensive income:					
Net income 2003			90.8		90.8
Other comprehensive income				42.1	42.1
Comprehensive income					132.9
Dividends declared			(53.6)		(53.6)
Deferred stock compensation		1.1			1.1
Common shares treasury:					
Shares issued upon exercise of stock options and awards	0.1	3.7			3.7
BALANCE, DECEMBER 31, 2003	51.6	123.8	865.5	(36.0)	953.3
Comprehensive income:					
Net income 2004			93.5		93.5
Other comprehensive income				51.5	51.5
Comprehensive income					145.0
Dividends declared			(61.6)		(61.6)
Common shares issued in public offerings	14.7	470.0			470.0
Deferred stock compensation		3.4			3.4
Common shares treasury:					
Shares issued upon exercise of stock options and awards	0.5	13.4			13.4
BALANCE, DECEMBER 31, 2004	66.8	610.6	897.4	15.5	1,523.5
Comprehensive income:					
Net income 2005			189.3		189.3
Other comprehensive loss				(128.0)	(128.0)
Comprehensive income					61.3
Dividends declared			(70.7)		(70.7)
Deferred stock compensation		8.8			8.8
Common shares treasury:					
Shares issued upon exercise of stock options and awards	1.2	44.3			44.3
BALANCE, DECEMBER 31, 2005	68.0	$ 663.7	$ 1,016.0	$ (112.5)	$ 1,567.2

The accompanying notes are an integral part of these consolidated financial statements.

Notes To Financial Statements
(In Millions Except Per Share Data)
Note 1 NATURE OF OPERATIONS
The Lubrizol Corporation is a specialty chemical company that produces and supplies technologies to the global transportation, industrial and consumer markets. These technologies include lubricant additives for engine oils, other transportation-related fluids and industrial lubricants, as well as additives for gasoline and diesel fuel. In addition, the company makes ingredients and additives for personal care products and pharmaceuticals; specialty materials, including plastics technology; performance coatings in the form of specialty resins and additives; and additives for the food and beverage industry.
On June 3, 2004, the company consummated its acquisition of Noveon International, Inc. (Noveon International). As a result of this acquisition, the company reorganized its product lines into two operating and reporting segments: Lubricant Additives and Specialty Chemicals. Refer to Note 15 for a further description of the nature of the company s operations, the product lines within each of the operating segments, segment operating income and related financial disclosures for the reportable segments.
Note 2 SIGNIFICANT ACCOUNTING POLICIES
CONSOLIDATION The consolidated financial statements include the accounts of The Lubrizol Corporation and its consolidated subsidiaries. The company consolidates certain entities in which it owns less than a 100% equity interest if it is either deemed to be the primary beneficiary in a variable interest entity, as defined in Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46, Consolidation of Variable Interest Entities or where its ownership interest is at least 50% and the company has effective management control. The equity method of accounting is applied to non-consolidated entities in which the company can exercise significant influence over the entity with respect to its operations and major decisions. The book value of investments carried on the equity method was $6.1 million and $5.6 million at December 31, 2005 and 2004, respectively. Investments carried at cost were $1.5 million and $1.8 million at December 31, 2005 and 2004, respectively.
DISCONTINUED OPERATIONS The results of a component of the company that either has been disposed of or is classified as held for sale are reported in discontinued operations in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. A component of an entity is considered held for sale when the transaction has been approved by the appropriate level of management and there are no known significant contingencies outstanding that would prevent the sale from closing within one year. The results of operations of all entities that have been disposed of or that are classified as held for sale in 2005 have been classified as discontinued operations in all periods presented in the consolidated statements of income. The 2005, 2004 and 2003 cash flow statements are presented on a consolidated basis, including both continuing operations and discontinued operations.
ESTIMATES The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
CASH EQUIVALENTS The company invests its excess cash in short-term investments with various banks and financial institutions. Short-term investments are cash equivalents, as they are part of the cash management activities of the company and are comprised of investments having maturities of three months or less when purchased.

INVENTORIES Inventories are stated at the lower of cost or market value. Cost of inventories is determined by either the first-in, first-out (FIFO) method or the moving-average method, except in the United States for chemical inventories, which are primarily valued using the last-in, first-out (LIFO) method.

The company accrues volume discounts on purchases from vendors where it is probable that the required volume will be attained and the amount can be reasonably estimated. The company records the discount as a reduction in the cost of the purchase (generally raw materials), based on projected purchases over the purchase agreement period.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. This standard requires that such items be recognized as current-period charges. The standard also establishes the concept of normal capacity and requires the allocation of fixed production overhead to inventory based on the normal capacity of the production facilities. Any unallocated overhead must be recognized as an expense in the period incurred. This standard is effective for inventory costs incurred starting January 1, 2006. The company does not believe the adoption of this standard will have a material impact on its financial position, results of operations or cash flows.

PROPERTY AND EQUIPMENT Property and equipment are carried at cost. Repair and maintenance costs are charged against income while renewals and betterments are capitalized as additions to the related assets. Costs incurred for computer software developed or obtained for internal use are capitalized for application development activities and immediately expensed for preliminary project activities or post-implementation activities. Accelerated depreciation methods are used in computing depreciation on certain machinery and equipment, which comprised approximately 6% and 7% of the depreciable assets at December 31, 2005 and 2004, respectively. The remaining assets are depreciated using the straight-line method. The estimated useful lives are 10 to 40 years for buildings and improvements for buildings and land. Estimated useful lives range from 3 to 20 years for machinery and equipment.

IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS The company reviews the carrying value of its long-lived assets, including property and equipment, whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. An impairment loss may be recognized when estimated undiscounted future cash flows expected to result from the use of the asset, including disposition, are less than the carrying value of the asset. The measurement of the impairment loss to be recognized is based on the difference between the fair value and the carrying amounts of the assets. Fair value is generally determined based on a discounted cash flow analysis. In order to determine if an asset has been impaired, assets are grouped and tested at the lowest level for which identifiable, independent, cash flows are available.

GOODWILL AND INTANGIBLE ASSETS Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired and is not amortized in accordance with SFAS No. 142, Goodwill and Other Intangible Assets. Goodwill is tested for impairment annually, and between annual tests if an event occurs or circumstances change that indicates the carrying amount may be impaired. The company has elected to perform its annual tests for potential impairment of goodwill and indefinite-lived intangible assets as of October 1st of each year. Impairment testing is done at the reporting unit level. An impairment loss generally would be recognized when the carrying amount of the reporting unit s net assets exceeds the estimated fair value of the reporting unit. The estimated fair value of a reporting unit is determined through a combination of discounted cash flow analysis and terminal value calculations.

Intangible assets resulting from business acquisitions, including customer lists, purchased technology, trademarks, patents, land-use rights and non-compete agreements, are amortized on a straight-line method over periods ranging from 3 to 40 years. Under SFAS No. 142, intangible assets determined to have indefinite lives are not amortized, but are tested for impairment at least annually. As part of the annual impairment test, the useful lives of the non-amortized intangible assets are reviewed to determine if the indefinite status remains appropriate.

DEFERRED FINANCING COSTS Costs incurred with the issuance of debt and credit facilities are capitalized and amortized over the life of the associated debt as a component of interest expense using the effective interest method of amortization. In June 2004, the company initially financed the Noveon International acquisition with a temporary bridge facility. Fees associated with the bridge facility were capitalized and amortized over the bridge financing period. A total of $11.2 million was incurred in bridge facility fees in June 2004. These fees were expensed ratably through September 2004 when the bridge facility was repaid in full. In September 2004, the company incurred $16.8 million in debt issuance costs and fees relating to the issuance of $1,150.0 million in senior notes and debentures, and the new $1,075.0 million five-year credit facility. Such costs are being amortized under the effective interest method over the respective terms of the debt. Net deferred financing costs were $18.3 million and $20.9 million at December 31, 2005 and 2004, respectively. Amortization expense incurred in 2005, 2004 and 2003 was $3.6 million, $1.6 million and $1.3 million, respectively.

ENVIRONMENTAL LIABILITIES The company accrues for expenses associated with environmental remediation obligations when such expenses are probable and reasonably estimable, based upon current law and existing technologies. These accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

SHARE REPURCHASES The company uses the par-value method of accounting for its treasury shares. Under this method, the cost to reacquire shares in excess of paid-in capital related to those shares is charged against retained earnings.

FOREIGN CURRENCY TRANSLATION The assets and liabilities of the company s international subsidiaries are translated into U.S. dollars at exchange rates in effect at the balance sheet date, and revenues and expenses are translated at weighted-average exchange rates in effect during the period. Unrealized translation adjustments are recorded as a component of other comprehensive income in shareholders equity, except for subsidiaries for which the functional currency is other than the local currency, where translation adjustments are recognized in income. Transaction gains or losses that arise from exchange rate changes on transactions denominated in a currency other than the functional currency, except those transactions that function as a hedge of an identifiable foreign currency commitment or as a hedge of a foreign currency investment, are included in income as incurred.

REVENUE RECOGNITION Revenues are recognized at the time of shipment of products to customers, or at the time of transfer of title if later and when collection is reasonably assured. All amounts in a sales transaction billed to a customer related to shipping and handling are reported as revenues.

Provisions for sales discounts and rebates to customers are recorded, based upon the terms of sales contracts, in the same period the related sales are recorded, as a deduction to the sale. Sales discounts and rebates are offered to certain customers to promote customer loyalty and encourage greater product sales. These rebate programs provide that upon the attainment of pre-established volumes or the attainment of revenue milestones for a specified period, the customer receives credits against purchases. The company estimates the provision for rebates based on the specific terms in each agreement at the time of shipment and an estimate of the customer s achievement of the respective revenue milestones.

COMPONENTS OF COST OF SALES Cost of sales is comprised of raw material costs including freight and duty, inbound handling costs associated with the receipt of raw materials, direct production, maintenance and utility costs, plant and engineering overhead, terminals and warehousing costs, and outbound shipping and handling costs.

RESEARCH, TESTING AND DEVELOPMENT Research, testing and development costs are expensed as incurred. Research and development expenses, excluding testing, were $133.8 million in 2005, $107.4 million in 2004 and $93.3 million in 2003. Costs to acquire in-process research and development (IPR&D) projects that have no alternative future use and that have not yet reached technological feasibility at the date of acquisition are expensed upon acquisition.

INCOME TAXES The company provides for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. SFAS No. 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of the assets and liabilities.

PER SHARE AMOUNTS Net income per share is computed by dividing net income by average common shares outstanding during the period, including contingently issuable shares. Net income per diluted share includes the dilutive impact resulting from outstanding stock options and stock awards. Per share amounts are computed as follows:

	2005	2004	2003
Numerator:			
Income from continuing operations	$ 181.3	$ 90.6	$ 90.6
Discontinued operations net of tax	8.0	2.9	0.2
Net income	$ 189.3	$ 93.5	$ 90.8
Denominator:			
Weighted-average common shares outstanding	67.9	55.7	51.7
Dilutive effect of stock options and awards	0.9	0.3	0.2
Denominator for net income per share, diluted	68.8	56.0	51.9
Basic earnings per share:			
Continuing operations	$ 2.67	$ 1.63	$ 1.76
Discontinued operations	0.12	0.05	
Net income per share, basic	$ 2.79	$ 1.68	$ 1.76
Diluted earnings per share:			
Continuing operations	$ 2.63	$ 1.62	$ 1.75
Discontinued operations	0.12	0.05	
Net income per share, diluted	$ 2.75	$ 1.67	$ 1.75

Weighted-average shares issuable upon the exercise of stock options that were excluded from the diluted earnings per share calculations because they were antidilutive were 1.1 million in 2004 and 2.5 million in 2003.

ACCOUNTING FOR DERIVATIVE INSTRUMENTS Derivative financial instruments are recognized on the balance sheet as either assets or liabilities and are measured at fair value. Derivatives that are not hedges are adjusted to fair value through income. Depending upon the nature of the hedge, changes in fair value of the derivative are either offset against the change in fair value of assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative s change in value is immediately recognized in earnings. The company only uses derivative financial instruments to manage well-defined interest rate, foreign currency and commodity price risks. The company does not use derivatives for trading purposes.

COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES Liabilities for costs associated with exit or disposal activities are recognized and measured initially at fair value when the liability is incurred pursuant to the requirements of SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities.

ASSET-RETIREMENT OBLIGATIONS The company adopted FIN No. 47, Accounting for Conditional Asset-Retirement Obligations, an interpretation of SFAS No. 143, Asset-Retirement Obligations, on December 31, 2005. FIN No. 47 requires the recognition of a liability for the fair value of a legal obligation to perform asset-retirement obligations (AROs) that are conditional on a future event if the amount can be reasonably estimated. The adoption of this standard did not have a material impact on the company s financial position, results of operations or cash flows. The company identified certain other AROs related to asbestos remediation activities that could be required in the future. However, due to the long-term, productive nature of the company's manufacturing operations, absent plans or expectations of plans to initiate asset retirement activities, the company is unable to reasonably estimate the fair value of such liabilities since the potential settlement dates cannot be determined at this time.

GUARANTEES FIN No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others requires the recognition of a liability for any guarantees entered into or modified. The company does not have any material guarantees within the scope of FIN No. 45.

STOCK-BASED COMPENSATION The company currently uses the intrinsic value method to account for employee stock options. The following table shows the pro forma effect on net income and earnings per share if the company had applied the fair-value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	2005	2004	2003
Reported net income	$ 189.3	$ 93.5	$ 90.8
Plus: stock-based employee compensation (net of tax) included in net income	5.5	2.1	0.3
Less: stock-based employee compensation (net of tax) using the fair-value method	(6.5)	(6.0)	(4.4)
Pro forma net income	$ 188.3	$ 89.6	$ 86.7
Reported net income per share, basic	$ 2.79	$ 1.68	$ 1.76
Pro forma net income per share, basic	$ 2.77	$ 1.61	$ 1.68
Reported net income per share, diluted	$ 2.75	$ 1.67	$ 1.75
Pro forma net income per share, diluted	$ 2.74	$ 1.60	$ 1.67

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment. This standard will require compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards will be remeasured each reporting period. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. This standard replaces SFAS No. 123 and supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and applies to all awards granted, modified, repurchased or cancelled after July 1, 2005. In April 2005, the Securities and Exchange Commission (SEC) amended the compliance date of SFAS No. 123R through an amendment of Regulation S-X. The effective date for the company is January 1, 2006. The company is currently evaluating both the impact of SFAS No. 123R and the option pricing model that will be used. If the company continues to utilize the Black-Scholes pricing model and continues the current stock option practices, the company estimates additional annual expense ranging from $3.0 million to $4.0 million.

ACCOUNTING FOR THE MEDICARE PRESCRIPTION DRUG IMPROVEMENT AND MODERNIZATION ACT The Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) was signed into law on December 8, 2003. The Act introduces a prescription drug benefit under Medicare (Medicare Part D), which will begin in 2006.

The company has determined that its postretirement health care plans provide prescription drug benefits that will qualify for the federal subsidy provided by the Act. As a result, the following actuarially determined changes in accounting for this plan have been recognized starting in the third quarter of 2004 due to the legislation and in accordance with the provisions of FASB Staff Position (FSP) FAS No. 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003 (FSP No. 106-2):

The accumulated postretirement benefit obligation determined as of January 1, 2005 and 2004 has been reduced by approximately $5.8 million in both years. This reduction caused an actuarial gain in accordance with FSP No. 106-2.

The effect of the above gain is to reduce the annual amortization of unrecognized actuarial loss by approximately $0.4 million.

The interest and service cost components of the related periodic expense for fiscal year 2004 have been reduced by approximately $0.6 million.

For 2005 and 2004, annual net periodic postretirement benefit expense has been reduced by approximately $1.0 million and $0.7 million, respectively, in the aggregate as a result of this benefit.

RECLASSIFICATIONS Certain prior period amounts have been reclassified to conform to the current year presentation.

Note 3 ACQUISITIONS AND PRO FORMA FINANCIAL INFORMATION

On June 3, 2004, the company completed the acquisition of Noveon International for cash of $920.2 million (inclusive of $32.9 million in certain seller expenses) plus transaction costs of $11.4 million and less cash acquired of $103.0 million. In addition, the company assumed $1,103.1 million of long-term indebtedness from Noveon International. With the acquisition of Noveon International, the company has accelerated its program to attain a substantial presence in the personal care and coatings markets by adding a number of higher-growth, industry-leading products under highly recognizable brand names, including Carbopol®, to the company s portfolio of lubricant and fuel additives and consumer products. Additionally, Noveon International has a number of industry-leading specialty materials businesses, including TempRite® and Estane® engineered polymers.

The acquisition and related costs were initially financed with the proceeds of a $2,450.0 million 364-day bridge credit facility. Shortly after the acquisition, the company repaid substantially all of the assumed long-term debt of Noveon International with proceeds of the temporary bridge loan. In addition, the temporary bridge loan was repaid in full in September 2004 with the proceeds from the permanent financing obtained by the issuance of senior notes, debentures and equity and the borrowing of $575.0 million of bank term loans, resulting in proceeds of approximately $2,170.0 million, net of underwriting commissions, discounts and transaction costs.

The consolidated balance sheets as of December 31, 2005 and 2004 reflect the acquisition of Noveon International under the purchase method of accounting. The company recorded the various assets acquired and liabilities assumed, primarily working capital accounts, of Noveon International at their estimated fair values determined as of the acquisition date. Actuarial valuations were completed for the projected pension and other post-employment benefit obligations and were reflected in the purchase price allocation. Appraisals of long-lived assets and identifiable intangible assets, including an evaluation of IPR&D projects, were also obtained. Through June 2005, the company finalized certain aspects of the purchase price allocation primarily related to the valuation of the property, plant and equipment and the deferred tax accounts. In addition, through June 2005, the company continued the process of finalizing its reconciliation of the underlying fixed-asset records to the respective appraisals. As a result of both of these efforts, the company reduced the amount allocated to property, plant and equipment by $55.2 million since December 31, 2004. Depreciation expense included a related adjustment of $2.3 million, representing the reduction in depreciation expense associated with the change in the estimated fair values assigned to property, plant and equipment. In addition, the deferred tax accounts were adjusted in 2005 resulting in a decrease of $17.3 million to the net deferred tax liabilities since December 31, 2004. The goodwill associated with the transaction increased by $34.0 million representing the net impact of all adjustments recorded. The allocation of the purchase price was complete as of June 2005 and the related actuarial valuations and appraisals obtained have been finalized.

The purchase price includes the estimated fair value of IPR&D projects totaling $34.0 million that, as of the acquisition date, had not yet reached technological feasibility and had no alternative future use. As a result, the full amount allocated to IPR&D was expensed in 2004. There were nine projects acquired in the Noveon International transaction in several different product lines. The projects were at varying stages of completeness ranging from the early development stage to prototype testing at the time of acquisition. The inventory step-up to fair value totaled $24.2 million, of which $9.8 million was expensed in 2004. As the remaining step-up relates to inventories accounted for on the LIFO method of accounting, the company does not anticipate that additional amounts of step-up will be expensed in the near term. The 2004 historical results only include revenues and expenses of Noveon International since the date of acquisition.
The following table summarizes actual results for 2005 compared to the pro forma data for 2004. The unaudited pro forma operating data is presented as if the Noveon International acquisition had been completed at the beginning of 2004. The pro forma data gives effect to actual operating results prior to the acquisition. Adjustments to cost of sales for the inventory step-up charge, fixed asset depreciation, intangible asset amortization, the write-off of acquired IPR&D, interest expense, income taxes and weighted-average common shares outstanding related to the acquisition are reflected in the pro forma data. In addition, the company assumed that the bridge loan obtained at the time of the transaction closing was not replaced with the permanent long-term financing of both debt and equity until the end of April, the fourth month in the period presented. The pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition had occurred as of the beginning of the period presented or that may be obtained in the future.

	Actual 2005	Pro Forma (unaudited) 2004
Total revenues	$ 4,042.7	$ 3,645.3
Income from continuing operations	$ 181.3	$ 110.4
Discontinued operations	8.0	3.9
Net income	$ 189.3	$ 114.3
Basic earnings per share:		
Continuing operations	$ 2.67	$ 1.79
Discontinued operations	0.12	0.06
Net income per share, basic	$ 2.79	$ 1.85
Diluted earnings per share:		
Continuing operations	$ 2.63	$ 1.78
Discontinued operations	0.12	0.06
Net income per share, diluted	$ 2.75	$ 1.84

In January 2004, the company completed the acquisition of the coatings hyperdispersants business from Avecia for cash totaling $129.7 million, including transaction costs of $2.2 million. This business is headquartered in Blackley, United Kingdom and develops, manufactures and markets high-value additives that are based on polymeric dispersion technology and used in coatings and inks. These products enrich and

strengthen color while reducing production costs and solvent emissions, and are marketed under the brand names Solsperse®, Solplus® and Solthix®. Annualized revenues of this business are approximately $50.0 million.
The fair value of assets acquired and liabilities assumed in 2004 acquisitions is as follows:

	Fair Value of Net Assets Acquired in 2004			
	Noveon International	Hyper-dispersants	Other	Total
Receivables	$ 187.7	$ 7.3	$	$ 195.0
Inventories	180.6	10.5		191.1
Other current assets	51.2			51.2
Property and equipment	559.5	5.5		565.0
Goodwill	862.7	76.4		939.1
Intangible assets	379.0	42.7		421.7
Other assets	19.4		0.1	19.5
Total assets	2,240.1	142.4	0.1	2,382.6
Accounts payable	129.4	7.0		136.4
Accrued expenses	107.2			107.2
Current and long-term debt	1,103.1			1,103.1
Noncurrent liabilities	71.8	5.7		77.5
Total liabilities	1,411.5	12.7		1,424.2
Increase in net assets from acquisitions	$ 828.6	$ 129.7	$ 0.1	$ 958.4

In 2003, the company completed two acquisitions in the Specialty Chemicals segment for cash of $68.6 million. In July 2003, the company purchased the product lines of a silicones business from BASF, which expanded the foam control additives business to approximately $40.0 million in annual revenues. Assets acquired from BASF included customer lists, certain trademarks, manufacturing technology and other related intellectual property specifically developed for silicone products in the North America region and finished goods inventory. Silicones are used in the manufacture of sealants, caulks and water-proofing products. Historical annual revenues for these silicone products approximate $6.0 million. In September 2003, the company acquired personal care ingredients product lines from Amerchol Corporation, a subsidiary of The Dow Chemical Company. Products from this business go into a wide range of end uses, including skin care and hair conditioners. Products include methyl glucoside derivatives, lanolin derivatives and Promulgen™ personal care ingredients. Annualized revenues of this acquisition were approximately $30.0 million.

The fair value of assets acquired and liabilities assumed in 2003 acquisitions is as follows:

	Fair Value of Net Assets Acquired in 2003
Receivables	$ 0.4
Inventories	7.8
Property and equipment	1.8
Goodwill	36.2
Intangible assets	23.4
Other assets	0.2
Total assets	69.8
Accrued expenses	1.0
Deferred taxes noncurrent	0.2
Total liabilities	1.2
Increase in net assets from acquisitions	$ 68.6

Note 4 DIVESTITURES

In December 2005, we sold certain assets, liabilities and stock of our Engine Control Systems (ECS) business and in September 2005, we sold certain assets and liabilities of our U.S. and U.K. Lubrizol Performance Systems (LPS) operations, which were both included in the Lubricant Additives segment. The company retained the tax-related assets and liabilities of its ECS and LPS operations. The company received net cash proceeds of $23.2 million for the net assets and stock. The ECS and LPS operations meet the definition of a component of an entity and have been accounted for as discontinued operations under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The results of the ECS and LPS operations have been classified as discontinued operations in all periods presented.

In addition, a definitive sale agreement was signed on November 4, 2005 for the Specialty Chemicals segment s Telene® resins business. At December 31, 2005, the Telene business was classified as held for sale pursuant to the provisions of SFAS No. 144 and included in discontinued operations. The net assets held for sale of $3.8 million and net liabilities held for sale of $1.2 million have not been separately disclosed on the balance sheet due to their immateriality to the consolidated financial position. The sale of this business closed on February 3, 2006.

Total revenues from discontinued operations were $56.2 million in 2005 compared to $46.7 million and $31.9 million in 2004 and 2003, respectively. Income from discontinued operations, net of tax, was $5.0 million for the year ended December 31, 2005 compared to $2.9 million and $0.2 million for 2004 and 2003, respectively. Income from discontinued operations is net of income tax expenses of $3.8 million in 2005, $1.1 million in 2004 and $0.4 million in 2003. The company realized a $4.5 million pre-tax gain ($3.0 million net of tax) for the year ended December 31, 2005 relating to the ECS and LPS dispositions.

The company s consolidated balance sheet at December 31, 2004 included $24.2 million in current assets, $5.7 million in property and equipment, $0.3 million in other assets, $7.0 million in liabilities and a $0.5 million credit in other comprehensive income currency translation adjustment pertaining to businesses reflected as discontinued operations.

Note 5 INVENTORIES

	2005	2004
Finished products	$ 319.6	$ 311.2
Products in process	86.9	75.9
Raw materials	151.2	153.1
Supplies and engine test parts	28.3	28.5
Total inventory	$ 586.0	$ 568.7

Inventories on the LIFO method were 42% and 37% of consolidated inventories at December 31, 2005 and 2004, respectively. The current replacement cost of these inventories exceeded the LIFO cost at December 31, 2005 and 2004 by $121.5 million and $80.5 million, respectively.

During 2003, some inventory quantities were reduced, resulting in a liquidation of certain LIFO inventory quantities carried at lower costs in prior years as compared with costs at December 31, 2003. The effect of this liquidation increased income before taxes by $0.6 million.

Note 6 GOODWILL AND INTANGIBLE ASSETS

Goodwill

Pursuant to SFAS No. 142, goodwill is no longer amortized but rather is reviewed for impairment annually or more frequently if impairment indicators arise. No impairment of goodwill was identified in connection with the 2005, 2004 and 2003 tests performed annually as of October 1st. The carrying amount of goodwill by reporting segment is as follows:

	Lubricant Additives	Specialty Chemicals	Total
Balance, January 1, 2004	$ 99.3	$ 109.4	$ 208.7
Goodwill acquired		906.5	906.5
Translation and other adjustments	1.6	37.0	38.6
Balance, December 31, 2004	100.9	1,052.9	1,153.8
Goodwill acquired		32.9	32.9
Translation and other adjustments	(5.1)	(42.8)	(47.9)
Balance, December 31, 2005	$ 95.8	$ 1,043.0	$ 1,138.8

Intangible Assets

Pursuant to SFAS No. 142, indefinite-lived intangible assets are no longer amortized but rather are reviewed annually or more frequently if impairment indicators arise. The company s indefinite-lived assets consist primarily of trademarks. The company assesses the indefinite-lived trademarks for impairment separately from goodwill. After considering the expected use of the trademarks and reviewing any legal, regulatory, contractual, obsolescence, demand, competitive or other economic factors that could limit the useful lives of the trademarks, in accordance with SFAS No. 142, the company determined that the trademarks had indefinite lives. No impairment of the non-amortized trademarks was identified in connection with the 2005, 2004 and 2003 tests performed annually as of October 1st.

The following table shows the components of identifiable intangible assets as of December 31, 2005 and 2004:

	2005		2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists	$ 151.5	$ 15.8	$ 151.9	$ 6.4
Technology	144.4	35.6	144.4	25.4
Trademarks	24.5	4.2	24.4	2.3
Patents	11.8	2.5	13.2	1.5
Land-use rights	7.3	1.0	7.1	0.8
Non-compete agreements	9.1	5.9	8.9	3.8
Other	5.4	0.7	11.3	0.9
Total amortized intangible assets	354.0	65.7	361.2	41.1
Non-amortized intangible assets:				
Non-amortized trademarks	116.3		117.0	
Total	$ 470.3	$ 65.7	$ 478.2	$ 41.1

Excluding the impact of further acquisitions, estimated annual intangible amortization expense for the next five years will approximate $25.4 million in 2006, $23.9 million in 2007, $22.3 million in 2008, $20.6 million in 2009 and $20.5 million in 2010.

The Noveon International purchase price included the estimated fair value of research and development projects totaling $34.0 million that, as of the acquisition date, had not reached technological feasibility and had no future alternative use. As a result, the full amount was expensed in 2004.

Note 7 SHORT-TERM AND LONG-TERM DEBT
The company s debt is comprised of the following at December 31, 2005 and 2004:

	2005	2004
Short-term debt consists of:		
Yen denominated, at weighted-average rates of 0.5% and 0.6%	$ 2.5	$ 7.8
Other	0.8	
Current portion of long-term debt	4.6	0.4
Total	$ 7.9	$ 8.2
Long-term debt consists of:		
5.875% notes, due 2008, including fair value adjustments of $(0.6) million and $4.8 million in 2005 and 2004, respectively for unrealized (loss) gain on derivative hedge instruments and remaining unamortized gain on termination of swaps of $8.0 million and $10.7 million in 2005 and 2004, respectively	$ 207.4	$ 215.5
4.625% notes, due 2009, net of original issue discount of $0.3 million in 2005 and 2004 and fair value adjustments of $(4.3) million and $(0.1) million for realized losses on derivative hedge instruments in 2005 and 2004, respectively	395.4	399.6
5.5% notes, due 2014, net of original issue discount of $2.7 million and $2.9 million in 2005 and 2004, respectively	447.3	447.1
7.25% debentures, due 2025	100.0	100.0
6.5% debentures, due 2034, net of original issue discount of $4.9 million and $5.0 million in 2005 and 2004, respectively	295.1	295.0

	2005	2004
Debt supported by long-term banking arrangements:		
Term loans, at LIBOR plus 1.25% (3.7% at December 31, 2004)		500.0
Euro revolving credit borrowing, at EURIBOR plus 0.4% (2.9% at December 31, 2005)	215.6	
Other	6.7	7.3
	1,667.5	1,964.5
Less current portion	4.6	0.4
Total	$ 1,662.9	$ 1,964.1

The scheduled principal payments for all outstanding debt are $7.9 million in 2006, $0.2 million in 2007, $200.3 million in 2008, $400.1 million in 2009, $215.7 million in 2010 and $851.2 million thereafter.

In September 2005, certain wholly owned international subsidiaries of the company entered into a new five-year unsecured committed 250.0 million revolving credit agreement. This credit agreement permits these designated international subsidiaries to borrow at variable rates based on EURIBOR plus a specified credit spread. The company has guaranteed all obligations of the borrowers under the credit agreement. As of December 31, 2005, borrowings of 182.0 million ($215.6 million) were outstanding under this agreement.

In September 2004, the company issued senior unsecured notes and debentures having an aggregate principal amount of $1,150.0 million including: $400.0 million 4.625% notes due October 1, 2009; $450.0 million 5.5% notes due October 1, 2014; and $300.0 million 6.5% debentures due October 1, 2034. The price to the public was 99.911% per 2009 note, 99.339% per 2014 note and 98.341% per 2034 debenture. The resulting original issue discount from the issuance of these notes and debentures of $8.3 million was recorded as a reduction of the underlying debt issuances and is being amortized over the life of the debt using the effective interest method. Interest is payable semi-annually on April 1 and October 1 of each year, beginning April 1, 2005. The notes and debentures have no sinking fund requirement, but are redeemable, in whole or in part, at the option of the company. The company s wholly owned direct and indirect domestic subsidiaries guarantee the notes and debentures on an unsecured and unsubordinated basis. The proceeds from these notes and debentures were used to repay a portion of the 364-day credit facility that was utilized to bridge finance the Noveon International acquisition. Including debt issuance costs, original issue discounts and losses on Treasury rate lock agreements, the 2009 notes, 2014 notes and 2034 debentures have effective annualized interest rates of approximately 5.2%, 6.2% and 6.7%, respectively, with a weighted-average interest rate for the aggregate issuances of approximately 6.0%.

In August 2004, the company entered into a new five-year $1,075.0 million unsecured bank credit agreement consisting of: $575.0 million in term loans and a $500.0 million committed revolving credit facility. This credit agreement permits the company to borrow at variable rates based upon the U.S. prime rate or LIBOR plus a specified spread. The spread is dependent on the company s long-term unsecured senior debt rating from Standard and Poor s and Moody s Investor Services. Each of the company s wholly owned direct and indirect domestic subsidiaries has unconditionally guaranteed all of the obligations under the credit agreement. In September 2004, the company borrowed $575.0 million in term loans, the proceeds of which were used to repay a portion of the 364-day credit facility used to bridge finance the Noveon International acquisition. Principal on the term loans was due quarterly in equal installments of $14.4 million beginning March 31, 2005, with any remaining unpaid balance due in September 2009. In the fourth quarter of 2004, the company prepaid $75.0 million and, in 2005, the company prepaid the remaining $500.0 million to pay off the bank term loan. The loans were prepayable at any time without penalty. There were no outstanding revolving credit facility borrowings as of December 31, 2005 and 2004.

In May 2004, the company obtained a 364-day credit facility of $2,450.0 million for the purpose of bridge financing the Noveon International acquisition. This credit facility enabled the company to borrow at or below the U.S. prime rate. In June 2004, the company borrowed $1,797.0 million to finance the Noveon International acquisition and repay a portion of the assumed Noveon International debt. In addition, in July 2004, the company borrowed $175.0 million to repay the outstanding seller notes also assumed as part of the Noveon International acquisition. The company repaid the bridge credit facility in September 2004 with proceeds from the equity issuance, $1,150.0 million in notes and debentures and $575.0 million in bank term loans. The company cancelled the bridge credit facility effective September 28, 2004.

In addition, the company had a committed revolving credit facility of $350.0 million with an original expiration date of July 17, 2006. The company repaid all outstanding borrowings and cancelled this credit facility on September 28, 2004. Immediately prior to cancellation, there were outstanding borrowings under this facility of $75.0 million, the proceeds of which were used to fund the repayment of previously outstanding commercial paper and marine terminal refunding revenue bonds, and liabilities associated with the termination of various floating-to-fixed rate swaps.

In November 1998, the company issued notes having an aggregate principal amount of $200.0 million. The notes are unsecured, senior obligations of the company that mature on December 1, 2008, and bear interest at 5.875% per annum, payable semi-annually on June 1 and December 1 of each year. The notes have no sinking fund requirement but are redeemable, in whole or in part, at the option of the company. The company s wholly owned direct and indirect domestic subsidiaries guarantee the notes and debentures on an unsecured and unsubordinated basis. The company incurred debt issuance costs aggregating $10.5 million, including a loss of $6.5 million related to closed Treasury rate lock agreements originally entered into as a hedge against changes in interest rates relative to the anticipated issuance of these notes.

The company has debentures outstanding, issued in June 1995, in an aggregate principal amount of $100.0 million. These debentures are unsecured, senior obligations of the company that mature on June 15, 2025, and bear interest at an annualized rate of 7.25%, payable semi-annually on June 15 and December 15 of each year. The debentures are not redeemable prior to maturity and are not subject to any sinking fund requirements. The company s wholly owned direct and indirect domestic subsidiaries guarantee the notes and debentures on an unsecured and unsubordinated basis.

In November 2004, the company entered into interest rate swap agreements that effectively convert the interest on $200.0 million of outstanding 4.625% notes due 2009 to a variable rate of six-month LIBOR plus 40 basis points. In June 2004, the company entered into interest rate swap agreements that effectively convert the interest on $200.0 million of outstanding 5.875% notes due 2008 to a variable rate of six-month LIBOR plus 111 basis points. In addition, the company has an interest rate swap agreement, which expires in October 2006, that exchanges variable-rate interest obligations on a notional principal amount of Japanese yen 500.0 million for a fixed rate of 2.0%. This interest rate swap is designated as a cash-flow hedge.

The company also had interest rate swap agreements, with an original expiration date of March 2005, that exchanged variable-rate interest obligations on a notional principal amount of $50.0 million for a fixed rate of 7.6%. In April 2004, the company terminated these interest rate swap agreements (see Note 8).

In July 2002, the company terminated its interest rate swap agreements expiring December 2008, which converted fixed-rate interest on $100.0 million of its 5.875% debentures to a variable rate. In terminating the swaps, the company received cash of $18.1 million, which is being amortized as a reduction of interest expense through December 1, 2008, the due date of the underlying debt. Gains and losses on terminations of interest rate swap agreements designated as fair value hedges are deferred as an adjustment to the carrying amount of the outstanding obligation and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement. In the event of early extinguishment of the outstanding obligation, any unamortized gain or loss from the swaps would be recognized in the consolidated statement of income at the time of such extinguishment. In 2002, the company recorded a $17.3 million unrealized gain, net of accrued interest, on the termination of the interest rate swaps as an increase in the underlying long-term debt. The remaining unrealized gain was $8.0 million and $10.7 million at December 31, 2005 and 2004, respectively.

Interest paid, net of amounts capitalized, amounted to $104.3 million, $80.0 million and $26.1 million during 2005, 2004 and 2003, respectively. The company capitalizes interest on qualifying capital projects. The amount of interest capitalized during 2005, 2004 and 2003 amounted to $0.7 million, $0.6 million and $0.2 million, respectively.

Note 8 FINANCIAL INSTRUMENTS

The company has various financial instruments, including cash and short-term investments, investments in nonconsolidated companies, foreign currency forward contracts, commodity forward contracts, interest rate swaps and short-term and long-term debt. The company has determined the estimated fair value of these financial instruments by using available market information and generally accepted valuation methodologies. The use of different market assumptions or estimation methodologies could have a material effect on the estimated fair value amounts. The estimated fair value of the company s debt instruments at December 31, 2005 and 2004 approximated $1,687.0 million and $1,966.0 million, compared with the carrying value of $1,670.8 million and $1,972.3 million, respectively.

The company is exposed to market risk from changes in interest rates. The company s policy is to manage interest expense using a mix of fixed and variable-rate debt. To manage this mix in a cost-efficient manner, the company may enter into interest rate swaps in which the company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Interest payments receivable and payable under the terms of the interest rate swap agreements are accrued over the period to which the payment relates and the net difference is treated as an adjustment of interest expense related to the underlying liability.

In November 2004, the company entered into interest rate swap agreements that effectively convert the interest on $200.0 million of outstanding 4.625% notes due 2009 to a variable rate of six-month LIBOR plus 40 basis points. The fair value of the interest rate swaps included in long-term debt was $(4.3) million and $(0.1) million at December 31, 2005 and 2004, respectively. In June 2004, the company entered into interest rate swap agreements that effectively convert the interest on $200.0 million of outstanding 5.875% notes due 2008 to a variable rate of six-month LIBOR plus 111 basis points. The fair value of the interest rate swaps included in long-term debt was $(0.6) million and $4.8 million at December 31, 2005 and 2004, respectively. These swaps are designated as fair-value hedges of underlying fixed-rate debt obligations and are recorded as an adjustment to long-term debt and noncurrent assets or liabilities. These interest rate swaps qualify for the short-cut method for assessing hedge effectiveness per SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Changes in fair value of the swaps are offset by the change in fair value of the underlying debt. As a result, there was no impact to earnings in 2005 or 2004 due to hedge ineffectiveness.

The company also has an interest rate swap agreement that exchanges variable-rate interest obligations for a fixed rate on a notional principal amount of Japanese yen 500.0 million. This interest rate swap is designated as a cash-flow hedge.

At December 31, 2003, the company had interest rate swap agreements, with an original expiration date of March 2005, that exchanged variable-rate interest obligations on a notional principal amount of $50.0 million for a fixed rate of 7.6%. After the announcement of the Noveon International acquisition, the company s long-term debt and commercial paper credit ratings were downgraded. The credit rating change eliminated the company s access to the commercial paper market. As a result, in April 2004, the company terminated these interest rate swap agreements, which resulted in a $2.9 million pre-tax charge recognized in 2004.

In June 2004, the company entered into several Treasury rate lock agreements with an aggregate notional principal amount of $900.0 million, all maturing September 30, 2004, whereby the company had locked in Treasury rates relating to a portion of the then anticipated public debt securities issuance. These rate locks were designated as cash-flow hedges of the forecasted semi-annual interest payments associated with the expected debt issuance. In September 2004, the company incurred a pre-tax loss on the termination of these agreements in an aggregate amount of $73.9 million. Gains and losses on terminations of Treasury rate lock agreements designated as cash-flow hedges are deferred and amortized as an adjustment to interest expense over the life of the corresponding debt issuance using the effective interest method. The unamortized balance of the Treasury rate lock recorded in accumulated other comprehensive income, net of tax, was $44.5 million and $47.4 million at December 31, 2005 and 2004, respectively.

The company is exposed to the effect of changes in foreign currency rates on its earnings and cash flow as a result of doing business internationally. In addition to working capital management, pricing and sourcing, the company selectively uses foreign currency forward contracts to lessen the potential effect of currency changes. The maximum amount of foreign currency forward contracts outstanding at any one time was $34.4 million in 2005, $140.8 million in 2004 and $130.9 million in 2003. At December 31, 2005, the company had short-term forward contracts to buy or sell currencies at various dates during 2006 for $27.3 million. At December 31, 2004, the company had short-term forward contracts to buy or sell currencies at various dates during 2005 for $27.6 million. Changes in the fair value of these contracts are recorded in other income. The fair value of these instruments at December 31, 2005 and 2004, and the related adjustments recorded in other income, were an unrealized loss of $0.2 million in 2005, and an unrealized gain of $0.7 million in 2004.

The company is exposed to market risk from changes in commodity prices. The company uses financial instruments to manage the cost of natural gas and electricity purchases. These contracts have been designated as cash-flow hedges and, accordingly, any effective unrealized gains or losses on open contracts are recorded in other comprehensive income, net of related tax effects. At December 31, 2005 and 2004, the notional amounts of open contracts totaled $10.0 million and $3.3 million, respectively. A hedge liability of $0.9 million ($0.6 million net of tax) and $0.1 million ($0.1 million net of tax) was recorded at December 31, 2005 and 2004, respectively, which represents the net unrealized losses or gains based upon current futures prices at that date. Ineffectiveness was determined to be immaterial in 2005 and 2004. Contract maturities are less than 12 months. As such, the company expects that all of these losses will be reclassified into earnings within the next 12 months.

Note 9 OTHER BALANCE SHEET INFORMATION

Receivables:	2005	2004
Customers	$ 533.9	$ 519.8
Affiliates	8.1	9.1
Other	43.6	53.9
Total	$ 585.6	$ 582.8

Receivables are net of allowance for doubtful accounts of $10.1 million and $11.0 million at December 31, 2005 and 2004, respectively.

Property and equipment at cost:	2005	2004
Land and improvements	$ 178.0	$ 171.3
Buildings and improvements	456.2	494.1
Machinery and equipment	1,912.2	1,960.6
Construction in progress	75.1	105.3
Total	$ 2,621.5	$ 2,731.3

Depreciation and amortization expense of property and equipment from continuing operations was $154.0 million, $136.0 million and $94.7 million in 2005, 2004 and 2003, respectively. Depreciation and amortization expense of property and equipment from discontinued operations was $0.6 million, $0.7 million and $0.8 million in 2005, 2004 and 2003, respectively.

Accrued expenses and other current liabilities:	2005	2004
Employee compensation	$ 99.4	$ 109.7
Income taxes	56.3	55.9
Taxes other than income	31.2	35.2
Sales allowances and rebates	30.3	32.2
Restructuring liabilities	6.4	8.8
Other	61.2	65.0
Total	$ 284.8	$ 306.8

Dividends payable at December 31, 2005 and 2004 were $17.7 million and $17.4 million, respectively, and are included in accounts payable in the consolidated balance sheet.

Noncurrent Liabilities:	2005	2004
Pensions	$ 121.3	$ 96.9
Employee benefits	51.2	45.8
Other	31.5	28.0
Total	$ 204.0	$ 170.7

Note 10 SHAREHOLDERS EQUITY

The company has 147.0 million authorized shares consisting of 2.0 million shares of serial preferred stock, 25.0 million shares of serial preference shares and 120.0 million common shares, each of which is without par value. Common shares outstanding exclude common shares held in treasury of 18.2 million and 19.4 million at December 31, 2005 and 2004, respectively.

In September 2004, the company issued and sold 13.4 million common shares at a price of $33.25 per share. Net proceeds from the sale of common shares were $427.2 million and were used primarily to repay the temporary bridge loan that financed a portion of the Noveon International acquisition. In October 2004, the company issued an additional 1.3 million common shares at a price of $33.25 per share due to the exercise of the over-allotment option relating to the September common share offering. This issuance generated net proceeds to the company of $42.8 million, which were utilized to prepay $40.0 million in term loan debt.

The company has a shareholder rights plan under which one right to buy one-half common share has been distributed for each common share held. The rights may become exercisable under certain circumstances involving actual or potential acquisitions of 20% or more of the common shares by a person or affiliated persons who acquire stock without complying with the requirements of the company s articles of incorporation. The rights would entitle shareholders, other than this person or affiliated persons, to purchase common shares of the company or of certain acquiring persons at 50% of the then current market value. At the option of the directors, the rights may be exchanged for common shares, and may be redeemed in cash, securities or other consideration. The rights will expire in 2007 unless redeemed earlier.

Accumulated other comprehensive (loss) income shown in the consolidated statements of shareholders equity at December 31, 2005, 2004 and 2003 is comprised of the following:

	Foreign Currency Translation Adjustment	**Treasury Rate Locks**	**Unrealized Gains (Losses) on Interest Rate Swaps**	**Pension Plan Minimum Liability**	**Accumulated Other Comprehensive (Loss) Income**
Balance, January 1, 2003	$ (53.2)	$	$ (3.2)	$ (21.7)	$ (78.1)
Other comprehensive income (loss):					
Pre-tax	51.5		2.2	(12.0)	41.7
Tax benefit (provision)	(2.4)		(0.8)	3.6	0.4
Total	49.1		1.4	(8.4)	42.1
Balance, December 31, 2003	(4.1)		(1.8)	(30.1)	(36.0)
Other comprehensive (loss) income:					
Pre-tax	97.5	(72.9)	3.2	1.9	29.7
Tax benefit (provision)	(1.9)	25.5	(1.1)	(0.7)	21.8
Total	95.6	(47.4)	2.1	1.2	51.5
Balance, December 31, 2004	91.5	(47.4)	0.3	(28.9)	15.5
Other comprehensive (loss) income:					
Pre-tax	(119.1)	4.4		(19.1)	(133.8)
Tax benefit (provision)	1.9	(1.5)		5.4	5.8
Total	(117.2)	2.9		(13.7)	(128.0)
Balance, December 31, 2005	$ (25.7)	$ (44.5)	$ 0.3	$ (42.6)	$ (112.5)

Note 11 OTHER (EXPENSE) INCOME NET

	2005	2004	2003
Currency exchange / transaction (loss) gain	$ (0.6)	$ 6.6	$ 3.5
Equity earnings of nonconsolidated companies	0.8	0.8	0.1
Other net	(2.2)	(2.1)	(0.3)
Total	$ (2.0)	$ 5.3	$ 3.3

Dividends received from the nonconsolidated companies were $0.9 million in 2005, $0.4 million in 2004 and $1.0 million in 2003.

Note 12 INCOME TAXES

Income from continuing operations before income taxes consists of the following:

	2005	2004	2003
United States	$ 76.9	$ 37.4	$ 39.4
Foreign	198.0	105.3	89.1
Total	$ 274.9	$ 142.7	$ 128.5

The provision for income taxes from continuing operations consists of the following:

	2005	2004	2003
Current:			
United States	$ 16.5	$ 4.6	$ 6.1
Foreign	66.5	41.1	30.6
	83.0	45.7	36.7
Deferred:			
United States	15.6	16.5	3.0
Foreign	(5.0)	(10.1)	(1.8)
	10.6	6.4	1.2
Total	$ 93.6	$ 52.1	$ 37.9

The differences between the provision for income taxes at the U.S. statutory rate and the tax shown in the consolidated statements of income are summarized as follows:

	2005	2004	2003
Tax at statutory rate of 35%	$ 96.2	$ 49.9	$ 45.0
U.S. and foreign tax on foreign dividends	8.1	13.8	3.5
U.S. tax benefit on exports	(5.1)	(1.8)	(3.7)
State and local income taxes	4.6	0.3	0.3
Untaxed translation gains	(0.8)	(2.5)	(5.4)
Foreign rate differences	(10.5)	(7.5)	(0.5)
Other net	1.1	(0.1)	(1.3)
Provision for income taxes	$ 93.6	$ 52.1	$ 37.9

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31 are as follows:

	2005	2004
Deferred tax assets:		
Accrued compensation and benefits	$ 131.5	$ 120.7
Intercompany profit in inventory	10.6	11.5
Net operating losses and tax credits carried forward	92.1	146.0
Other	29.3	22.2
Total gross deferred tax assets	263.5	300.4
Less valuation allowance	(18.1)	(18.8)
Net deferred tax assets	245.4	281.6
Deferred tax liabilities:		
Depreciation and other basis differences	229.3	255.7
Foreign subsidiary and affiliate undistributed earnings	6.9	30.0
Other	9.6	10.3
Total gross deferred tax liabilities	245.8	296.0
Net deferred tax liabilities	$ (0.4)	$ (14.4)

At December 31, 2005, the company had federal, state and foreign net operating loss carryforwards (NOLs) and federal tax credit carryforwards. The company s U.S. federal NOLs and credits totaled $178.4 million and $7.6 million, respectively. The federal benefit of these NOLs and tax credits expire in 2021 through 2024. The company had $15.3 million of state tax benefit from NOLs, of which $6.3 million expires in 2006 through 2021 and $9.0 million expire in 2022 through 2025. The company had foreign NOLs of $22.8 million, of which $12.9 million expire in 2006-2020 and $9.9 million have no expiration.

Gross deferred tax assets as of December 31, 2005 and 2004 were reduced by valuation allowances of $18.1 million and $18.8 million, respectively, to reflect the amounts expected to be realized. Of the $18.1 million in valuation allowances at December 31, 2005, $10.4 million relates to certain Noveon International deferred tax assets existing at the time of the acquisition. In the future, any reversal of the related valuation allowance will reduce goodwill. The $0.7 million decrease in the valuation allowance from December 31, 2004 to December 31, 2005 is comprised of a $4.1 million reduction related to pre-acquisition Noveon International deferred tax assets, which was recorded as a reduction to goodwill; a $0.6 million decrease related to discontinued operations; a $0.2 million release for foreign losses; and an increase of $4.2 million related to state losses.

No valuation allowance has been recognized against the U.S. federal NOLs or tax credits because management believes that the company will generate sufficient future taxable income during the carryforward period to utilize them.

The American Jobs Creation Act of 2004 (AJCA) provides for a temporary 85% dividends received deduction on certain foreign earnings repatriated during 2005 that are reinvested in the United States pursuant to a qualified domestic reinvestment plan. The deduction results in an approximate 5.25% federal tax on the repatriated earnings. During 2005, the company s chief executive officer and board of directors approved plans for domestic reinvestment and these plans were executed.

As of December 31, 2004, the company had established a deferred tax liability of $21.2 million for the planned 2005 repatriation of certain accumulated foreign earnings. During 2005, these planned dividends, plus certain additional dividends from 2005 foreign subsidiary earnings, were repatriated.

U.S. income taxes and foreign withholding taxes are not provided on the remaining undistributed earnings of foreign subsidiaries, which are considered to be indefinitely reinvested in the operations of such subsidiaries. The amount of these earnings was approximately $531.7 million at December 31, 2005. Determination of the net amount of unrecognized U.S. income tax with respect to these earnings is not practicable.

The company realized reductions in its income tax payable in the amounts of $4.6 million, $1.3 million and $0.2 million during 2005, 2004 and 2003, respectively, relating to exercise of nonqualified stock options. For accounting purposes these tax benefits were realized as increases in paid-in capital included in the common shares caption of the consolidated statement of shareholders equity.

Income taxes paid during 2005, 2004 and 2003 were $75.7 million, $34.6 million and $50.8 million, respectively.

Note 13 PENSION, PROFIT SHARING AND OTHER POSTRETIREMENT BENEFIT PLANS

The company has noncontributory defined benefit pension plans covering most employees. Pension benefits under these plans are based on years of service and the employee s compensation. The company s funding policy in the United States is to contribute amounts to satisfy the funding standards of the Internal Revenue Code (IRC) of 1986, as amended, and the Employee Retirement Income Security Act of 1974, as amended, and elsewhere to fund amounts in accordance with local regulations. Several of the company s smaller defined benefit plans are not funded.

The investment objective of the funded pension plans sponsored by the company and certain subsidiaries is to assure the timely payment of promised benefits at a minimum cost consistent with prudent standards of investment, given the strength of the company and the subsidiaries, their earnings record, the adequacy of each plan s funding and the age of each entity s work force. The plans utilize diversified investment portfolios and seek to earn returns consistent with a reasonable level of risk. The long-term expected return on plan assets used to determine the net periodic pension cost is based upon each entity s investment allocation and anticipated returns for specific investment classes. In 2005, the company lowered the expected long-term rate of return assumption for the U.S. pension plans 50 basis points to 8.50% (7.72% on a weighted average basis for all plans) due to overall declining asset return trends in recent years and projected market conditions.

As long-term asset allocation is recognized as the primary determinant of performance, the sponsoring entities generally utilize the following asset allocation targets to achieve their plan investment objectives: 70% equity securities and 30% debt securities. The non-U.S. plans have a slightly higher allocation to debt securities than the U.S. plans. As appropriate, allocation targets and ranges may be established for various subcategories. Allocations are reviewed periodically and adjusted as necessary. In January 2005, the company transferred the Noveon International U.S. pension assets into one master trust arrangement with the company s existing U.S. pension plans. As a result, the combined assets are subject to the same overall investment strategy and management.

Approved pension plan investments include, but are not limited to: equities, fixed-income securities, real estate, venture capital, cash and cash equivalent instruments and such other instruments (including mutual fund investments), as the company may approve. Investments in tax-exempt securities, commodities and options, other than covered calls, and the use of leverage are prohibited. Plan investment managers may use derivatives to hedge currency risk and to keep fully invested. Any other use of derivative instruments must be approved by the sponsoring entity.

The market values of pension plan assets are compared periodically to the value of plan benefit obligations. The future value of assets, as calculated based on the expected long-term rate of return, are also compared to expected future plan benefit distributions and contributions to determine the sufficiency of expected plan funding levels. Investment asset allocations are revised as appropriate.

Plan assets are invested principally in marketable equity securities and fixed income instruments. The allocation of pension plan assets by major asset class is shown below on a weighted-average basis:

	Percentage of Plan Assets at December 31	
	2005	2004
Asset category:		
Equity securities	72%	70%
Debt securities	28%	27%
Real estate		3%
Total	100%	100%

No equity or debt securities of the company or any of its subsidiaries were included in the pension plans assets in 2005 and 2004, respectively.

The company also provides certain non-pension postretirement benefits, primarily health care and life insurance benefits, for retired employees. Most of the legacy Lubrizol full-time employees in the United States may become eligible for health care benefits upon retirement. Full-time employees who retired between January 1, 1992 and December 31, 2002 are also eligible for life insurance benefits. Participants contribute a portion of the cost of these benefits. The company s non-pension postretirement benefit plans are not funded.

As part of the Noveon International integration efforts to provide consistent benefits, the company communicated to employees in May 2005 changes to the benefits structure of certain of its U.S. pension and postretirement benefit plans. This communication triggered a remeasurement of the related benefit obligations and net periodic benefit cost in 2005 for both the legacy Noveon International U.S. pension plans as well as for the U.S. postretirement benefit plan. As a result of the second quarter remeasurement, the discount rate for the legacy Noveon International U.S. pension plans was reduced by 25 basis points to 5.75%. In addition, the discount rate for the U.S. postretirement benefit plan was reduced by 50 basis points to 5.75%. The net impact of the benefit and actuarial assumption

changes reduced the company s aggregate net periodic pension and postretirement benefit cost by $3.5 million. The annualized savings resulting from this benefits change is estimated to be approximately $5.3 million.
The change in the projected benefit obligation and plan assets for 2005 and 2004 and the amounts recognized in the consolidated balance sheets at December 31 of the company s defined benefit pension and non-pension postretirement plans are as follows:

	Pension Plans		Other Benefits	
	2005	2004	2005	2004
Change in Projected Benefit Obligation:				
Projected benefit obligation at beginning of year	$ 558.5	$ 419.3	$ 122.5	$ 113.2
Service cost	28.1	22.0	1.8	2.5
Interest cost	31.5	27.9	6.0	6.9
Plan participants contributions	0.6	0.4	3.3	2.9
Actuarial loss (gain)	74.2	37.0	(9.0)	(0.5)
Currency exchange rate change	(27.0)	17.0	(0.2)	0.4
Plan amendments	2.3	0.9	(22.1)	
Settlements / curtailments	(1.0)	(39.4)		
Acquisitions		84.9		3.9
Benefits paid	(25.4)	(11.5)	(8.5)	(6.8)
Benefit obligation at end of year	641.8	558.5	93.8	122.5
Change in Plan Assets:				
Fair value of plan assets at beginning of year	357.2	306.5		
Actual return on plan assets	46.1	39.5		
Acquisitions / divestitures		32.8		
Employer contributions	38.2	19.9	5.2	3.9
Settlements	(0.9)	(37.0)		
Plan participants contributions	0.6	0.4	3.3	2.9
Currency exchange rate change	(15.3)	10.5		
Adjustments		(3.9)		
Benefits paid	(25.4)	(11.5)	(8.5)	(6.8)
Fair value of plan assets at end of year	400.5	357.2		
Reconciliation of Funded Status:				
Plan assets less than projected benefit obligation	(241.3)	(201.3)	(93.8)	(122.5)
Unrecognized net loss	147.5	104.4	34.9	46.1
Unrecognized net transition obligation	0.5	0.7		
Unrecognized prior service cost (credit)	22.7	23.3	(48.3)	(33.7)
Net amounts recognized	$ (70.6)	$ (72.9)	$ (107.2)	$ (110.1)

	Pension Plans		Other Benefits	
	2005	2004	2005	2004
Net amounts recognized in the consolidated balance sheets:				
Prepaid benefit cost	$ 0.3	$ 0.6	$	$
Accrued benefit liability	(136.5)	(120.6)	(107.2)	(110.1)
Accumulated other comprehensive loss	60.7	41.6		
Intangible asset	4.9	5.5		
Net amounts recognized	$ (70.6)	$ (72.9)	$ (107.2)	$ (110.1)

The accumulated benefit obligation for all defined benefit pension plans was $513.1 million and $425.3 million at December 31, 2005 and 2004, respectively. The projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were $637.8 million and $395.9 million, respectively, at December 31, 2005, and $548.9 million and $347.0 million, respectively, at December 31, 2004. The accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $306.0 million and $189.4 million, respectively, at December 31, 2005 and $234.7 million and $155.8 million, respectively, at December 31, 2004.

The company amortizes gains and losses, as well as the effects of changes in actuarial assumptions and plan provisions, over the average remaining service period of participating employees expected to receive benefits under the plans.

Net periodic pension cost of the company s defined benefit pension plans consists of:

	2005	2004	2003
Service cost benefits earned during period	$ 28.1	$ 22.0	$ 14.5
Interest cost on projected benefit obligation	31.5	27.9	22.3
Expected return on plan assets	(26.9)	(27.4)	(26.4)
Amortization of prior service costs	2.2	1.6	3.3
Amortization of initial net obligation (asset)	0.2	(0.7)	(0.7)
Recognized net actuarial loss	5.5	3.8	0.8
Settlement / curtailment loss	0.3	7.7	0.3
Net periodic pension cost	$ 40.9	$ 34.9	$ 14.1

The company recorded a $7.7 million settlement charge in 2004 primarily associated with workforce reductions announced in June 2004 in the United States.

Net non-pension postretirement benefit cost consists of:

	2005	2004	2003
Service cost benefits earned during period	$ 1.8	$ 2.5	$ 2.0
Interest cost on projected benefit obligation	6.0	6.9	7.0
Amortization of prior service credits	(7.5)	(6.1)	(5.6)
Recognized net actuarial loss	2.1	2.5	2.2
Net non-pension postretirement benefit cost	$ 2.4	$ 5.8	$ 5.6

The company s actuarial assumptions used to determine benefit obligations and earnings effects for its defined benefit pension and non-pension postretirement plans are as follows:

	Pension Plans		Other Benefits	
	2005	2004	2005	2004
The weighted-average assumptions used to determine benefit obligations at December 31:				
Measurement date	12/31/05	12/31/04	12/31/05	12/31/04
Discount rate	5.28%	5.74%	5.50%	6.20%
Rate of compensation increase	3.94%	4.08%	*	*
The weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	5.74%	5.94%	6.20%	6.24%
Expected long-term return on plan assets	7.72%	7.82%	*	*
Rate of compensation increase	4.08%	3.86%	*	*

* Disclosure not applicable

The following table shows the amounts the company contributed to its postretirement plans in 2005 and 2004 and the expected contributions for 2006:

Employer contributions:	Pension Plans	Other Plans	Total
2004	$19.9	$3.9	$23.8
2005	$38.2	$5.2	$43.4
2006 (expected)	$22.2	$4.9	$27.1

Expected employer contributions for pension benefits in 2006 include $6.9 million for unfunded plans. The expected contributions to these plans represent an actuarial estimate of future assumed payments based on historic retirement and payment patterns. Actual amounts paid could differ from this estimate.

Contributions by participants to the other benefit plans were $3.3 million and $2.9 million for the years ending December 31, 2005 and 2004, respectively.

The following table shows the benefits expected to be paid in each of the next five years and the aggregate benefits expected to be paid for the subsequent five years:

Estimated future benefit payments:	Pension Benefits	Other Benefits	Total Benefits
2006	$ 23.6	$ 4.9	$ 28.5
2007	22.1	5.1	27.2
2008	23.2	5.3	28.5
2009	26.7	5.6	32.3
2010	30.1	6.0	36.1
2011-2015	183.5	34.5	218.0

The other benefits in the above table are presented net of expected Medicare Part D subsidy payments of $0.8 million in 2006, $0.9 million in 2007, $1.0 million in 2008, $1.1 million in 2009, $1.2 million in 2010 and $6.6 million in 2011-2015. The weighted average of the assumed health care cost trend rates used in measuring the accumulated postretirement benefit obligation for the company s postretirement benefit plans at December 31, 2005 was 8.27% (9.37% at December 31, 2004), with subsequent annual decrements to an ultimate trend rate of 4.74% by 2014. The assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in the assumed health care cost trend rate would have the following effects as of and for the year ended December 31, 2005:

	One-Percentage-Point	
	Increase	Decrease
Effect on postretirement benefit obligation	$9.7	$(8.4)
Effect on total service and interest cost components	$1.2	$(1.0)

The company also has defined contribution plans, principally involving profit sharing plans and/or 401(k) savings plans, covering most employees in the United States and at certain non-U.S. subsidiaries. Expense for all defined contribution retirement plans was $15.3 million in 2005, $12.8 million in 2004 and $9.5 million in 2003.

Note 14 LEASES

The company has commitments under operating leases primarily for office space, terminal facilities, land, railcars and various computer and office equipment. Rental expense was $29.4 million in 2005, $26.4 million in 2004 and $15.8 million in 2003. Future minimum rental commitments under operating leases having initial or remaining non-cancelable lease terms exceeding one year are $22.7 million in 2006, $17.8 million in 2007, $13.1 million in 2008, $8.5 million in 2009, $6.9 million in 2010 and $13.5 million thereafter. Minimum rental commitments are net of estimated credits for railcar mileage of $0.6 million in 2006. The company will not be receiving railcar credits after 2006.

Note 15 SEGMENT AND GEOGRAPHIC INFORMATION

The company is organized into two operating and reporting segments: Lubricant Additives and Specialty Chemicals. The Lubricant Additives segment, also referred to as Lubrizol Additives, represents 56% of the company s 2005 consolidated revenues and is comprised of the company s businesses in engine additives, specialty driveline and industrial oil additives and services. The Specialty Chemicals segment, also referred to as the Noveon segment, represents 44% of the company s 2005 consolidated revenues and is comprised of the businesses of the acquired Noveon International and the former performance chemicals group of the company.

Lubricant Additives consists of three product lines: engine additives; specialty driveline and industrial oil additives; and services. Engine additives is comprised of additives for lubricating engine oils, such as for gasoline, diesel, marine and stationary gas engines and additive components, additives for fuel products and refinery and oil field chemicals. In addition, this product line sells additive components and viscosity improvers within its lubricant and fuel additives product areas. Specialty driveline and industrial oil additives is comprised of additives for driveline oils, such as automatic transmission fluids, gear oils and tractor lubricants and industrial oil additives, such as additives for hydraulic, grease and metalworking fluids, as well as compressor lubricants. Services are comprised of outsourcing strategies for supply chain and knowledge center management. Lubricant Additives product lines are produced generally in company-owned shared manufacturing facilities and sold largely to a common customer base. During 2005, the company sold the equipment companies, ECS and LPS, and recorded the results of operations of these businesses in discontinued operations for all periods presented (See Note 4).

The Specialty Chemicals segment consists of consumer specialties, specialty materials and performance coatings product lines. The consumer specialties product line is characterized by global production of acrylic thickeners, specialty monomers, film formers, fixatives, emollients, silicones, surfactants, botanicals, over-the-counter pharmaceutical ingredients and intermediates, process chemicals, benzoate preservatives, fragrances, defoamers, synthetic food and technical dyes, rubber and lubricant antioxidants and rubber accelerators. The company markets products in the consumer specialties product line to the following primary end-use industries: personal care, food and beverage, automotive, aerospace and pharmaceuticals. The consumer specialties products are sold to customers worldwide and these customers include major manufacturers of cosmetics, personal care products, water soluble polymers, household products, soft drinks and food products and major manufacturers in the automotive and aerospace industries. The specialty materials product line is characterized by products such as TempRite and Estane engineered polymers. The company markets products of specialty materials through the primary product category of specialty plastics. Specialty materials products are sold to a diverse customer base comprised of major manufacturers in the construction, automotive, telecommunications, electronics and recreation industries. The performance coatings product line includes high-performance polymers for specialty paper, printing and packaging, industrial and architectural specialty coatings and textile applications. The company markets the performance coatings products through the primary product categories of performance polymers and coatings and textile performance chemicals. Performance coatings products serve major companies in the specialty paper, printing and packaging, paint and coatings, and textile industries.

The company primarily evaluates performance and allocates resources based on segment operating income, defined as revenues less expenses identifiable to the product lines included within each segment, as well as projected future returns. The company s accounting policies for its operating segments are the same as those described in Note 2. Segment operating income will reconcile to consolidated income from continuing operations before income taxes by deducting corporate expenses and corporate other (expense) income that are not attributed to the operating segments, the write-off of acquired IPR&D, restructuring and impairment charges and net interest expense.

The following table presents a summary of the results of the company s reportable segments for the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
Lubricant Additives:			
Revenues from external customers	$ 2,280.1	$ 1,998.6	$ 1,767.0
Equity earnings	0.8	0.8	0.1
Amortization of intangibles	3.0	3.0	3.0
Segment operating income	266.6	240.9	200.9
Segment total assets	1,319.1	1,337.1	1,168.1
Capital expenditures	70.1	82.4	74.3
Depreciation	79.7	86.1	84.2
Specialty Chemicals:			
Revenues from external customers	$ 1,762.6	$ 1,114.2	$ 253.3
Amortization of intangibles	22.2	15.0	1.9
Segment operating income	193.6	83.9	0.9
Segment total assets	2,536.8	2,733.3	403.6
Capital expenditures	65.6	50.2	13.9
Depreciation	73.6	48.9	9.4

	2005	2004	2003
Corporate:			
Total assets	$ 510.4	$ 495.9	$ 370.6
Capital expenditures	0.6	0.1	
Depreciation	0.7	1.0	1.1
Discontinued Operations:			
Capital expenditures	$ 0.4	$ 0.5	$ 0.3
Depreciation	0.6	0.7	0.8
Reconciliation to income from continuing operations before income taxes:			
Segment operating income	$ 460.2	$ 324.8	$ 201.8
Corporate expenses	(62.3)	(44.1)	(33.6)
Corporate other (expense) income net	(3.8)	6.2	4.1
Write-off of acquired IPR&D		(34.0)	
Restructuring and impairment charges	(22.2)	(37.9)	(22.5)
Interest expense net	(97.0)	(72.3)	(21.3)
Income from continuing operations before income taxes	$ 274.9	$ 142.7	$ 128.5

Revenues from external customers by product line are as follows:

	2005	2004	2003
Engine additives	$ 1,404.4	$ 1,222.4	$ 1,126.9
Specialty driveline / industrial oil additives	835.2	743.7	623.0
Services	40.5	32.5	17.1
Total Lubricant Additives	2,280.1	1,998.6	1,767.0
Consumer specialties	738.2	482.1	145.8
Performance coatings	583.9	391.5	107.5
Specialty materials	440.5	240.6	
Total Specialty Chemicals	1,762.6	1,114.2	253.3
Total revenues from external customers	$ 4,042.7	$ 3,112.8	$ 2,020.3

Revenues are attributable to countries based on the location of the customer. The United States is the only country where sales to external customers comprise in excess of 10% of the company s consolidated revenues. Revenues from external customers by geographic zone are as follows:

	2005	2004	2003
United States	$ 1,789.7	$ 1,333.3	$ 809.9
Other North America	198.9	162.6	86.7
Europe	1,090.9	866.5	591.0
Asia-Pacific / Middle East	741.6	578.7	402.3
Latin America	221.6	171.7	130.4
Total revenues from external customers	$ 4,042.7	$ 3,112.8	$ 2,020.3

The company s sales and receivables are concentrated in the oil and chemical industries. Lubricant Additives customers consist primarily of oil refiners and independent oil blenders and are located in more than 100 countries. The 10 largest customers, most of which are international oil companies and a number of which are groups of affiliated entities, comprised approximately 35%, 39% and 53% of consolidated net sales in 2005, 2004 and 2003, respectively. In 2005 and 2004, there was no single customer that accounted for more than 10% of consolidated net sales. In 2003, the company had one customer, predominantly within the Lubricant Additives segment, that accounted for revenues of $217.6 million, representing more than 10% of consolidated net sales.

Segment assets include receivables, inventories and long-lived assets including goodwill and intangible assets. Corporate assets include cash and short-term investments, investments accounted for on the cost basis and other current and noncurrent assets.

The company s principal long-lived assets are located in the following countries at December 31:

	2005	2004
United States	$ 1,827.8	$ 1,860.0
Belgium	346.1	402.0
United Kingdom	152.5	180.2
France	79.3	84.5
Hong Kong	78.7	83.2
Germany	31.6	65.3
Other	211.8	233.6
Total long-lived assets	$ 2,727.8	$ 2,908.8

Net income of non-United States subsidiaries was $136.5 million in 2005, $74.3 million in 2004 and $60.3 million in 2003. Dividends received from these subsidiaries were $210.5 million, $1.2 million and $28.0 million, respectively, in 2005, 2004 and 2003.

Note 16 STOCK COMPENSATION PLANS

All references to share numbers and share units in this note are based on actual share and unit numbers and are not shown in millions.

The 2005 Stock Incentive Plan (2005 Plan) was approved by the company s shareholders on April 25, 2005. The 2005 Plan provides for the granting of restricted and unrestricted shares and options to buy common shares up to an amount equal to 4,000,000 common shares, of which no more than 2,000,000 can be settled as full-value awards. After the 2,000,000 limit has been reached, full-value awards are counted in a 3-to-1 ratio against the 4,000,000 limit. Options are intended either to qualify as incentive stock options under the IRC or to be non-statutory stock options not intended to so qualify. Under the 2005 Plan, options generally become exercisable 50% one year after grant, 75% after two years, 100% after three years and expire up to 10 years after grant. The 2005 Plan generally supersedes the 1991 Stock Incentive Plan (1991 Plan), although options outstanding under the 1991 Plan remain exercisable until their expiration dates. The option price for stock options under the 2005 Plan is not less than the fair market value of the shares on the date of grant. The 2005 Plan permits the granting of stock appreciation rights in connection with the grant of options. In addition, the 2005 Plan provides to each outside director of the company an automatic annual grant of the number of restricted stock units that are worth $0.1 million, based on the fair market value of the company s common shares on the date of the Annual Meeting of Shareholders. The restricted stock units generally vest one year after the grant date.

The 1991 Plan provided for the granting of restricted and unrestricted shares and options to buy common shares up to an amount equal to 1% of the outstanding common shares at the beginning of any year, plus any unused amount from prior years. Options were intended either to qualify as incentive stock options under the IRC or to be non-statutory stock options not intended to so qualify. Under the 1991 Plan, options generally became exercisable 50% one year after grant, 75% after two years, 100% after three years and expire up to 10 years after grant. The option price for stock options under the 1991 Plan was not less than the fair market value of the shares on the date of grant. The 1991 Plan provided to each outside director of the company an automatic annual grant of an option to purchase 2,500 common shares, with terms generally comparable to employee stock options.

The 1991 Plan was terminated by the board of directors with respect to future grants effective November 15, 2004. Outstanding grants under the 1991 Plan remain effective subject to their terms.

Under the 1991 Plan, the company had granted performance share stock awards to certain executive officers. Common shares equal to the number of performance share stock awards granted were to be issued if the market price of the company s common stock reached $45.00 per common share for 10 consecutive trading days, or on March 24, 2003, whichever occurred first. Under certain conditions such as retirement, a grantee of performance share stock awards could have been issued a pro-rata number of common shares. The company recognized compensation expense related to performance share stock awards ratably over the estimated period of vesting.

Compensation costs recognized for performance share stock awards were less than $0.1 million in 2003. On March 24, 2003, 3,500 shares were issued and 57,250 shares were deferred to the deferred compensation plan for officers. The company allocated 1,404 share units under this plan in 2005, which represent quarterly dividends paid on the company s shares. At December 31, 2005, 55,838 share units were outstanding. Compensation expense recognized for the dividends on the deferred shares was $0.1 million in each of 2005, 2004 and 2003, respectively.

Under a supplemental retirement plan, an account for the participant is credited with 500 share units each year and is credited with additional share units for quarterly dividends paid on the company s shares. When the participant retires, the company will issue shares equal to the number of share units in the participant s account or the cash equivalent. The company has allocated 55, 67 and 567 share units under this plan in 2005, 2004 and 2003, respectively. At December 31, 2005, 2,281 share units were outstanding. Compensation costs recognized for this plan were less than $0.1 million in each of 2005, 2004 and 2003. For share units attributable to grants credited after January 1, 2004, the payment will be in cash.

Under the deferred stock compensation plan for outside directors, each nonemployee director received 500 share units on each October 1 and is credited with additional share units for quarterly dividends paid on the company s shares. When a participant ceases to be a director, the company issues shares equal to the number of share units in the director s account. The company has allocated to nonemployee directors 1,022, 1,351 and 6,048 share units under this plan in 2005, 2004 and 2003, respectively. Director fee expense recognized for share units was less than $0.1 million in each of 2005 and 2004 and $0.2 million in 2003. At December 31, 2005, 41,744 share units for nonemployee directors were outstanding. No new grants will be made under this plan after January 1, 2004.

In addition, under a separate deferred compensation plan for outside directors, the company has allocated to nonemployee directors 466, 569 and 620 share units under this plan in 2005, 2004 and 2003, respectively. These share units continue to accrue quarterly dividends paid on the company s shares. When a participant ceases to be a director, the company issues shares equal to the number of share units in the director s account. At December 31, 2005, 19,118 share units for nonemployee directors were outstanding. Director fee expense recognized for share units for this plan was less than $0.1 million in each of 2005, 2004 and 2003.

Under the deferred compensation plan for executive officers, participants may elect to defer any amount of their variable pay. Deferred amounts are converted into share units based on the current market price of the company s shares. There is a 25% company match. Additional share units are credited for quarterly dividends paid on the company s shares. At the end of the deferral period, which is at least three years, the company issues shares equal to the number of share units in the participant s account. The company has allocated to executive officers 19,840, 16,743 and 23,060 share units under this plan in 2005, 2004 and 2003, respectively. Compensation costs recognized for share units were approximately $0.8 million in 2005, $0.5 million in 2004 and $0.7 million in 2003. At December 31, 2005, 86,482 share units for executive officers were outstanding. For share units attributable to company match credited after January 1, 2004, distributions will be made in cash.

Under the 1991 Plan, effective January 1, 2003, the company granted 15,000 restricted shares to each of three executive officers. The shares will be issued only if the executive remains an employee until January 1, 2008. Also, effective January 1, 2003, the company granted 5,000 restricted shares to one executive officer, which would be issued only if the executive remained with the company until January 1, 2008. On July 26, 2004, this grant was amended to issue the shares if the executive remained employed until July 29, 2004. The shares were issued on July 29, 2005. There are no voting or dividend rights on the restricted shares described in this paragraph unless and until they are issued. The restricted shares stock awards had a fair value of $25.83 at the date of grant. The company recognizes compensation expense related to restricted shares ratably over the estimated period of vesting. Compensation costs recognized for restricted share stock awards were approximately $0.3 million in each of 2005, 2004 and 2003.

Under the Long-Term Incentive Plan, dollar-based target awards were determined by the organization and compensation committee of the board of directors in December 2002 and 2003 and February 2005 for the three-year performance periods of 2003-2005, 2004-2006 and 2005-2007, respectively. A portion of each of the awards was converted into a number of share units based on the price of the company common stock on the date of the award. There are no voting or dividend rights associated with the share units until the end of the performance period and a distribution of shares, if any, is made. The target awards correspond to a pre-determined three-year earnings per share growth rate target. Based on the awards granted for the 2003-2005, 2004-2006 and 2005-2007 performance periods, the company recognized compensation expense of $7.8 million in 2005. Based on the awards granted for the 2003-2005 and 2004-2006 performance periods, the company recognized compensation expense of $2.6 million in 2004. The other portion of the 2002 and 2003 award grants is a cash award, which is also determined for the same three-year performance periods. Based on awards granted for these performance periods, the company recognized compensation expense for the cash awards of $8.3 million in 2005 and $5.1 million in 2004. No expense was recorded in 2003 as the company did not believe as of December 31, 2003 it was probable that shares would have been issued or cash awards would have been earned under the plan.

Accounting principles generally accepted in the United States encourage the fair-value method of accounting for stock compensation plans under which the value of stock-based compensation is estimated at the date of grant using valuation formulas, but permit the use of intrinsic-value accounting. The company accounts for its stock compensation plans using the intrinsic-value accounting method (measured as the difference between the exercise price and the market value of the stock at the measurement date).

Disclosures under the fair-value method are estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants of stock options in the following years:

	2005	2004	2003
2005 Plan:			
Risk-free interest rate	4.3%	n/a	n/a
Dividend yield	2.5%	n/a	n/a
Volatility	21.2%	n/a	n/a
Expected life (years)	8.0	n/a	n/a

	2005	2004	2003
1991 Plan:			
Risk-free interest rate	n/a	3.7%	3.9%
Dividend yield	n/a	3.5%	3.4%
Volatility	n/a	24.0%	24.0%
Expected life (years)	n/a	10.0	10.0
Restricted Share Plan:			
Risk-free interest rate	n/a	n/a	2.7%
Dividend yield	n/a	n/a	3.3%
Volatility	n/a	n/a	24.0%
Expected life (years)	n/a	n/a	5.0

If the fair-value method to measure compensation cost for all of the above mentioned plans and awards had been used, the compensation cost, which is required to be charged against income, would have been $6.5 million in 2005, $6.0 million in 2004 and $4.4 million in 2003. See Note 2 for the pro forma presentation.

Information regarding these option plans, excluding the performance share stock awards, the restricted share stock awards and the long-term incentive plan stock awards, follows:

	Shares	Weighted-Average Exercise Price
Outstanding, January 1, 2005	5,025,148	$ 31.09
Granted	614,000	41.18
Exercised	(1,331,829)	31.64
Forfeited	(23,402)	33.30
Outstanding, December 31, 2005	4,283,917	$ 32.35
Options exercisable, December 31, 2005	3,332,851	$ 30.93
Weighted-average fair value of options granted during the year		$ 9.87
Outstanding, January 1, 2004	5,393,042	$ 31.28
Granted	508,896	30.20
Exercised	(556,582)	29.01
Forfeited	(320,208)	36.44
Outstanding, December 31, 2004	5,025,148	$ 31.09
Options exercisable, December 31, 2004	4,170,614	$ 31.10
Weighted-average fair value of options granted during the year		$ 6.50

	Shares	Weighted-Average Exercise Price
Outstanding, January 1, 2003	5,272,723	$ 31.38
Granted	525,401	30.35
Exercised	(151,112)	27.87
Forfeited	(253,970)	33.60
Outstanding, December 31, 2003	5,393,042	$ 31.28
Options exercisable, December 31, 2003	4,173,632	$ 31.18
Weighted-average fair value of options granted during the year		$ 6.78

Information regarding the performance share stock awards follows:

	Shares
Outstanding, January 1, 2003	60,750
Granted	
Forfeited	
Common shares issued / deferred	(60,750)
Outstanding, December 31, 2003	

The following table summarizes information about stock options outstanding, excluding the performance share stock awards, restricted share stock awards and long-term incentive plan awards at December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/05	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/05	Weighted-Average Exercise Price
$19 - $25	151,287	2.9 years	$ 21.35	151,287	$ 21.35
25 - 31	2,492,798	5.8	29.88	2,157,732	29.82
31 - 38	1,019,832	5.0	34.67	1,017,832	34.67
38 - 45	620,000	9.5	41.15	6,000	38.25
	4,283,917	6.0	32.35	3,332,851	30.93

Note 17 RESTRUCTURING AND IMPAIRMENT CHARGES
In 2005, the company recorded aggregate restructuring charges of $16.0 million primarily related to the phase-out of manufacturing facilities in both the Lubricant Additives and Specialty Chemicals segments as well as other workforce reductions. The company also recorded an impairment charge of $6.2 million at one of the European Specialty Chemicals segment facilities based on the fair-value estimates obtained in the divestiture proceedings.
The following table shows the reconciliation of the restructuring liability since January 1, 2003 by major restructuring activity:

	Liability January 1, 2005	Restructuring and Impairment Charges	Cash Paid	Restructuring Asset Impairments	Liability December 31, 2005
Specialty Chemicals plant closures and workforce reductions	$	$ 9.0	$ (2.3)	$ (4.2)	$ 2.5
Bromborough, U.K. closure		6.1	(3.1)	(0.7)	2.3
Corporate / other workforce reductions	2.7	0.7	(3.1)		0.3
European facility impairment		6.2		(6.2)	
Noveon International restructuring liabilities assumed	6.1	0.2	(5.0)		1.3
	$ 8.8	$ 22.2	$ (13.5)	$ (11.1)	$ 6.4

	Liability January 1, 2004	Restructuring and Impairment Charges	Cash Paid	Restructuring Asset Impairments and Other Adjustments*	Liability December 31, 2004
Bromborough, U.K. closure	$	$ 17.0	$	$ (17.0)	$
Bromborough, U.K. workforce reductions	0.2		(0.2)		
Corporate / other workforce reductions	12.2	11.1	(20.6)		2.7
Pension settlement		7.7		(7.7)	
Noveon International restructuring liabilities assumed			(1.1)	7.2	6.1
PuriNOx asset impairment**		2.1		(2.1)	
	$ 12.4	$ 37.9	$ (21.9)	$ (19.6)	$ 8.8

* Restructuring asset impairments and other adjustments include $7.2 million in restructuring liabilities assumed with acquisitions during 2004 and $7.7 million of pension settlement charges included in the accrued pension liability account.

** The PuriNOx asset impairment charge amounted to $2.8 million consisting of $2.1 million from continuing operations and $0.7 million from discontinued operations.

	Liability January 1, 2003	Restructuring and Impairment Charges	Cash Paid	Restructuring Asset Impairments	Liability December 31, 2003
Bromborough, U.K. workforce reductions	$	$ 7.0	$ (3.5)	$ (3.3)	$ 0.2
Corporate / other workforce reductions		15.5	(3.3)		12.2
	$	$ 22.5	$ (6.8)	$ (3.3)	$ 12.4

In May 2005, the company announced the reorganization of the Specialty Chemicals performance coatings product line. This product line includes businesses acquired from Noveon International as well as businesses included in the company s legacy operations. In connection with the reorganization, management eliminated 26 positions in North America and Europe. These reductions were completed during 2005 and resulted in a severance-related charge of $1.9 million for the year ended December 31, 2005.

In the first quarter of 2005, management made the decision and the announcement to close two Specialty Chemicals performance coatings production facilities in the United States. The aggregate restructuring charge recorded for these closures for the year ended December 31, 2005 was $6.6 million, comprised of $4.2 million in asset impairments, $0.9 million in exit costs and $1.5 million in severance costs. The company estimates it will incur cumulative severance costs of approximately $2.1 million relating to these closures. An impairment charge for both plants was recorded in the first quarter of 2005 to reflect the related assets at their estimated fair values. The estimated fair value of the assets was determined primarily from third-party appraisals. Production from these sites will be transferred to other facilities in the United States. The facility in Mountaintop, Pennsylvania was closed in October 2005 and sold in January 2006, while the facility in Linden, New Jersey is scheduled to close in the second quarter of 2006. These closures will result in a workforce reduction of 62 employees by the second quarter of 2006. The company also recorded a small Specialty Chemicals European restructuring during the fourth quarter amounting to $0.4 million in severance costs and $0.1 million in other exit costs.

In December 2004, management made the decision to close the Lubricant Additives manufacturing facility in Bromborough, United Kingdom. The company announced this decision in January 2005. The company determined, as of December 31, 2004, that an impairment of certain of the facility s long-lived assets had been triggered by this decision in the fourth quarter of 2004. As a result, a $17.0 million impairment charge was recorded in December 2004 to reflect the related assets at their estimated fair values. The estimated fair value of the assets was determined using a discounted cash flow model. Production phase-out of this site began in the third quarter of 2005 and is expected to be completed by the third quarter of 2006. During this phase-out, United Kingdom production will be transferred to facilities in France and the United States. Approximately 69 employees will be impacted by this closure.

In 2004, the company eliminated more than 100 positions, primarily affecting technical and commercial employees located at the Wickliffe, Ohio headquarters. Most of these workforce reductions were related to the restructuring following the acquisition of Noveon International. These reductions were completed by December 31, 2004. In the second quarter of 2005, the company began a process of identifying further opportunities to increase efficiency and productivity, reduce costs and support the company s integration strategy of the Noveon International acquisition. As a result, the company reduced headcount in the general and administrative area of its Ohio headquarters. Through these restructuring efforts, the company eliminated seven positions resulting in a severance-related charge of $0.7 million for the year ended December 31, 2005. All of the affected employees had left their positions by June 30, 2005 and the remaining personnel-related costs are expected to be paid in 2006.

The company assumed a restructuring liability of $7.2 million in 2004 relating to the legacy operations of Noveon International. This liability was $1.3 million at December 31, 2005 and $6.1 million at December 31, 2004.

In 2003, the company recorded restructuring charges of $22.5 million related to the separation of 252 employees in the United States, Europe and India, comprising 5% of the then-current worldwide workforce.

In February 2003, the company initiated a restructuring at its Bromborough, United Kingdom facility by consolidating various operational activities. There was a workforce reduction of 45 employees by the end of January 2004. As a result of these changes, the company recorded a restructuring charge of $7.0 million in 2003 comprised of $3.5 million in severance costs, $3.3 million in asset impairments and $0.2 million in other miscellaneous costs. Cash expenditures in 2004 and 2003 were $0.2 million and $3.5 million, respectively. At December 31, 2003, there was an accrued liability of $0.2 million relating to employee severance costs, which were subsequently paid in 2004.

The 2003 restructuring charges also included $1.5 million for a voluntary separation program for approximately 55 employees at the company s India joint venture, Lubrizol India Private Limited. This joint venture is consolidated by the company. The workforce reduction occurred primarily in the second quarter of 2003. Cash expenditures for India were $0.1 million and $1.4 million in 2004 and 2003, respectively. At December 31, 2003, there was an accrued liability of $0.1 million relating to employee severance costs, which were subsequently paid in 2004.

In November 2003, the company announced workforce reductions of approximately 150 employees at its headquarters in Wickliffe, Ohio, its Deer Park and Bayport, Texas manufacturing facilities and its Hazelwood, United Kingdom technical facility. All of the workforce reductions occurred prior to December 31, 2003. This resulted in a restructuring charge in the United States of $12.8 million, comprised of $11.2 million in severance costs and $1.6 million in outplacement and other miscellaneous costs, and a restructuring charge in Europe for $1.2 million, primarily for employee severance costs. The charge for Europe included $0.8 million for the Hazelwood, United Kingdom testing facility and $0.4 million for the closing of a sales office in Scandinavia. Cash expenditures in 2003 were $0.7 million in the United States and $1.2 million in Europe. At December 31, 2003, there was an accrued liability of $12.1 million relating to employee severance costs, which were subsequently paid in 2004.

The charges for these cost reduction initiatives are reported as a separate line item in the consolidated income statements, entitled Restructuring and impairment charges and are included in the Total cost and expenses subtotal on the consolidated income statements. Other than the June 2004 reduction in force, the charges primarily related to the Lubricant Additives segment.

Note 18 CONTINGENCIES

The company has numerous purchase commitments for materials, supplies and energy in the ordinary course of business. The company has numerous sales commitments for product supply contracts in the ordinary course of business.

General

The patent infringement suit filed against the company by Afton Chemical Company in federal court in Virginia in the second quarter of 2005 was dismissed with finality on October 27, 2005. The company incurred no liability.

In addition, there are pending or threatened claims, lawsuits and administrative proceedings against the company or its subsidiaries, all arising from the ordinary course of business with respect to commercial, product liability and environmental matters, which seek remedies or damages. The company believes that any liability that finally may be determined with respect to commercial and product liability claims should not have a material adverse effect on the company s consolidated financial position, results of operations or cash flows. From time to time, the company is also involved in legal proceedings as a plaintiff involving contract, patent protection, environmental and other matters. Gain contingencies, if any, are recognized when they are realized.

Environmental

The company s environmental engineers and consultants review and monitor environmental issues at operating facilities and, where appropriate, the company initiates corrective and/or preventive environmental projects to ensure environmental compliance and safe and lawful activities at its current operations. The company also conducts compliance and management systems audits.

The company and its subsidiaries are generators of both hazardous and non-hazardous wastes, the treatment, storage, transportation and disposal of which are regulated by various laws and governmental regulations. These laws and regulations generally impose liability for costs to investigate and remediate contamination without regard to fault and, under certain circumstances, liability may be joint and several resulting in one party being held responsible for the entire obligation. Liability may also include damages to natural resources.

Although the company believes past operations were in substantial compliance with the then-applicable regulations, either the company or the predecessor of Noveon International, the Performance Materials Segment of Goodrich Corporation (Goodrich), has been designated under a country s laws and/or regulations as a potentially responsible party (PRP) in connection with several sites including both third-party sites and/or current operating facilities.

The company participates in the remediation process for onsite and third-party waste management sites at which the company has been identified as a PRP. This process includes investigation, remedial action selection and implementation, as well as discussions and negotiations with other parties, which primarily include PRPs, past owners and operators and governmental agencies. The estimates of environmental liabilities are based on the results of this process. Inherent uncertainties exist in these estimates primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, remediation standards and evolving technologies for managing investigations and remediations. The company revises its estimates accordingly as events in this process occur and additional information is obtained.

The company s environmental reserves, measured on an undiscounted basis, totaled $23.2 million at December 31, 2005 and $26.4 million at December 31, 2004. Of these amounts, $3.4 million and $4.5 million were included in accrued expenses and other current liabilities at December 31, 2005 and 2004, respectively. Goodrich provided Noveon International with an indemnity for various environmental liabilities. The company estimates Goodrich s share of such currently identified liabilities under the indemnity, which extends through February 2011, to be approximately $2.1 million of which $0.6 million of the recovery is included in receivables and $1.5 million is included in other assets. There are specific environmental contingencies for company-owned sites for which third parties such as past owners and/or operators are the named PRPs and also for which the company is indemnified by Goodrich. Goodrich is currently indemnifying Noveon International for several environmental remediation projects. Goodrich s share of all of these liabilities may increase to the extent such third parties fail to honor their obligations through February 2011.

The company believes that its environmental accruals are adequate based on currently available information. The company believes that it is reasonably possible that $8.8 million in additional costs may be incurred at certain locations beyond the amounts accrued as a result of new information, newly discovered conditions, changes in remediation standards or technologies or a change in the law. Additionally, as the indemnification from Goodrich extends through February 2011, changes in assumptions regarding when costs will be incurred may result in additional expenses to the company. Additional costs in excess of $8.8 million cannot currently be estimated.

Note 19 GUARANTOR AND NON-GUARANTOR SUBSIDIARY INFORMATION

The repayment of the unsecured senior notes, debentures and bank term loans is unconditionally guaranteed on a joint and several basis by the company and its direct and indirect, wholly owned, domestic subsidiaries. The following supplemental condensed consolidating financial information presents the balance sheets of the company as of December 31, 2005 and 2004 and its statements of income and statements of cash flows for the years ended December 31, 2005, 2004 and 2003. The elimination of intercompany profit in inventory as of the respective balance sheet date is reflected in the eliminations columns of the condensed consolidating financial information.

Condensed Consolidating Statement of Income
Year Ended December 31, 2005

	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Eliminations	Total Consolidated
Net sales	$ 1,351.1	$ 1,307.2	$ 1,980.4	$ (599.5)	$ 4,039.2
Royalties and other revenues	3.1	0.3	0.1		3.5
Total revenues	1,354.2	1,307.5	1,980.5	(599.5)	4,042.7
Cost of sales	1,083.2	1,012.1	1,553.1	(599.5)	3,048.9
Selling and administrative expenses	149.8	115.5	102.4		367.7
Research, testing and development expenses	92.6	38.9	73.3		204.8
Amortization of intangible assets	2.9	16.2	6.1		25.2
Restructuring and impairment charges	4.8	2.9	14.5		22.2
Total costs and expenses	1,333.3	1,185.6	1,749.4	(599.5)	3,668.8
Other (expense) income net	21.5	19.8	(41.3)	(2.0)	(2.0)
Interest (expense) income net	(125.2)	24.4	3.8		(97.0)
Equity in income of subsidiaries	227.5	63.5		(291.0)	
Income from continuing operations before income taxes	144.7	229.6	193.6	(293.0)	274.9
Provision (benefit) for income taxes	(44.2)	82.0	55.8		93.6
Income from continuing operations	188.9	147.6	137.8	(293.0)	181.3
Discontinued operations net of tax	0.4	3.1	4.5		8.0
Net income	$ 189.3	$ 150.7	$ 142.3	$ (293.0)	$ 189.3

	Condensed Consolidating Statement of Income Year Ended December 31, 2004				
	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Eliminations	Total Consolidated
Net sales	$ 1,213.1	$ 804.4	$ 1,548.7	$ (457.3)	$ 3,108.9
Royalties and other revenues	3.0	0.8	0.1		3.9
Total revenues	1,216.1	805.2	1,548.8	(457.3)	3,112.8
Cost of sales	915.6	640.7	1,228.2	(457.3)	2,327.2
Selling and administrative expenses	149.7	57.2	90.2		297.1
Research, testing and development expenses	105.7	34.2	49.0		188.9
Amortization of intangible assets	2.9	10.4	4.7		18.0
Write-off of acquired in-process research and development		34.0			34.0
Restructuring and impairment charges	16.3	0.6	21.0		37.9
Total costs and expenses	1,190.2	777.1	1,393.1	(457.3)	2,903.1
Other income (expense) net	37.2	15.7	(46.0)	(1.6)	5.3
Interest (expense) income net	(86.9)	12.7	1.9		(72.3)
Equity in income of subsidiaries	116.7	69.9		(186.6)	
Income from continuing operations before income taxes	92.9	126.4	111.6	(188.2)	142.7
Provision (benefit) for income taxes	(0.6)	13.3	39.4		52.1
Income from continuing operations	93.5	113.1	72.2	(188.2)	90.6
Discontinued operations net of tax		0.3	2.6		2.9
Net income	$ 93.5	$ 113.4	$ 74.8	$ (188.2)	$ 93.5

Condensed Consolidating Statement of Income
Year Ended December 31, 2003

	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Eliminations	Total Consolidated
Net sales	$ 1,044.3	$ 198.6	$ 1,091.6	$ (317.2)	$ 2,017.3
Royalties and other revenues	2.7	0.3			3.0
Total revenues	1,047.0	198.9	1,091.6	(317.2)	2,020.3
Cost of sales	768.4	157.0	880.5	(321.5)	1,484.4
Selling and administrative expenses	135.3	20.7	40.7		196.7
Research, testing and development expenses	114.0	6.3	45.0		165.3
Amortization of intangible assets	2.8	1.9	0.2		4.9
Restructuring and impairment charges	12.5	0.2	9.8		22.5
Total costs and expenses	1,033.0	186.1	976.2	(321.5)	1,873.8
Other income (expense) net	16.2	16.5	(28.4)	(1.0)	3.3
Interest (expense) income net	(32.0)	9.8	0.9		(21.3)
Equity in income of subsidiaries	84.5	55.5		(140.0)	
Income from continuing operations before income taxes	82.7	94.6	87.9	(136.7)	128.5
Provision (benefit) for income taxes	(5.3)	14.6	27.1	1.5	37.9
Income from continuing operations	88.0	80.0	60.8	(138.2)	90.6
Discontinued operations net of tax		(0.1)	0.3		0.2
Net income	$ 88.0	$ 79.9	$ 61.1	$ (138.2)	$ 90.8

Condensed Consolidating Balance Sheet
December 31, 2005

	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Eliminations	Total Consolidated
ASSETS					
Cash and short-term investments	$ 83.2	$ 3.6	$ 175.6	$	$ 262.4
Receivables	143.8	137.0	304.8		585.6
Inventories	122.4	175.1	316.4	(27.9)	586.0
Other current assets	91.5	25.9	11.2	9.7	138.3
Total current assets	440.9	341.6	808.0	(18.2)	1,572.3
Property and equipment net	383.4	458.2	342.8		1,184.4
Goodwill	27.1	664.1	447.6		1,138.8
Intangible assets net	9.8	262.8	132.0		404.6
Investments in subsidiaries and intercompany balances	2,554.3	2,508.2	1,354.0	(6,416.5)	
Investments in non-consolidated companies	6.2	1.4			7.6
Other assets	33.9	3.4	21.3		58.6
Total	$ 3,455.6	$ 4,239.7	$ 3,105.7	$ (6,434.7)	$ 4,366.3
LIABILITIES AND SHAREHOLDERS EQUITY					
Short-term debt and current portion of long-term debt	$	$ 0.1	$ 7.8	$	$ 7.9
Accounts payable	143.5	142.8	85.9		372.2
Accrued expenses and other current liabilities	38.9	113.6	132.3		284.8
Total current liabilities	182.4	256.5	226.0		664.9
Long-term debt	1,445.2		217.7		1,662.9
Postretirement health care obligations	91.4	4.8	6.4		102.6
Noncurrent liabilities	63.5	41.3	99.2		204.0
Deferred income taxes	87.6	1.4	24.7		113.7
Total liabilities	1,870.1	304.0	574.0		2,748.1
Minority interest in consolidated companies				51.0	51.0
Total shareholders equity	1,585.5	3,935.7	2,531.7	(6,485.7)	1,567.2
Total	$ 3,455.6	$ 4,239.7	$ 3,105.7	$ (6,434.7)	$ 4,366.3

	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Eliminations	Total Consolidated
	Condensed Consolidating Balance Sheet December 31, 2004				
ASSETS					
Cash and short-term investments	$ 40.3	$ (0.1)	$ 295.7	$	$ 335.9
Receivables	128.3	158.9	295.6		582.8
Inventories	115.7	174.3	309.6	(30.9)	568.7
Other current assets	67.7	20.7	11.6	10.6	110.6
Total current assets	352.0	353.8	912.5	(20.3)	1,598.0
Property and equipment net	401.0	498.3	418.6		1,317.9
Goodwill	27.1	633.1	493.6		1,153.8
Intangible assets net	11.4	286.1	139.6		437.1
Investments in subsidiaries and intercompany balances	3,087.0	1,968.0	(238.0)	(4,817.0)	
Investments in non-consolidated companies	5.7	1.7			7.4
Other assets	33.6	5.5	13.0		52.1
Total	$ 3,917.8	$ 3,746.5	$ 1,739.3	$ (4,837.3)	$ 4,566.3
LIABILITIES AND SHAREHOLDERS EQUITY					
Short-term debt and current portion of long-term debt	$	$	$ 8.2	$	$ 8.2
Accounts payable	118.3	102.1	121.9		342.3
Accrued expenses and other current liabilities	145.0	52.1	109.7		306.8
Total current liabilities	263.3	154.2	239.8		657.3
Long-term debt	1,957.2		6.9		1,964.1
Postretirement health care obligations	96.3	3.9	6.2		106.4
Noncurrent liabilities	47.5	40.5	82.7		170.7
Deferred income taxes	16.0	41.7	33.0		90.7
Total liabilities	2,380.3	240.3	368.6		2,989.2
Minority interest in consolidated companies				53.6	53.6
Total shareholders equity	537.5	3,506.2	1,370.7	(4,890.9)	1,523.5
Total	$ 3,917.8	$ 3,746.5	$ 1,739.3	$ (4,837.3)	$ 4,566.3

	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Eliminations	Total Consolidated
	Condensed Consolidating Statement of Cash Flows Year Ended December 31, 2005				
CASH PROVIDED BY (USED FOR):					
OPERATING ACTIVITIES					
Net income	$ 189.3	$ 150.7	$ 142.3	$ (293.0)	$ 189.3
Adjustments to reconcile net income to cash provided by (used for) operating activities	(48.8)	199.1	(270.4)	293.0	172.9
Total operating activities	140.5	349.8	(128.1)		362.2
INVESTING ACTIVITIES					
Capital expenditures	(41.0)	(45.6)	(50.1)		(136.7)
Net proceeds from divestitures and sales of property and equipment	2.2	13.9	14.0		30.1
Other items net	(0.3)		0.1		(0.2)
Total investing activities	(39.1)	(31.7)	(36.0)		(106.8)
FINANCING ACTIVITIES					
Changes in short-term debt, net		0.1	(4.1)		(4.0)
Repayments of long-term debt	(500.0)		(12.2)		(512.2)
Proceeds from the issuance of long-term debt			235.8		235.8
Dividends paid			(70.4)		(70.4)
Changes in intercompany activities	473.1	(315.1)	(158.0)		
Payment of debt issuance costs			(0.8)		(0.8)
Proceeds from the exercise of stock options	38.8				38.8
Total financing activities	(58.5)	(315.0)	60.7		(312.8)
Effect of exchange rate changes on cash		0.6	(16.7)		(16.1)
Net (decrease) increase in cash and short-term investments	42.9	3.7	(120.1)		(73.5)
Cash and short-term investments at the beginning of year	40.3	(0.1)	295.7		335.9
Cash and short-term investments at the end of year	$ 83.2	$ 3.6	$ 175.6	$	$ 262.4

	Condensed Consolidating Statement of Cash Flows Year Ended December 31, 2004				
	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Eliminations	Total Consolidated
CASH PROVIDED BY (USED FOR):					
OPERATING ACTIVITIES					
Net income	$ 93.5	$ 113.4	$ 74.8	$ (188.2)	$ 93.5
Adjustments to reconcile net income to cash provided by (used for) operating activities	8.7	(88.5)	126.3	188.2	234.7
Total operating activities	102.2	24.9	201.1		328.2
INVESTING ACTIVITIES					
Capital expenditures	(54.4)	(31.4)	(47.4)		(133.2)
Acquisitions net of cash received and liabilities assumed	(3.7)	(829.1)	(125.6)		(958.4)
Other items net	0.6	0.2	2.0		2.8
Total investing activities	(57.5)	(860.3)	(171.0)		(1,088.8)
FINANCING ACTIVITIES					
Changes in short-term debt, net		(78.2)	5.6		(72.6)
Repayments of long-term debt	(168.4)	(1,024.6)			(1,193.0)
Proceeds from the issuance of long-term debt	1,741.7	0.1	1.5		1,743.3
Dividends paid	(57.6)				(57.6)
Changes in intercompany activities	(1,974.6)	1,936.3	38.3		
Proceeds from the sale of common shares	470.0				470.0
Payment of debt issuance costs	(16.8)				(16.8)
Payment of Treasury rate lock upon settlement	(73.9)				(73.9)
Payment on termination of interest rate swaps	(2.9)				(2.9)
Proceeds from the exercise of stock options	15.4				15.4
Total financing activities	(67.1)	833.6	45.4		811.9
Effect of exchange rate changes on cash	6.4	2.7	16.8		25.9
Net (decrease) increase in cash and short-term investments	(16.0)	0.9	92.3		77.2
Cash and short-term investments at the beginning of year	56.3	(1.0)	203.4		258.7
Cash and short-term investments at the end of year	$ 40.3	$ (0.1)	$ 295.7	$	$ 335.9

	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Eliminations	Total Consolidated
	Condensed Consolidating Statement of Cash Flows Year Ended December 31, 2003				
CASH PROVIDED BY (USED FOR):					
OPERATING ACTIVITIES					
Net income	$ 88.0	$ 79.9	$ 61.1	$ (138.2)	$ 90.8
Adjustments to reconcile net income to cash provided by (used for) operating activities	10.6	45.6	(90.4)	138.2	104.0
Total operating activities	98.6	125.5	(29.3)		194.8
INVESTING ACTIVITIES					
Capital expenditures	(45.8)	(12.3)	(30.4)		(88.5)
Acquisitions net of cash received and liabilities assumed	(4.2)	(62.8)	(1.6)		(68.6)
Other items net	0.9	(0.3)	0.6		1.2
Total investing activities	(49.1)	(75.4)	(31.4)		(155.9)
FINANCING ACTIVITIES					
Changes in short-term debt, net		(0.2)	(5.6)		(5.8)
Repayments of long-term debt			(9.2)		(9.2)
Proceeds from the issuance of long-term debt			4.5		4.5
Dividends paid	(53.6)				(53.6)
Changes in intercompany activities	(60.7)	(49.3)	110.0		
Proceeds from the exercise of stock options	4.6				4.6
Total financing activities	(109.7)	(49.5)	99.7		(59.5)
Effect of exchange rate changes on cash		0.3	12.6		12.9
Net (decrease) increase in cash and short-term investments	(60.2)	0.9	51.6		(7.7)
Cash and short-term investments at the beginning of year	116.5	(1.9)	151.8		266.4
Cash and short-term investments at the end of year	$ 56.3	$ (1.0)	$ 203.4	$	$ 258.7

Note 20 QUARTERLY FINANCIAL DATA (UNAUDITED)
The quarterly information is presented as adjusted for the discontinued operations discussed in Note 4. The company realized a $4.5 million pre-tax gain ($3.0 million net of tax) for the year ended December 31, 2005 relating to the ECS and LPS dispositions. The following table sets forth the quarterly results of operations for the years ended December 31, 2005 and 2004:

	2005				
	First (1)(2)	Second (1)(2)	Third (1)	Fourth (1)	Full Year
Net sales	$ 956.8	$ 1,048.5	$ 1,004.5	$ 1,032.9	$ 4,042.7
Gross profit	$ 248.4	$ 265.1	$ 244.6	$ 232.2	$ 990.3
Income from continuing operations	$ 47.2	$ 58.1	$ 43.4	$ 32.6	$ 181.3
Discontinued operations	1.3	2.0	5.2	(0.5)	8.0
Net income	$ 48.5	$ 60.1	$ 48.6	$ 32.1	$ 189.3
Per common share basic:					
Continuing operations	$ 0.70	$ 0.85	$ 0.63	$ 0.48	$ 2.67
Discontinued operations	0.02	0.03	0.08	(0.01)	0.12
Net income	$ 0.72	$ 0.88	$ 0.71	$ 0.47	$ 2.79
Per common share diluted:					
Continuing operations	$ 0.69	$ 0.84	$ 0.63	$ 0.47	$ 2.63
Discontinued operations	0.02	0.03	0.07	(0.01)	0.12
Net income	$ 0.71	$ 0.87	$ 0.70	$ 0.46	$ 2.75

	2004				
	First (3)	Second (4)(5)(6)	Third(4)(5)(6)	Fourth(2)(4)(5)	Full Year
Net sales	$ 570.8	$ 712.3	$ 909.3	$ 920.4	$ 3,112.8
Gross profit	$ 149.6	$ 187.6	$ 224.8	$ 219.7	$ 781.7
Income from continuing operations	$ 37.5	$ 3.7	$ 30.6	$ 18.8	$ 90.6
Discontinued operations		0.2	1.6	1.1	2.9
Net income	$ 37.5	$ 3.9	$ 32.2	$ 19.9	$ 93.5
Per common share - basic:					
Continuing operations	$ 0.72	$ 0.07	$ 0.58	$ 0.28	$ 1.63
Discontinued operations		0.01	0.03	0.02	0.05
Net income	$ 0.72	$ 0.08	$ 0.61	$ 0.30	$ 0.68
Per common share - diluted:					
Continuing operations	$ 0.72	$ 0.07	$ 0.58	$ 0.28	$ 1.62
Discontinued operations		0.01	0.03	0.02	0.05
Net income	$ 0.72	$ 0.08	$ 0.61	$ 0.30	$ 1.67

(1) The company recorded restructuring and impairment charges of $6.1 million, $5.4 million, $7.4 million and $3.3 million in the first, second, third and fourth quarters of 2005, respectively.

(2) The company recognized a reduction in depreciation expense of $1.2 million and $1.1 million in the first and second quarters of 2005 and $4.4 million in the fourth quarter of 2004 for the change in estimates of fair values and asset lives for the long-lived assets of Noveon International.

(3) The company recorded a gain of $6.4 million on a currency forward contract relating to the hyperdispersants acquisition in the first quarter of 2004.

(4) The company recorded the write-off of (credit for) acquired IPR&D relating to the Noveon International acquisition of $35.0 million, ($1.5) million and $0.5 million in the second, third and fourth quarters of 2004, respectively.

(5) The company recorded restructuring charges of $7.4 million, $10.5 million and $20.0 million in the second, third and fourth quarters of 2004, respectively.

(6) The company recorded a charge to cost of sales for $4.9 million in both the second and third quarters of 2004 relating to the inventory step-up recorded in connection with the Noveon International acquisition.

The sum of the quarterly earnings per share amounts does not equal the annual amount reported since per share amounts are computed independently for each quarter and for the full year based upon respective weighted-average common shares outstanding and other dilutive potential shares.

Historical Summary

(In Millions, Except Shareholders, Employees and Per Share Data)	**2005**	**2004***	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
OPERATING RESULTS:									
Revenues	$ 4,042.7	$ 3,112.8	$ 2,020.3	$ 1,960.2	$ 1,821.6	$ 1,748.8	$ 1,746.8	$ 1,627.3	$ 1,686.4
Total cost and expenses**	3,668.8	2,903.1	1,873.8	1,761.1	1,656.8	1,576.5	1,550.1	1,515.8	1,457.5
Gain on litigation settlements and investments						19.4	17.6	16.2	
Net interest expense and other (expense) income net	(99.0)	(67.0)	(18.0)	(18.2)	(19.8)	(17.6)	(16.7)	(6.9)	2.5
Income from continuing operations before cumulative effect of change in accounting principle	181.3	90.6	90.6	127.1	100.4	120.9	124.5	73.3	155.2
Discontinued operations, net of tax	8.0	2.9	0.2	(0.8)	(6.3)	(2.9)	(1.5)	(2.1)	(0.3)
Income before cumulative effect of change in accounting principle	189.3	93.5	90.8	126.3	94.1	118.0	123.0	71.2	154.9
Cumulative effect of change in accounting principle				(7.8)					
Net income	189.3	93.5	90.8	118.5	94.1	118.0	123.0	71.2	154.9
Basic earnings per share from continuing operations before cumulative effect of change in accounting principle	2.67	1.63	1.76	2.47	1.96	2.28	2.28	1.31	2.68
Discontinued operations per share	0.12	0.05		(0.02)	(0.12)	(0.06)	(0.03)	(0.04)	
Cumulative effect of change in accounting principle per share				(0.15)					
Basic earnings per share	2.79	1.68	1.76	2.30	1.84	2.22	2.25	1.27	2.68
FINANCIAL RATIOS:									
Gross profit percentage	24.5	25.1	26.4	28.5	27.6	27.8	30.9	29.2	31.3
Percent of revenues:									
Selling and administrative expenses	9.1	9.5	9.7	9.7	9.4	9.2	9.9	10.6	9.8
Research and testing expenses	5.1	6.1	8.2	8.5	8.7	8.6	8.3	9.2	8.6
Return on average shareholders equity (%)	12.2	7.6	10.0	14.4	12.3	15.3	15.8	9.0	19.0
Debt to capitalization (%)	51.6	56.2	29.0	31.6	33.9	34.5	33.8	35.8	21.3
Current ratio	2.4	2.4	3.1	3.0	2.9	2.6	2.5	2.5	2.5
OTHER INFORMATION:									
Dividends declared per share	$ 1.04	$ 1.04	$ 1.04	$ 1.04	$ 1.04	$ 1.04	$ 1.04	$ 1.04	$ 1.01
Average common shares outstanding	67.9	55.7	51.7	51.5	51.2	53.1	54.6	55.9	57.8
Capital expenditures from continuing operations	$ 136.3	$ 132.7	$ 88.2	$ 65.0	$ 65.9	$ 85.4	$ 63.8	$ 92.4	$ 100.0
Depreciation expense from continuing operations	154.0	136.0	94.7	90.6	83.8	87.1	87.4	78.6	81.7
At year end:									
Total assets	$ 4,366.3	$ 4,566.3	$ 1,942.3	$ 1,860.1	$ 1,662.3	$ 1,659.5	$ 1,682.4	$ 1,643.2	$ 1,462.3
Total debt	1,670.8	1,972.3	389.6	401.9	397.2	395.9	403.0	429.3	220.3
Total shareholders equity	1,567.2	1,523.5	953.3	869.3	773.2	752.3	790.1	769.1	815.4
Shareholders equity per share	23.03	22.81	18.48	16.89	15.12	14.66	14.50	14.10	14.31
Common share price	43.43	36.86	32.52	30.50	35.09	25.75	30.88	25.69	36.88
Number of shareholders	3,500	3,698	3,903	4,081	4,335	4,681	5,126	5,609	5,661
Number of employees	7,515	7,725	5,032	5,231	4,530	4,390	4,074	4,324	4,291

* The 2004 results include the revenues and expenses of Noveon International, Inc. since June 3, 2004, the date of acquisition.

** Includes restructuring and impairment charges of $22.2 million in 2005, $37.9 million in 2004, $22.5 million in 2003, $18.6 million in 1999, $23.3 million in 1998, $9.4 million in 1997 and a restructuring credit of $4.5 million in 2000. Also includes the write-off of acquired in-process research and development of $34.0 million in 2004 and $13.6 million in 1998.

Exhibit 21.1

THE LUBRIZOL CORPORATION AND ITS SUBSIDIARIES
AS OF FEBRUARY 15, 2006

NAME	COUNTRY OR STATE OF INCORPORATION
FCC Acquisition Corp.	USA Delaware
Lubrizol Enterprises, Inc.	USA Delaware
Lubrizol Holding Inc.	USA Delaware
Lubrizol Overseas Trading Corporation	USA Delaware
LZ Holding Corporation	USA Delaware
MPP Pipeline Corporation	USA Delaware
Noveon China, Inc.	USA Delaware
Noveon FCC, Inc.	USA Delaware
Noveon Hilton Davis, Inc.	USA Delaware
Noveon Holding Corporation	USA Delaware
Noveon, Inc.	USA Delaware
Noveon International, Inc.	USA Delaware
Noveon Investments, LLC	USA Delaware
Noveon Textile Chemicals, Inc.	USA Delaware
Performance Materials I Inc.	USA Delaware
Lubrizol Performance Systems Inc.	USA Georgia
Noveon IP Holdings Corp.	USA Illinois
CPI Engineering Services, Inc.	USA Michigan
Gateway Additive Company	USA Nevada
Lubrizol Inter-Americas Corporation	USA Nevada
Lubrizol International Management Corporation	USA Nevada
1500 West Elizabeth Corporation	USA New Jersey
Cosmetochem U.S.A., Inc.	USA New Jersey
Lubricant Investments, Inc.	USA Ohio
Lubrizol Foam Control Additives, Inc.	USA South Carolina
Noveon Kalama, Inc.	USA Washington
Lubrizol Gesellschaft m.b.H.	Austria
Lubrizol DRC Belgium NV/SA	Belgium
Noveon Europe BVBA	Belgium
Noveon Europe Coordination Center BVBA	Belgium
Noveon Realty Europe BVBA	Belgium
Lubrizol do Brasil Aditivos Ltda.	Brazil
Noveon Brasil Ltda.	Brazil
Lubrizol Canada Limited	Canada
Noveon Canada, Inc.	Canada
Noveon Chemicals Canada Co.	Canada
Lubrizol International, Inc.	Cayman Islands
Lanzhou Lubrizol Lanlian Additive Co. Ltd.	People s Republic of China
Lubrizol (Shanghai) Fluid Technology Co., Ltd.	People s Republic of China

THE LUBRIZOL CORPORATION AND ITS SUBSIDIARIES
AS OF FEBRUARY 15, 2006

NAME	COUNTRY OR STATE OF INCORPORATION
Noveon Consulting (Shanghai) Co., Ltd.	People s Republic of China
Noveon (Shanghai) Co., Ltd.	People s Republic of China
Noveon (Shanghai) Specialty Polymers Co., Ltd.	People s Republic of China
Noveon Specialty Chemicals (Shanghai) Limited	People s Republic of China
Shanghai Lubrizol International Trading Co., Ltd.	People s Republic of China
Sino-U.S. Youli Piping Co., Ltd.	People s Republic of China
Tianjin Lubrizol Lanlian Additive Co. Ltd.	People s Republic of China
Lubrizol Adibis Scandinavia A/S	Denmark
Gemoplast SA	France
Lubrizol France SAS	France
Lubrizol Holdings France SAS	France
Noveon France SA	France
Freedom Chemical Diamalt Beteiligungs GmbH	Germany
Lubrizol Deutschland GmbH	Germany
Lubrizol Overseas Trading Corporation & Co. KG	Germany
Noveon Deutschland GmbH	Germany
Noveon Diamalt GmbH & Co. KG	Germany
Noveon Holdings Deutschland GmbH	Germany
Noveon Pharma GmbH & Co. KG	Germany
Noveon Verwaltungs GmbH	Germany
Lubrizol (Gibraltar) Limited	Gibraltar
Lubrizol (Gibraltar) Minority Limited	Gibraltar
Lubrizol (Gibraltar) Two Limited	Gibraltar
Noveon Asia Pacific Limited	Hong Kong
Noveon Hong Kong Limited	Hong Kong
Indiamalt Private Limited	India
Lubrizol India Private Limited	India
Noveon Diamalt Private Limited	India
Lubrizol Italiana S.p.A.	Italy
Noveon Italia S.r.l.	Italy
Lubrizol Japan Limited	Japan
Noveon Korea, Inc.	Korea
Lubrizol (Gibraltar) Limited Luxembourg SCS	Luxembourg
Lubrizol Luxembourg S.à.r.l.	Luxembourg
Noveon Malaysia Sdn. Bhd.	Malaysia
Noveon Mauritius Holdings Limited	Mauritius
Lubrizol de Mexico Comercial, S. de R.L. de C.V.	Mexico
Lubrizol Servicios Tecnicos, S. de R.L. de C.V.	Mexico
Noveon de Mexico, S.A. de C.V.	Mexico
Operadora TIASA, S.A. de C.,V.	Mexico
Terminal Industrial Apodaca, S. A. de C.V.	Mexico
Lubrizol Europe B.V.	The Netherlands
Noveon Holland B.V.	The Netherlands

THE LUBRIZOL CORPORATION AND ITS SUBSIDIARIES
AS OF FEBRUARY 15, 2006

NAME	COUNTRY OR STATE OF INCORPORATION
Noveon Netherlands B.V.	The Netherlands
Noveon Resin B.V.	The Netherlands
Noveon Sales Holland B.V.	The Netherlands
Lubrizol Transarabian Company Ltd.	Saudi Arabia
Lubrizol Southeast Asia (Pte.) Ltd.	Singapore
Lubrizol South Africa (Pty) Limited	South Africa
Noveon SA (Proprietary) Ltd.	South Africa
Lubrizol Espanola, S.A.	Spain
Noveon Holdings Spain, S.L.	Spain
Noveon Manufacturing Spain, S.L.	Spain
Noveon Sales Spain, S.L.	Spain
Lubrizol Sweden AB	Sweden
Lubrizol A.G.	Switzerland
SNP-Noveon Holding Limited	Thailand
Specialty Natural Products Co., Ltd.	Thailand
Engine Control Systems Ltd.	United Kingdom
Lubrizol Adibis Holdings (UK) Limited	United Kingdom
Lubrizol Adibis (UK) Limited	United Kingdom
Lubrizol Limited	United Kingdom
Lubrizol Performance Systems Limited	United Kingdom
Noveon Holdings UK Limited	United Kingdom
Noveon Manufacturing UK Limited	United Kingdom
Noveon UK Limited	United Kingdom
Lubrizol de Venezuela, C.A.	Venezuela

Exhibit 31.1

THE LUBRIZOL CORPORATION
Rule 13a-14(a) Certification

I, James L. Hambrick, certify that:

1. I have reviewed this annual report on Form 10-K of The Lubrizol Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

(d) disclosed in this report any change in registrant s internal control over financial reporting that occurred during registrant s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

/s/ James L. Hambrick

James L. Hambrick
Chief Executive Officer and President
February 28, 2006

Exhibit 31.2

THE LUBRIZOL CORPORATION
Rule 13a-14(a) Certification

I, Charles P. Cooley, certify that:

1. I have reviewed this annual report on Form 10-K of The Lubrizol Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

(d) disclosed in this report any change in registrant s internal control over financial reporting that occurred during registrant s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

/s/ Charles P. Cooley

Charles P. Cooley
Chief Financial Officer
February 28, 2006

Exhibit 32.1

THE LUBRIZOL CORPORATION
Certification of Chief Executive Officer and Chief Financial Officer of
The Lubrizol Corporation Pursuant to 18 U.S.C. Section 1350

I certify that, to the best of my knowledge and belief, the Annual Report on Form 10-K of The Lubrizol Corporation for the period ending December 31, 2005:

(1) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of The Lubrizol Corporation.

/s/ James L. Hambrick

James L. Hambrick
Chief Executive Officer and President
February 28, 2006

I certify that, to the best of my knowledge and belief, the Annual Report on Form 10-K of The Lubrizol Corporation for the period ending December 31, 2005:

(1) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of The Lubrizol Corporation.

/s/ Charles P. Cooley

Charles P. Cooley
Chief Financial Officer
February 28, 2006