GENERAL MOTORS CORP
Form 424B2
April 24, 2001

PROSPECTUS SUPPLEMENT
(To Prospectus Dated August 19, 1998)

$525,000,000
General Motors Corporation
7.25% QUARTERLY INTEREST BONDS DUE APRIL 15, 2041 (QUIBS)*

Interest payable on January 15, April 15, July 15 and October 15

This is an offering of 7.25% Quarterly Interest Bonds due April 15, 2041 (the "Bonds") to be issued by General Motors Corporation ("GM"). The Bonds will be general unsecured, unsubordinated obligations of GM. The Bonds will mature on April 15, 2041. The Bonds will bear interest from April 30, 2001, at the rate of 7.25% per annum, payable quarterly on January 15, April 15, July 15 and October 15 of each year, commencing on July 15, 2001. We will have the right to redeem the Bonds in certain circumstances if we are unable to deduct interest paid on the Bonds. The Bonds also will be redeemable at our option, in whole or part, at any time on or after April 30, 2006, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. The Bonds will be issued in minimum denominations of $25 and in multiples of $25.

We will apply to list the Bonds on the New York Stock Exchange and expect trading in the Bonds on the New York Stock Exchange to begin within 30 days after the original issue date.

PRICE 100% AND ACCRUED INTEREST, IF ANY

	Price to Public	Discounts and Underwriting Commissions	Proceeds to GM
Per Bond......................	100.00%	3.15 %	96.85%
Total.........................	$525,000,000	$16,537,500	$508,462,500

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the related prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the Bonds to purchasers on April 30, 2001.

We have granted the underwriters a right to request from us the opportunity to purchase up to an additional $50,000,000 aggregate principal amount of Bonds to cover overallotments, if any. Whether or not to approve the request is totally at our discretion.

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*QUIBS is a servicemark of Morgan Stanley Dean Witter & Co.

MORGAN STANLEY DEAN WITTER
ABN AMRO INCORPORATED
A.G. EDWARDS & SONS, INC.
BANC ONE CAPITAL MARKETS, INC.
CIBC WORLD MARKETS
MERRILL LYNCH & CO.
PRUDENTIAL SECURITIES
SALOMON SMITH BARNEY
UBS WARBURG

April 20, 2001

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PROSPECTUS SUPPLEMENT

PROSPECTUS

Unless the context indicates otherwise, the words "GM", "we", "our", "ours", and "us" refer to General Motors Corporation.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you different information or to make any additional representations. We are not, and the underwriters are not, making an offer of any securities other than the Bonds. This prospectus supplement is part of and must be read in conjunction with the accompanying prospectus dated August 19, 1998. You should not assume that the information appearing in this prospectus supplement and the accompanying prospectus, as well as the information incorporated by reference, is accurate as of any date other than the date on the front cover of this prospectus supplement.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to "incorporate by reference" information we file with them, which means that we can disclose important information to you by referring you to those documents, including our annual, quarterly and current reports, that are considered part of this prospectus supplement and accompanying prospectus. Information that we file later with the SEC will automatically update and supersede this information.

We incorporate by reference the documents set forth below that we previously filed with the SEC. These documents contain important information about General Motors Corporation and its finances.

SEC Filings (File No. 1-143)	Period
Annual Report on Form 10-K...........	Year ended December 31, 2000
Current Reports on Form 8-K	January 3, 2001, January 8, 2001, January 16, 2001 (2), January 17, 2001, February 1, 2001, February 6, 2001, February 9, 2001, February 22, 2001, March 1, 2001, March 29, 2001, April 3, 2001, April 17, 2001 (2), April 18, 2001 (3) and April 20, 2001

You may, at no cost, request a copy of the documents incorporated by reference in this prospectus supplement and accompanying prospectus, except exhibits to such documents, by writing or telephoning the office of W. W. Creek, Controller, at the following address and telephone number:

General Motors Corporation
300 Renaissance Center
Detroit, Michigan 48265-3000
Tel: (313) 556-5000

RATIO OF EARNINGS TO FIXED CHARGES

Years Ended December 31,	
2000	1999
1.71	2.12

The ratio of earnings to fixed charges has been computed by dividing earnings before income taxes and fixed charges by the fixed charges.

See "Ratio of Earnings to Fixed Charges" in the accompanying prospectus for additional information.

USE OF PROCEEDS

We will use the net proceeds (approximately $508,000,000 after deducting underwriting discounts, commissions and expenses or approximately $557,000,000 if the underwriters exercise their over-allotment option in full) for general corporate purposes, including the repayment of existing indebtedness.

DESCRIPTION OF THE BONDS

General

The following description of the particular terms of the Bonds offered hereby supplements and, to the extent that the terms are inconsistent, replaces the description of the general terms and provisions of the Debt Securities set forth in the accompanying prospectus. The Bonds are part of the Debt Securities registered by GM in August 1998 to be issued on terms to be determined at the time of sale.

The Bonds offered hereby will be issued in an initial aggregate principal amount of $525,000,000 pursuant to an Indenture dated as of December 7, 1995, between us and Citibank, N.A. (the "Trustee"), which is more fully described in the accompanying prospectus and the Bonds have been authorized and approved by resolution of our Board of Directors.

The Indenture and the Bonds are governed by, and construed in accordance with, the laws of the State of New York, United States.

The Bonds will be unsecured obligations of GM and will rank equally with all other unsecured and unsubordinated indebtedness of GM. The Bonds will mature on April 15, 2041. The Bonds are expected to be listed on the New York Stock Exchange. The Bonds will bear interest, calculated on the basis of a 360-day year consisting of twelve 30 day months, from April 30, 2001 at a rate of 7.25% per annum, payable on January 15, April 15, July 15 and October 15 of each year, the first payment to be made on July 15, 2001, to the person in whose name the Bonds are registered at the close of business on the last day of the month preceding such January 15, April 15, July 15 or October 15.

If any January 15, April 15, July 15 or October 15 falls on a day that is not a Business Day, then payment of interest will be made on the next succeeding Business Day with the same force and effect as if made on such date.

The Bonds will be issued in book-entry form. See "Book-Entry, Delivery and Form" in the accompanying prospectus.

We may from time to time, without notice to or the consent of the registered holders of the Bonds, create and issue further Bonds ranking pari passu with the Bonds in all respects, or in all respects except for the payment of interest accruing prior to the issue date of such further Bonds or except for the first payment of interest following the issue date of such further Bonds. Such further Bonds may be consolidated and form a single series with the Bonds and have the same terms as to status, redemption or otherwise as the Bonds.

Optional Redemption

We may not redeem the Bonds before April 30, 2006, except for tax reasons as described below under " Redemption for Tax Reasons." On and after April 30, 2006, we may redeem the Bonds, at our option and at any time, in whole or in part at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest up to but not including the date of redemption.

Redemption for Tax Reasons

We may elect to redeem the Bonds, in whole but not in part, at any time at a redemption price of 100% of their principal amount, plus accrued and unpaid interest up to but not including the redemption date, if on or after April 30, 2001, a change in the U.S. tax laws results in a substantial likelihood that we will not be able to deduct the full amount of interest accrued on the Bonds for U.S. federal income tax purposes.

The Bonds describe a change in tax laws broadly and permit us to redeem because of:

- any actual or proposed change in or amendment to the laws of the U.S. or regulations or rulings promulgated under those laws;
- any change in the way those laws, rulings or regulations are interpreted, applied or enforced;
- any action taken by a taxing authority that applies to us;
- any court decision, whether or not in a proceeding involving us; or
- any technical advice memorandum, letter ruling or administrative pronouncement issued by the U.S. Internal Revenue Service, based on a fact pattern substantially similar to ours.

Selection and Notice

We will mail notices of redemption by first-class mail at least 30 and not more than 60 days prior to the date fixed for redemption to each registered holder of the Bonds to be redeemed at its registered address. If we redeem less than all of the Bonds at any time, the trustee will select the Bonds to be redeemed on a pro rata basis, by lot or by such other method directed by us. The trustee will make that selection not more than 45 days before the redemption date.

Trading Characteristics

We expect the Bonds to trade at a price that takes into account the value, if any, of accrued but unpaid interest. This means that purchasers will not pay, and sellers will not receive, accrued and unpaid interest on the Bonds that is not included in their trading price. Any portion of the trading price of a Bond that is attributable to accrued interest will be treated as ordinary interest income for federal income tax purposes and will not be treated as part of the amount realized for purposes of determining gain or loss on the disposition of the Bonds. See "U.S. Tax Considerations" below.

U.S. TAX CONSIDERATIONS

The following summary describes the material U.S. federal income and certain estate tax consequences of ownership and disposition of the Bonds to an initial investor purchasing a Bond at its "issue price" that is, the first price to the public at which a substantial amount of the Bonds in an issue is sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). This summary is based on the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), administrative pronouncements, judicial decisions and existing and proposed Treasury regulations, and interpretations of the foregoing, changes to any of which subsequent to the date of this prospectus supplement may affect the tax consequences described herein, possibly with retroactive effect. This summary discusses only Bonds held as capital assets within the meaning of Section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to holders in light of their particular circumstances or to holders subject to special rules, such as certain financial institutions, insurance companies, dealers in securities, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, persons holding Bonds in connection with a hedging transaction, "straddle," conversion transaction or other integrated transaction, or persons who have ceased to be U.S. citizens or to be taxed as resident aliens.

Prospective investors should consult their tax advisers with regard to the application of U.S. federal tax laws to their particular situations, as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

U.S. Holders

"U.S. Holder" means a beneficial owner of a Bond that is, for U.S. federal income tax purposes, (i) a citizen or resident of the U.S., (ii) a corporation or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the U.S. or any political subdivision, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and (b) one or more United States persons have the authority to control all substantial decisions of the trust, or (v) any other holder whose income with respect to a Bond is effectively connected with such holder's conduct of a U.S. trade or business.

Payments of Interest

Stated interest on a Bond will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's method of accounting for tax purposes.

Sale, Exchange or Retirement

Upon the sale, exchange or retirement of a Bond, a U.S. Holder will recognize taxable gain or loss equal to the difference between the U.S. Holder's adjusted tax basis in the Bond and the amount realized on the sale, exchange or retirement. For these purposes, the amount realized does not include unpaid interest that has accrued to the date of sale but has not previously been included in income. (See "Description of the Bonds --- Trading Characteristics.") Such amounts are treated as interest as described under "Payment of Interest" above.

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A U.S. Holder's adjusted tax basis in a Bond will generally equal the cost of the Bond to the U.S. Holder. Gain or loss realized on the sale, exchange or retirement of a Bond will be capital gain or loss. Prospective investors should consult their tax advisers regarding the treatment of capital gains (which may be taxed at lower rates than ordinary income for taxpayers who are individuals, trusts or estates and have held their Bonds for more than one year) and losses (the deductibility of which is subject to limitations).

Non-U.S. Holders

"Non-U.S. Holder" means a beneficial owner of a Bond that is, for U.S. federal income tax purposes, (i) a nonresident alien individual, (ii) a foreign corporation or (iii) a nonresident alien fiduciary of a foreign estate or trust.

Under present U.S. federal tax law, and subject to the discussion below concerning backup withholding:

(a) Payments of principal, interest and premium on the Bonds to any Non-U.S. Holder will be exempt from the 30% U.S. federal withholding tax, provided that in the case of interest, the Non-U.S. Holder does not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote, is not a controlled foreign corporation related, directly or indirectly, to us through stock ownership, and is not a bank receiving certain types of interest. Interest will not, however, be exempt from withholding tax unless the beneficial owner of the Bond certifies generally on Internal Revenue Service ("IRS") Form W-8BEN under penalties of perjury that it is not a U.S. person. Prospective investors, including foreign partnerships and their partners should consult their tax advisers regarding possible additional reporting requirements;

(b) a Non-U.S. Holder of a Bond will not be subject to U.S. federal income tax on gain realized on the sale, exchange or other disposition of the Bond, unless (i) the Non-U.S. Holder is an individual who is present in the U.S. for 183 days or more in the taxable year of the disposition, and either the gain is attributable to an office or other fixed place of business maintained by the individual in the U.S. or, generally, the individual has a "tax home" in the U.S. or (ii) the gain is effectively connected with the Holder's conduct of a trade or business in the U.S.; and

(c) a Bond held by an individual who is not, for U.S. estate tax purposes, a resident or citizen of the U.S. at the time of his death generally will not be subject to U.S. federal estate tax as a result of the individual's death, provided that the individual does not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote and, at the time of the individual's death, payments with respect to the Bond would not have been effectively connected to the conduct by the individual of a trade or business in the U.S.

If a Non-U.S. Holder of a Bond is engaged in a trade or business in the U.S., and if interest on the Bond (or gain realized on its sale, exchange or other disposition) is effectively connected with the conduct of the trade or business, the Non-U.S. Holder, although exempt from the withholding tax discussed in the preceding paragraphs, will be subject to regular U.S. income

tax on the effectively connected income, generally in the same manner as if it were a U.S. Holder. See "U.S. Holders" above. In lieu of Form W-8BEN, the non-U.S. Holder will be required to provide to the withholding agent a properly executed IRS Form W-8ECI to claim an exemption from withholding tax. In addition, if the Non-U.S. Holder is a foreign corporation, it may be subject to a 30% branch profits tax (unless reduced or eliminated by an applicable treaty) on its earnings and profits for the taxable year attributable to the effectively connected income, subject to certain adjustments.

Backup Withholding and Information Reporting

U.S. Holders

A 31% backup withholding tax and information reporting requirements apply to certain payments of principal of and interest on an obligation, and to proceeds of disposition of an obligation, to certain noncorporate U.S. Holders if such holders fail to provide correct taxpayer identification numbers and other information or fail to comply with certain other requirements. We, our paying agent, or a broker, as the case may be, will be required to withhold from any payment that is subject to backup withholding a tax equal to 31% of such payment unless the holder furnishes its taxpayer identification number in the manner prescribed in applicable Treasury regulations (generally on an IRS Form W-9) and certain other conditions are met.

Non-U.S. Holders

Backup withholding will not apply to payments of interest made on a Bond or to proceeds from a sale or other disposition of a Bond if the certifications required to claim the exemption from withholding tax or interest described above are received, provided that we or our paying agent, as the case may be, do not have actual knowledge that the payee is a U.S. person.

Holders of Bonds should consult their tax advisers regarding the application of information reporting and backup withholding in their particular situations, the availability of an exemption therefrom and the procedure for obtaining such an exemption, if available. Backup withholding is not an additional tax. Any amounts withheld from a payment to a holder under the backup withholding rules will be allowed as a credit against such holder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is furnished to the IRS.

UNDERWRITING

Subject to the terms and conditions set forth in an underwriting agreement dated April 20, 2001 (the "Underwriting Agreement"), we have agreed to sell to each of the underwriters named below, and each of the underwriters, for whom Morgan Stanley & Co. Incorporated is acting as representative (the "Representative"), has severally agreed to purchase the principal amount of the Bonds set forth opposite its name below. In the Underwriting Agreement, the several underwriters have agreed, subject to the terms and conditions set forth therein, to purchase all the Bonds offered hereby if any of the Bonds are purchased.

Underwriters	Principal Amount of Bonds
Morgan Stanley & Co. Incorporated....................	$ 49,650,000
ABN AMRO Incorporated	49,575,000
A.G. Edwards & Sons, Inc.	49,575,000
Banc One Capital Markets, Inc.......................	49,575,000
CIBC World Markets Corp.............................	49,575,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated............................	49,575,000
Prudential Securities Incorporated...................	49,575,000
Salomon Smith Barney Inc............................	49,575,000

UBS Warburg LLC	49,575,000
Banc of America Securities LLC	2,500,000
Bear, Stearns & Co. Inc.............................	2,500,000
Credit Suisse First Boston Corporation..............	2,500,000
Dain Rauscher Wessels...............................	2,500,000
Deutsche Bank Alex. Brown Inc.	2,500,000
First Union Securities, Inc.	2,500,000
H&R BLOCK Financial Advisors, Inc.	2,500,000
HSBC Securities (USA) Inc...........................	2,500,000
Chase Securities Inc.	2,500,000
Lehman Brothers Inc.	2,500,000
Quick & Reilly, Inc.................................	2,500,000
Charles Schwab & Co., Inc...........................	2,500,000
U.S. Bancorp Piper Jaffray Inc.	2,500,000
Wachovia Securities, Inc............................	2,500,000
Advest Inc..	1,250,000
Robert W. Baird & Co. Incorporated..................	1,250,000
BNY Capital Markets, Inc............................	1,250,000
BB&T Capital Markets, a Division of Scott & Stringfellow...................................	1,250,000
William Blair & Co..................................	1,250,000
Blaylock & Partners, L.P............................	1,250,000
Comerica Securities, Inc............................	1,250,000
Crowell, Weedon & Co................................	1,250,000
Davenport & Company LLC	1,250,000
D.A. Davidson & Co.	1,250,000
Fahnestock & Co. Inc................................	1,250,000
Fifth Third Securities Inc..........................	1,250,000
Gibraltar Securities Co.	1,250,000
Gruntal & Co., L.L.C.	1,250,000
Guzman & Company....................................	1,250,000
J.J.B. Hilliard, W.L. Lyons, Inc.	1,250,000
Janney Montgomery Scott LLC.	1,250,000
Josephthal & Co. Inc................................	1,250,000
Legg Mason Wood Walker, Inc.........................	1,250,000
McDonald Investments Inc., a KeyCorp Company.........	1,250,000
Mesirow Financial, Inc.	1,250,000
Northern Trust Securities, Inc......................	1,250,000
Parker/Hunter Incorporated..........................	1,250,000

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Pershing/a Division of Donaldson, Lufkin & Jenrette..	1,250,000
Ragen McKenzie, a Division of Wells Fargo Investments LLC................................	1,250,000
Raymond James & Associates, Inc.....................	1,250,000
The Robinson-Humphrey Company, LLC..................	1,250,000
Muriel Siebert & Co. Inc............................	1,250,000
Southwest Securities, Inc...........................	1,250,000
Stifel, Nicolaus & Company Incorporated.............	1,250,000
SunTrust Equitable Securities.......................	1,250,000
TD Securities (USA) Inc.............................	1,250,000
Tucker Anthony Incorporated.........................	1,250,000
Well Fargo/Van Kasper & Co..........................	1,250,000
The Williams Capital Group, L.P.....................	1,250,000
Total...	$525,000,000

The Representative of the underwriters has advised us that the underwriters propose initially to offer the Bonds to the public at the offering price set forth on the cover page of this prospectus supplement and to certain securities dealers at such price less a concession of $0.50 per Bond. The underwriters may allow, and such dealers may reallow a concession not in excess of $0.45 per Bond to certain brokers and dealers. After the initial public offering, the public offering price and concession may be changed.

We have granted the underwriters a right to request from us the opportunity to purchase up to an additional $50,000,000 aggregate principal amount of Bonds to cover overallotments, if any, at the initial offering price to the public less the underwriting discounts set forth above and within 30 days from the date of this prospectus supplement. Whether or not to approve the underwriters' request is totally at our discretion. To the extent that we approve of the exercise of such option and the underwriters exercise such option, each of the underwriters will have a firm commitment, subject to certain conditions, to purchase from us approximately the same percentages of the aggregate principal amount of Bonds as the amount set forth next to such underwriter's name in the above table bears to the aggregate principal amount of Bonds set forth as the total to be purchased in the above table.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

Prior to the offering, there has been no public market for the Bonds. We intend to list the Bonds on the New York Stock Exchange, and we expect trading in the Bonds on the New York Stock Exchange to begin within 30 days after the original issue date. In order to meet one of the requirements for listing the Bonds, the underwriters will undertake to sell lots of 100 or more Bonds to a minimum of 400 beneficial holders.

The Bonds are a new issue of securities with no established trading market. The underwriters have advised us that the underwriters intend to make a market in the Bonds but are not obligated to do so and may discontinue market making at any time without notice. Neither we nor the underwriters can assure you that the trading market for the Bonds will be liquid.

In connection with the sale of the Bonds, certain of the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the Bonds. Specifically, the underwriters may overallot the offering, creating a short position. In addition, the underwriters may bid for and purchase the Bonds in the open market to cover short positions or to stabilize the price of the Bonds. Any of these activities may stabilize or maintain the market price of the Bonds above independent market levels. The underwriters will not be required to engage in these activities, and may end any of these activities at any time.

We will deliver the Bonds to the underwriters at the closing of this offering when the underwriters pay us the purchase price of the Bonds. The underwriting agreement provides that the closing will occur on April 30, 2001, which is six business days after the date of this prospectus supplement. Rule 15c6-1 under the Securities Exchange Act of 1934 generally requires that securities trades in the secondary market settle in three business days, unless the parties to a trade expressly agree otherwise.

John H. Bryan, a director of Bank One Corporation, of which Banc One Capital Markets, Inc. is a direct wholly-owned subsidiary, is a director of GM. In the ordinary course of their respective businesses, the agents and their affiliates have engaged, and will in the future engage, in commercial banking and investment banking transactions with GM and certain of our affiliates for which they have received customary fees and expenses.

LEGAL OPINIONS

The validity of the Bonds offered pursuant to this prospectus supplement will be passed on for GM by Martin I. Darvick, Esq., Attorney, GM Legal Staff, and for the underwriters by Davis Polk & Wardwell. Mr. Darvick owns shares, and has options to purchase shares, of General Motors Corporation common stock, $1 2/3 par value and owns shares of General Motors Corporation Class H common stock, $0.10 par value.

The firm of Davis Polk & Wardwell acts as counsel to the Executive Compensation Committee of our Board of Directors and has acted as our counsel and as counsel for certain of our subsidiaries in various matters.

PROSPECTUS

GENERAL MOTORS CORPORATION

DEBT SECURITIES
WARRANTS TO PURCHASE DEBT SECURITIES

General Motors Corporation (the "Corporation" or "General Motors"), directly, through agents designated from time to time, or through dealers or underwriters also to be designated, may offer from time to time its debt securities (the "Debt Securities") and/or its warrants (the "Warrants") to purchase any of the Debt Securities, for issuance and sale, at an aggregate initial offering price not to exceed $3,000,000,000 or the equivalent thereof in other currencies, including composite currencies such as the European Currency Unit ("ECU") (the "Specified Currency"), on terms to be determined at the time of sale. The Debt Securities and the Warrants are herein collectively called the "Securities." The Securities may be offered either together or separately and in one or more series, in amounts, at prices and on terms to be set forth in supplements to this Prospectus. The Securities may be sold for U.S. dollars or the Specified Currency and the principal of and any premium and interest on the Securities may likewise be payable in U.S. dollars or the Specified Currency. The Specified Currency for which the Securities may be purchased and the Specified Currency in which principal of and any premium and interest on the Securities may be payable are set forth in the accompanying Prospectus Supplement (the "Prospectus Supplement").

The Debt Securities will be issued in fully registered definitive form ("Certificated Securities") or in the form of global securities which may be held and registered only in the name of a depositary institution ("Book-Entry Securities").

The terms of the Debt Securities, including, where applicable, the specific designation, aggregate principal amount, authorized denominations, purchase price, maturity, interest rate (which may be fixed or variable) and time of payment of interest, if any, any redemption or repayment terms, and the Specified Currency in which the Debt Securities shall be payable (and similar information with respect to the Debt Securities purchasable upon exercise of each Warrant), are set forth in the accompanying Prospectus Supplement (the "Prospectus Supplement"). Where Warrants are to be offered, a Prospectus Supplement shall set forth the offering price and terms of the Warrants, including the purchase price, exercise price or prices, detachability, expiration date or dates, exercise period or periods, the Specified Currency in which such Warrants are exercisable, the price or prices, if any, at which the Warrants may be redeemed at the option of the holder or will be redeemed upon expiration, and the Warrant Agent acting under the Warrant Agreement pursuant to which the Warrants are to be issued.

The Securities may be sold directly by the Corporation, through agents of the Corporation designated from time to time, or through underwriters or dealers, or through a combination of such methods. If any agents, underwriters or dealers are involved in the sale of the Securities, the names of such agents, underwriters or dealers and any applicable commissions or discounts are set forth in the accompanying Prospectus Supplement. Any Agents, underwriters or dealers participating in the offering may be deemed "underwriters" within the meaning of the Securities Act of 1933, as amended. See "Plan of Distribution" for possible indemnification arrangements for the agents, underwriters and dealers. The Corporation reserves the sole right to accept and, together with its agents from time to time, to reject in whole or in part any proposed purchase of Securities to be made directly or through agents.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is August 19, 1998

No dealer, salesman or any other person has been authorized to give any information or to make any representations not contained or incorporated by reference in this Prospectus, Prospectus Supplement, and Pricing Supplement, if any, and, if given or made, such information or representation must not be relied upon as having been authorized by the Corporation or by any agent, underwriter or dealer. Neither the delivery of this Prospectus, Prospectus Supplement and Pricing Supplement, if any, nor any sale made thereunder shall, under any circumstances, create any implication that the information therein is correct at any time subsequent to the date thereof. This Prospectus, Prospectus Supplement and Pricing Supplement, if any, shall not constitute an offer to sell or a solicitation of an offer to buy any of the Securities offered hereby by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

AVAILABLE INFORMATION

The Corporation is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information can be inspected, and copies may be obtained at the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates, as well as at the following Regional Offices of the Commission: Citicorp Center, 500 Madison Street, Suite 1400, Chicago, Illinois 60661-2511 and Seven World Trade Center, Suite 1300, New York, New York 10048. Such material may also be accessed electronically by means of the Commission's home page on the Internet at http://www.sec.gov. Reports, proxy statements and other information concerning the Corporation can also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, where the Corporation's Common Stock, $1-2/3 Par Value and Class H Common Stock, $.10 par value, are listed and at the offices of the following other stock exchanges where the Corporation's Common Stock, $1-2/3 Par Value, is listed in the United States: the Chicago Stock Exchange, Inc., One Financial Place, 440 South LaSalle Street, Chicago, Illinois 60605, the Pacific Stock Exchange, Inc., 233 South Beaudry Avenue, Los Angeles, California 90012 and 301 Pine Street, San Francisco, California 94104, and the Philadelphia Stock Exchange, Inc., 1900 Market Street, Philadelphia, Pennsylvania 19103.

The Prospectus constitutes a part of a Registration Statement filed by the Corporation with the Commission under the Securities Act of 1933, as amended (the "Securities Act of 1933"). This Prospectus omits certain of the information contained in the Registration Statement in accordance with the rules and regulations of the Commission. Reference is hereby made to the Registration Statement and related exhibits for further information with respect to the Corporation and the Securities. Statements contained herein concerning the provisions of any document are not necessarily complete and, in each instance, reference is made to the copy of such document filed as an exhibit to the Registration Statement or otherwise filed with the Commission. Each such statement is qualified in its entirety by such reference.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Corporation's Annual Report on Form 10-K for the year ended December 31, 1997, as amended, Quarterly Reports on Form 10-Q for the quarters ended March 31, 1998 and June 30, 1998 and Reports on Form 8-K dated January 9, 1998, January 26, 1998, February 9, 1998, March 2, 1998, April 16, 1998, June 5, 1998, June 8, 1998, July 8, 1998, July 9, 1998, July 14, 1998(2), August 3, 1998 and August 17, 1998, filed with the Commission pursuant to Section 13 or 15(d) of the Exchange Act are incorporated by reference in this Prospectus.

All documents filed by the Corporation with the Commission pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the offering of the Securities shall be deemed to be incorporated by reference in this Prospectus and to be a part thereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

THE CORPORATION WILL PROVIDE WITHOUT CHARGE UPON WRITTEN OR ORAL REQUEST, TO EACH PERSON TO WHOM THIS PROSPECTUS IS DELIVERED, A COPY OF ANY OR ALL OF THE DOCUMENTS DESCRIBED ABOVE WHICH HAVE BEEN OR MAY BE INCORPORATED BY REFERENCE IN

THIS PROSPECTUS, OTHER THAN EXHIBITS TO SUCH DOCUMENTS. SUCH REQUEST SHOULD BE DIRECTED TO:

GENERAL MOTORS CORPORATION
MAIL CODE: 482-111-238
3044 WEST GRAND BOULEVARD
DETROIT, MICHIGAN 48202-3091
(TELEPHONE NUMBER: (313) 556-2044)

GENERAL MOTORS CORPORATION

While the major portion of General Motors operations is derived from the automotive industry, General Motors also has financing and insurance operations and produces products and provides services in other industries. General Motors participates in the automotive industry through the activities of its automotive business operating segments: General Motors-North American Operations (GM-NAO); Delphi Automotive Systems (Delphi); and General Motors International Operations (GMIO). GM-NAO designs, manufactures and markets vehicles primarily in North America under the following nameplates: Chevrolet, Pontiac, GMC, Oldsmobile, Buick, Cadillac and Saturn. Delphi is a diverse supplier of automotive systems and components. Delphi offers products and services in the areas of chassis, interior, lighting, electronics, power and signal distribution, energy and engine management, steering and thermal systems. GMIO meets the demands of customers outside North America with vehicles designed, manufactured and marketed under the following nameplates: Opel, Vauxhall, Holden, Isuzu, Saab, Chevrolet, GMC and Cadillac. General Motors financing and insurance operations primarily relate to General Motors Acceptance Corporation (GMAC). GMAC provides a broad range of financial services, including consumer vehicle financing, full-service leasing and fleet leasing, dealer financing, car and truck extended service contracts, residential and commercial mortgage services, and vehicle and homeowners insurance. GM's other operations relate to its Hughes Electronics Corporation subsidiary, which is the telecommunications and space business, and the design, manufacturing and marketing of locomotives and heavy-duty transmissions.

General Motors principal executive offices are located at 200 Renaissance Center, Detroit, Michigan 48265-2000 (Telephone Number (313) 556-5000).

USE OF PROCEEDS

Unless otherwise set forth in the applicable Prospectus Supplement, net proceeds from the sale of the Securities will be used for general Corporate purposes, including the repayment of existing indebtedness.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the consolidated ratio of earnings from continuing operations to fixed charges for the Corporation for the periods indicated.

SIX MONTHS ENDED JUNE 30	YEARS ENDED DECEMBER 31

1998	1997	1997	1996	1995	1994	1993
1.87	2.93	2.21	2.10	2.39	2.35	1.26

The ratio of earnings to fixed charges has been computed by dividing earnings before income taxes and fixed charges by the fixed charges. This ratio includes the earnings and fixed charges of the Corporation and its consolidated subsidiaries; fixed charges consist of interest and discount and the portion of rentals for real and personal properties in an amount deemed to be representative of the interest factor.

DESCRIPTION OF DEBT SECURITIES

The following description of the terms of the Debt Securities sets forth certain general terms and provisions of the Debt Securities to which any Prospectus Supplement may relate. The particular terms of the Debt Securities in respect of which this Prospectus is being delivered and the extent, if any, to which such general provisions may not apply thereto will be described in the Prospectus Supplement relating to such Debt Securities.

The Debt Securities offered hereby are to be issued under an Indenture (the "Indenture"), dated as of December 7, 1995, between the Corporation and Citibank, N.A., as Trustee (the "Trustee"), a copy of which is filed as an exhibit to the Registration Statement. The following statements are subject to the detailed provisions of the Indenture. Numerical references in parentheses below are to sections in the Indenture. Wherever particular provisions of the Indenture are referred to, such provisions are incorporated by reference as a part of the statements made, and the statements are qualified in their entirety by such reference. Capitalized terms used in this description but not defined herein have the meanings provided in the Indenture.

The Indenture provides that, in addition to the Debt Securities offered hereby, additional Debt Securities may be issued thereunder without limitation as to aggregate principal amount, except as authorized from time to time by the Corporation's Board of Directors. (Section 2.01 of the Indenture.)

GENERAL

Reference is made to the Prospectus Supplement relating to the particular series of Debt Securities offered thereby for the following terms of the Debt Securities (to the extent such terms are applicable to such Debt Securities):

(i) the designation of such Debt Securities;

(ii) the authorized denominations and the aggregate principal amount of such Debt Securities;

(iii) the percentage of their principal amount at which such Debt Securities will be issued;

(iv) the date or dates on which such Debt Securities will mature (or the manner of determining the same);

(v) the rate or rates per annum, if any, which may be fixed or variable, at which such Debt Securities will bear interest, if any, and, if the rate is variable, the manner of calculation thereof;

(vi) the date or dates from which interest, if any, shall accrue or the method by which such date or dates shall be determined and the date or dates at which such interest, if any, will be payable and the record dates therefor;

(vii) the period or periods within which, the terms and conditions upon which, such Debt Securities may be redeemed and the redemption price or prices;

(viii) any mandatory or optional sinking fund or analogous provisions;

(ix) the provisions, if any, for the defeasance of the Debt Securities;

(x) the form (registered or bearer) in which Debt Securities may be issued, any restrictions applicable to the exchange of one form for another and to the offer, sale and delivery of Debt Securities in either form;

(xi) whether and under what circumstances the Corporation will pay additional amounts (the "Additional Amounts") on Debt Securities held by a person who is not a United States person (as defined in the Prospectus Supplement) in respect of specified taxes, assessments or other governmental charges withheld or deducted, and if so, whether the Corporation has the option to redeem the affected Debt Securities rather than pay such Additional Amounts;

(xii) the Specified Currency for which such Debt Securities may be purchased and the Specified Currency in which the principal of, and premium, if any, and interest, if any, on, such Debt Securities may be payable;

(xiii) the exchanges, if any, on which such Debt Securities may be listed;

(xiv) whether such Debt Securities are to be issued in book-entry form and, if so, the identify of the Depositary for such book-entry Securities;

(xv) the place or places where the principal of, premium, if any, and interest, if any, on the Debt Securities will be payable; and

(xvi) any other specific terms of the Debt Securities, including any additional covenants applicable to such Debt Securities and any terms which may be required or advisable under applicable laws or regulations. (Sections 2.04 and 4.02 of the Indenture.)

The Debt Securities will be unsecured and will rank equally and ratably with all other unsecured and unsubordinated indebtedness of the Corporation (other than obligations preferred by mandatory provisions of law).

Unless otherwise specified in a Prospectus Supplement, principal, premium, if any, interest, if any, and Additional Amounts, if any, will be payable, and, unless the Debt Securities are issued in book-entry form, the Debt Securities offered hereby will be transferable, at the office of the Trustee, 111 Wall Street, New York, New York 10043, provided that payment of interest may be made at the option of the Corporation by check mailed to the address of the person entitled thereto. Principal of and premium, if any, interest, if any, and Additional Amounts, if any, on Debt Securities in bearer form, and coupons appertaining thereto (the "Coupons"), if any, will be payable against surrender of such Debt Securities or Coupons, as the case may be, subject to any applicable laws and regulations, at such paying agencies outside the United States as the Corporation may appoint from time to time at the places and subject to the restrictions set forth in the Indenture, the Debt Securities and the Prospectus Supplement. (Section 4.02 of the Indenture.) Debt Securities in bearer form and the Coupons, if any, appertaining thereto will be transferable by delivery. No service charge will be made for any transfer or exchange of such Debt Securities, but the Corporation may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. (Section 2.05 of the Indenture.)

Debt Securities may be issued, from time to time, with the principal amount payable on any principal payment date, or the amount of interest payable on any interest payment date, to be determined by reference to one or more currency exchange rates, commodity prices, equity indices or other factors. Holders of such Debt Securities may receive a principal amount on any principal payment date, or a payment of interest on any interest payment date, that is greater than or less than the amount of principal or interest otherwise payable on such dates, depending upon the value on such dates of the applicable currencies, commodities, equity indices or other factors. Information as to the methods for determining the amount of principal or interest payable on any date, the currencies, commodities, equity indices or other factors to which the amount payable on such date is linked and certain additional United States Federal income tax considerations will be set forth in the Prospectus Supplement relating thereto.

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As used herein, the term Debt Securities shall include Debt Securities denominated in United States dollars or, at the option of the Corporation if so specified in the applicable Prospectus Supplement, in any other freely transferable currency or units based on or relating to foreign currencies, including European Currency Units.

If a Prospectus Supplement specifies that Debt Securities are denominated in a currency or currency unit other than United States dollars, such Prospectus Supplement shall also specify the denominations in which such Debt Securities will be issued and the coin or currency in which the principal, premium, if any, and interest, if any, on such Debt Securities, will be payable, which may be United States dollars based upon the exchange rate for such other currency existing on or about the time a payment is due.

Some of the Debt Securities may be issued as discounted Debt Securities (bearing no interest or interest at a rate which at the time of issuance is below market rates) to be sold at a substantial discount below their stated principal amount. Special considerations applicable to the Debt Securities of any series, including any United States Federal income tax consequences applicable to any discounted Debt Securities or to certain Debt Securities issued at par which are treated as having been issued at discount or to Debt Securities denominated or payable in foreign currencies or currency units, will be described in the Prospectus Supplement relating thereto.

If a Prospectus Supplement specifies that the Debt Securities will have a redemption option, the "Option to Elect Repurchase" constitutes an issuer tender offer under the Exchange Act. The Corporation will comply with all issuer tender offer rules and regulations under the Exchange Act, including Rule 14e-1, if such redemption option is elected, including making any required filings with the Commission and the furnishing of certain information to the holders of the Debt Securities.

BOOK-ENTRY SECURITIES - DELIVERY AND FORM

Unless otherwise indicated in the Prospectus Supplement, the Debt Securities will be issued in the form of one or more fully registered global securities (collectively, the "Registered Global Debt Securities") which will be deposited with or on behalf of The Depository Trust Corporation ("DTC") or other depositary (DTC or such other depositary as is specified in the applicable Prospectus Supplement is herein referred to as the "Depositary") and registered in the name of the Depositary or the Depositary's nominee. No single Registered Global Security shall exceed U.S.$200,000,000. Except as set forth below, the Registered Global Debt Securities may be transferred, in whole and not in part, only to another nominee of the Depositary or to a successor of the Depositary or its nominee.

DTC has advised the Corporation that it is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered under the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers (including the agents and/or underwriters named in any Prospectus Supplement), banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC. Access to DTC's book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Persons who are not participants may beneficially own securities held by DTC only through participants. The rules applicable to DTC and its participants are on file with the Commission.

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Upon the issuance by the Corporation of Securities represented by a Registered Global Debt Security, the Depositary will credit, on its book-entry registration and transfer system, the participants' accounts with, the respective principal amounts of the Securities represented by such Registered Global Debt Security beneficially owned by such participants. The accounts to be credited shall be designated by the agents, underwriters or dealers participating in the distribution of such Securities, or the Corporation, if such Securities are offered and sold directly by the Corporation, as the case may be. Ownership of beneficial interests in a Registered Global Debt Security will be limited to participants or persons that hold interests through participants. Ownership of beneficial interests in Securities represented by a Registered Global Debt Security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the Depositary (with respect to interests of participants in the Depositary), or by participants in the Depositary or persons that may hold interests through such participants (with respect to persons other than participants in the Depositary). The laws of some states require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to transfer beneficial interests in a Registered Global Debt Security.

So long as the Depositary for a Registered Global Debt Security, or its nominee, is the registered owner of the Registered Global Debt Security, the Depositary or its nominee, as the case may be, will be considered the sole owner or holder of the Book-Entry Securities represented by such Registered Global Debt Security for all purposes under the Indenture. Except as provided below, owners of beneficial interests in Book-Entry Securities represented by a Registered Global Debt Security or Securities will not be entitled to have Book-Entry Securities represented by such Registered Global Debt Securities registered in their names, will not receive or be entitled to receive physical delivery of Book-Entry Securities in definitive form and will not be considered the owners or holders thereof under the Indenture.

Accordingly, each person owning a beneficial interest in a Registered Global Debt Security must rely on the procedures of the Depositary and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the Indenture or a Registered Global Debt Security. The Corporation understands that under existing policy of the Depositary and industry practices, in the event that the Corporation requests any action of holders or that an owner of a beneficial interest in such a Registered Global Debt Security desires to give any notice or take any action which a holder is entitled to give or take under the Indenture or a Registered Global Debt Security, the Depositary would authorize the participants holding the relevant beneficial interests to give such notice or take such action. Any beneficial owner that is not a participant must rely on the contractual arrangements it has directly, or indirectly through its financial intermediary, with a participant to give such notice or take such action.

Payments of principal of, premium, if any, and interest, if any, on, the Securities represented by a Registered Global Debt Security registered in the name of the Depositary or its nominee will be made by the Corporation through the Trustee to the Depositary or its nominee, as the case may be, as the registered owner of a Registered Global Debt Security. None of the Corporation, the Trustee, any paying agent or any other agent of the Corporation will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Registered Global Debt Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The Corporation expects that the Depositary, upon receipt of any payment of principal, premium, if any, or interest, if any, in respect of a Registered Global Debt Security, will immediately credit the accounts of the related participants with payment in amounts proportionate to their respective holdings in principal amount of beneficial interest in such Registered Global Debt Security as shown on the records of the Depositary. The Corporation also expects that payments by participants to owners of beneficial interests in a Registered Global Debt Security will be governed by standing customer instructions and customary practices as is now the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such participants.

If the Depositary is at any time unwilling or unable to continue as depositary or ceases to be a clearing agency under the Exchange Act and a successor depositary registered as a clearing agency under the Exchange Act is not appointed by the Corporation within 90 days, the Corporation will issue Debt

Securities in definitive form in exchange for all the Registered Global Debt Securities. In addition, the Corporation may at any time, and in its sole discretion, determine not to have the Debt Securities represented by the Registered Global Debt Securities and, in such event, will issue Debt Securities in definitive form in exchange for all the Registered Global Debt Securities. In either instance, an owner of a beneficial interest in Registered Global Debt Securities will be entitled to have Debt Securities equal in principal amount to such beneficial interest registered in its name and will be entitled to physical delivery of such Debt Securities in definitive form. Debt Securities so issued in definitive form will be issued in denominations of $1,000 and integral multiples thereof and will be issued in registered form only, without Coupons; however, Medium-Term Notes issued pursuant to a Prospectus Supplement will be issued in denominations of $100,000 or any amount in excess thereof which is an integral multiple of $1,000 (or in such other denominations as shall be provided in an applicable Pricing Supplement) and will be issued in registered form only, without Coupons. No service charge will be made for any transfer or exchange of such Debt Securities, but the Corporation may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. (Section 2.05 of the Indenture.)

The Debt Securities of a series may also be issued in the form of one or more bearer global securities (a "Bearer Global Debt Security") that will be deposited with a common depositary for the Euroclear System and Cedel Bank, societe anonyme or with a nominee for such depositary identified in the Prospectus Supplement relating to such series. The specific terms and procedures, including the specific terms of the depositary arrangement, with respect to any portion of a series of Debt Securities to be represented by a Bearer Global Debt Security will be described in the Prospectus Supplement relating to such series.

CERTAIN COVENANTS

DEFINITIONS APPLICABLE TO COVENANTS. The following definitions shall be applicable to the covenants specified below:

(i) "Attributable Debt" means, at the time of determination as to any lease, the present value (discounted at the actual rate, if stated, or, if no rate is stated, the implicit rate of interest of such lease transaction as determined by the chairman, president, any vice chairman, any vice president, the treasurer or any assistant treasurer of the Corporation), calculated using the interval of scheduled rental payments under such lease, of the obligation of the lessee for net rental payments during the remaining term of such lease (excluding any subsequent renewal or other extension options held by the lessee). The term "net rental payments" means, with respect to any lease for any period, the sum of the rental and other payments required to be paid in such period by the lessee thereunder, but not including, however, any amounts required to be paid by such lessee (whether or not designated as rental or additional rental) on account of maintenance and repairs, insurance, taxes, assessments, water rates, indemnities or similar charges required to be paid by such lessee thereunder or any amounts required to be paid by such lessee thereunder contingent upon the amount of sales, earnings or profits or of maintenance and repairs, insurance, taxes, assessments, water rates, indemnities or similar charges; provided, however, that, in the case of any lease which is terminable by the lessee upon the payment of a penalty in an amount which is less than the total discounted net rental payments required to be paid from the later of the first date upon which such lease may be so terminated and the date of the determination of net rental payments, "net rental payments" shall include the then-current amount of such penalty from the later of such two dates, and shall exclude the rental payments relating to the remaining period of the lease commencing with the later of such two dates.

(ii) "Debt" means notes, bonds, debentures or other similar evidences of indebtedness for money borrowed.

(iii) "Manufacturing Subsidiary" means any Subsidiary (A) substantially all the property of which is located within the continental United States of America, (B) which owns a Principal Domestic Manufacturing Property and (C) in which the Corporation's investment, direct or indirect and whether in the form of equity, debt, advances or otherwise, is in excess of $2,500,000,000 as shown on the books of the Corporation as of the end of the fiscal year immediately preceding the date of determination; provided, however, that "Manufacturing Subsidiary" shall not include Hughes Electronics

Corporation and its Subsidiaries, General Motors Acceptance Corporation and its Subsidiaries (or any corporate successor of any of them) or any other Subsidiary which is principally engaged in leasing or in financing installment receivables or otherwise providing financial or insurance services to the Corporation or others or which is principally engaged in financing the Corporation's operations outside the continental United States of America.

(iv) "Mortgage" means any mortgage, pledge, lien, security interest, conditional sale or other title retention agreement or other similar encumbrance.

(v) "Principal Domestic Manufacturing Property" means any manufacturing plant or facility owned by the Corporation or any Manufacturing Subsidiary which is located within the continental United States of America and, in the opinion of the Board of Directors, is of material importance to the total business conducted by the Corporation and its consolidated affiliates as an entity.

(vi) "Subsidiary" means any corporation of which at least a majority of the outstanding stock having by the terms thereof ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether or not at the time stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by the Corporation, or by one or more Subsidiaries, or by the Corporation and one or more Subsidiaries. (Section 4.08 of the Indenture.)

LIMITATION ON LIENS. For the benefit of the Debt Securities, the Corporation will not, nor will it permit any Manufacturing Subsidiary to, issue or assume any Debt secured by a Mortgage upon any Principal Domestic Manufacturing Property of the Corporation or any Manufacturing Subsidiary or upon any shares of stock or indebtedness of any Manufacturing Subsidiary (whether such Principal Domestic Manufacturing Property, shares of stock or indebtedness are now owned or hereafter acquired) without in any such case effectively providing concurrently with the issuance or assumption of any such Debt that the Debt Securities (together with, if the Corporation shall so determine, any other indebtedness of the Corporation or such Manufacturing Subsidiary ranking equally with the Debt Securities and then existing or thereafter created) shall be secured equally and ratably with such Debt, unless the aggregate amount of Debt issued or assumed and so secured by Mortgages, together with all other Debt of the Corporation and its Manufacturing Subsidiaries which (if originally issued or assumed at such time) would otherwise be subject to the foregoing restrictions, but not including Debt permitted to be secured under clauses (i) through (vi) of the immediately following paragraph, does not at the time exceed 20% of the stockholders' equity of the Corporation and its consolidated subsidiaries, as determined in accordance with generally accepted accounting principles and shown on the audited consolidated balance sheet contained in the latest published annual report to the stockholders of the Corporation.

The above restrictions shall not apply to Debt secured by:

(i) Mortgages on property, shares of stock or indebtedness of any corporation existing at the time such corporation becomes a Manufacturing Subsidiary;

(ii) Mortgages on property existing at the time of acquisition of such property by the Corporation or a Manufacturing Subsidiary, or Mortgages to secure the payment of all or any part of the purchase price of such property upon the acquisition of such property by the Corporation or a Manufacturing Subsidiary or to secure any Debt incurred prior to, at the time of, or within 180 days after, the later of the date of acquisition of such property and the date such property is placed in service, for the purpose of financing all or any part of the purchase price thereof, or Mortgages to secure any Debt incurred for the purpose of financing the cost to the Corporation or a Manufacturing Subsidiary of improvements to such acquired property;

(iii) Mortgages securing Debt of a Manufacturing Subsidiary owing to the Corporation or to another Subsidiary;

(iv) Mortgages on property of a corporation existing at the time such corporation is merged or consolidated with the Corporation or a Manufacturing Subsidiary or at the time of a sale, lease or other disposition of the properties of a corporation as an entirety or substantially as an entirety to the Corporation or a Manufacturing Subsidiary;

(v) Mortgages on property of the Corporation or a Manufacturing Subsidiary in favor of the United States of America or any State thereof, or any department, agency or instrumentality or political subdivision of the United States of America or any State thereof, or in favor of any other country, or any political subdivision thereof, to secure partial, progress, advance or other payments pursuant to any contract or statute or to secure any indebtedness incurred for the purpose of financing all or any part of the purchase price or the cost of construction of the property subject to such Mortgages; or

(vi) any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part of any Mortgage referred to in the foregoing clauses (i) to (v); provided, however, that the principal amount of Debt secured thereby shall not exceed by more than 115% the principal amount of Debt so secured at the time of such extension, renewal or replacement and that such extension, renewal or replacement shall be limited to all or a part of the property which secured the Mortgage so extended, renewed or replaced (plus improvements on such property). (Section 4.06 of the Indenture.)

LIMITATION ON SALE AND LEASE-BACK. For the benefit of the Debt Securities, the Corporation will not, nor will it permit any Manufacturing Subsidiary to, enter into any arrangement with any person providing for the leasing by the Corporation or any Manufacturing Subsidiary of any Principal Domestic Manufacturing Property owned by the Corporation or any Manufacturing Subsidiary on the date that the Debt Securities are originally issued (except for temporary leases for a term of not more than five years and except for leases between the Corporation and a Manufacturing Subsidiary or between Manufacturing Subsidiaries), which property has been or is to be sold or transferred by the Corporation or such Manufacturing Subsidiary to such person, unless either:

(i) the Corporation or such Manufacturing Subsidiary would be entitled, pursuant to the provisions of the covenant on limitation on liens described above, to issue, assume, extend, renew or replace Debt secured by a Mortgage upon such property equal in amount to the Attributable Debt in respect of such arrangement without equally and ratably securing the Debt Securities; provided, however, that from and after the date on which such arrangement becomes effective the Attributable Debt in respect of such arrangement shall be deemed for all purposes under the covenant on limitation on liens described above and this covenant on limitation on sale and lease-back to be Debt subject to the provisions of the covenant on limitation on liens described above (which provisions include the exceptions set forth in clauses (i) through (vi) of such covenant), or

(ii) the Corporation shall apply an amount in cash equal to the Attributable Debt in respect of such arrangement to the retirement (other than any mandatory retirement or by way of payment at maturity), within 180 days of the effective date of any such arrangement, of Debt of the Corporation or any Manufacturing Subsidiary (other than Debt owned by the Corporation or any Manufacturing Subsidiary) which by its terms matures at or is extendible or renewable at the option of the obligor to a date more than twelve months after the date of the creation of such Debt. (Section 4.07 of the Indenture.)

DEFEASANCE

If the terms of a particular series of Debt Securities so provide, the Corporation may, at its option, (a) discharge its indebtedness and its obligations under the Indenture with respect to such series or (b) not comply with certain covenants contained in the Indenture with respect to such series, in each case by depositing funds or obligations issued or guaranteed by the United States of America with the Trustee. The Prospectus Supplement will more fully describe the provisions, if any, relating to such defeasance. (Section 12.02 of the Indenture.)

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MODIFICATION OF THE INDENTURE

The Indenture provides that the Corporation and the Trustee may enter into supplemental indentures without the consent of the holders of the Debt Securities to (a) evidence the assumption by a successor corporation of the obligations of the Corporation, (b) add covenants for the protection of the holders of the Debt Securities, (c) add or change any of the provisions of the Indenture to permit or facilitate the issuance of Debt Securities of any series in bearer form, (d) cure any ambiguity or correct any inconsistency in such Indenture, (e) establish the form or terms of Debt Securities of any series as permitted by the terms of the Indenture and (f) evidence the acceptance of appointment by a successor trustee. (Section 10.01 of the Indenture.)

The Indenture also contains provisions permitting the Corporation and the Trustee to modify or amend the Indenture or any supplemental indenture or the rights of the holders of the Debt Securities issued thereunder, with the consent of the holders of not less than a majority in principal amount of the Debt Securities of all series at the time outstanding under such Indenture which are affected by such modification or amendment (voting as one class), provided that no such modification shall (i) extend the fixed maturity of any Debt Securities, or reduce the principal amount thereof, or premium, if any, or reduce the rate or extend the time of payment of interest or Additional Amounts thereon, or reduce the amount due and payable upon acceleration of the maturity thereof or the amount provable in bankruptcy, or make the principal of, or interest, premium or Additional Amounts on, any Debt Security payable in any coin or currency other than that provided in such Debt Security, (ii) impair the right to initiate suit for the enforcement of any such payment on or after the stated maturity thereof, or (iii) reduce the aforesaid percentage of Debt Securities, the consent of the holders of which is required for any such modification, or the percentage required for the consent of the holders to waive defaults, without the consent of the holder of each Debt Security so affected. (Section 10.02 of the Indenture.)

EVENTS OF DEFAULT

An Event of Default with respect to any series of Debt Securities is defined in the Indenture as being: (a) default in payment of any principal or premium, if any, on such series; (b) default for 30 days in payment of any interest or Additional Amounts on such series; (c) default for 90 days after notice in performance of any other covenant applicable to the Debt Securities; or (d) certain events of bankruptcy, insolvency or reorganization. (Section 6.01 of the Indenture.)

No Event of Default with respect to a particular series of Debt Securities issued under the Indenture necessarily constitutes an Event of Default with respect to any other series of Debt Securities issued thereunder. In case an Event of Default under clause (a), (b) or (c) shall occur and be continuing with respect to any series, the Trustee or the holders of not less than 25% in aggregate principal amount of Debt Securities of each such series then outstanding may declare the principal (or, in the case of discounted Debt Securities, the amount specified in the terms thereof) of such series to be due and payable. In case an Event of Default under clause (d) shall occur and be continuing, the Trustee or the holders of not less than 25% in aggregate principal amount of all the Debt Securities then outstanding (voting as one class) may declare the principal (or, in the case of discounted Debt Securities, the amount specified in the terms thereof) of all outstanding Debt Securities to be due and payable. Any Event of Default with respect to a particular series of Debt Securities may be waived by the holders of a majority in aggregate principal amount of the outstanding Debt Securities of such series (or of all the outstanding Debt Securities, as the case may be), except in a case of failure to pay principal or premium, if any, or interest or Additional Amounts in respect of such Debt Security for which payment had not been subsequently made. (Section 6.01 of the Indenture.) The Indenture provides that the Trustee may withhold notice to the securityholders of any default (except in payment of principal, premium, if any, or interest or Additional Amounts) if it considers it in the interests of the securityholders to do so. (Section 6.07 of the Indenture.)

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Subject to the provisions of the Indenture relating to the duties of the Trustee in case an Event of Default shall occur and be continuing, the Trustee shall be under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the securityholders, unless such securityholders shall have offered to the Trustee reasonable indemnity. (Sections 7.01 and 7.02 of the Indenture.) Subject to such provisions for the indemnification of the Trustee and to certain other limitations, the holders of a majority in aggregate principal amount of the Debt Securities of all series affected (voting as one class) at the time outstanding shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee.(Section 6.06 of the Indenture.)

CONCERNING THE TRUSTEE

Citibank, N.A. is the Trustee under the Indenture. Citibank, N.A. acts as depositary for funds of, makes loans to, acts as trustee and performs certain other services for, the Corporation and certain of its subsidiaries and affiliates in the normal course of its business.

DESCRIPTION OF WARRANTS

GENERAL

The Corporation may issue, together with Debt Securities or separately, Warrants for the purchase of Debt Securities. If the Warrants are issued together with any Debt Securities, they may be attached to or traded separately from such Debt Securities. The Warrants are to be issued under one or more separate Warrant Agreements (each a "Warrant Agreement") between the Corporation and a banking institution organized under the laws of the United States or one of the States thereof (each a "Warrant Agent").

The following statements with respect to the Warrants are summaries of the Warrant Agreement, a form of which is filed as an exhibit to the Registration Statement. Such summaries of certain provisions of the Warrant Agreement and the Warrants do not purport to be complete and such summaries are subject to the detailed provisions of the Warrant Agreement to which reference is hereby made for a full description of such provisions, including the definition of certain terms used herein, and for other information regarding the Warrants. Wherever particular provisions of the Warrant Agreement or terms defined therein are referred to, such provisions or definitions are incorporated by reference as a part of the statements made, and the statements are qualified in their entirety by such reference.

The Warrants will be evidenced by Warrant Certificates (the "Warrant Certificates") and, except as otherwise specified in the Prospectus Supplement accompanying this Prospectus, may be traded separately from any Debt Securities with which they may be issued. Warrant Certificates may be exchanged for new Warrant Certificates of different denominations at the office of the Warrant Agent. The holder of a Warrant does not have any of the rights of a holder of a Debt Security in respect of, and is not entitled to any payments on, any Debt Securities issuable (but not yet issued) upon exercise of the Warrants.

The Warrants may be issued in one or more series, and reference is made to the Prospectus Supplement accompanying this Prospectus relating to the particular series of Warrants offered thereby for the terms of, and other information with respect to, such Warrants, including: (i) the title and the aggregate number of Warrants; (ii) the designation, aggregate principal amount, currency or currencies and terms of the Debt Securities that may be purchased upon exercise of the Warrants; (iii) the price or prices at which such Warrants are exercisable; (iv) the currency or currencies in which such Warrants are exercisable; (v) the places at which such Warrants are exercisable and the date on which the right to exercise the Warrants shall commence and the date on which such right shall expire (the "Warrant Expiration Date") or, if the Warrants are not continuously exercisable throughout such period, the specific date or dates on which they will be exercisable (each, a "Warrant Exercise Date", which term shall also mean, with respect to Warrants continuously exercisable for a period of time, every date during such period); (vi) the terms of any mandatory or optional call provisions; (vii) the price or prices, if any, at which the Warrants may be redeemed at the option of the holder or will be redeemed upon expiration; (viii) the identity of the Warrant Agent; (ix) the exchanges, if any, on which such Warrants may be listed; (x) whether such Warrants shall be issued in book-entry form; (xi) if applicable, the designation and terms of the

Debt Securities with which the Warrants are issued and the number of Warrants issued with each of such Debt Securities; (xii) if applicable, the date on and after which the Warrants and the related Debt Securities will be separately transferable; (xiii) whether the Warrant Certificates will be in registered form or bearer form or both; (xiv) any applicable United States Federal income tax consequences; (xv) the price at which the Warrants will be issued; and (xvi) any other terms of the Warrants.

EXERCISE OF WARRANTS

Warrants in registered form may be exercised by payment to the Warrant Agent of the exercise price, in each case in such currency or currencies as are specified in the Warrant, and by communicating to the Warrant Agent the identity of the Warrantholder and the number of Warrants to be exercised. Upon receipt of payment and the Warrant Certificate properly completed and duly executed, at the office of the Warrant Agent, the Warrant Agent will, as soon as practicable, arrange for the issuance of the applicable Debt Securities, the form of which shall be set forth in the Prospectus Supplement. If less than all of the Warrants evidenced by a Warrant Certificate are exercised, a new Warrant Certificate will be issued for the remaining amounts of Warrants. A more complete summary for the exercise of Warrants in registered form and for exercises of Warrants in bearer form is contained in the Prospectus Supplement accompanying this Prospectus.

PLAN OF DISTRIBUTION

The Corporation may sell the Securities being offered hereby in any of four ways: (i) directly to purchasers, (ii) through agents, (iii) through underwriters, and (iv) through dealers.

Offers to purchase Securities may be solicited directly by the Corporation or by agents designated by the Corporation from time to time. Any such agent, who may be deemed to be an underwriter as that term is defined in the Securities Act of 1933, involved in the offer or sale of the Securities in respect of which this Prospectus is delivered will be named, and any commissions payable by the Corporation to such agent set forth, in the Prospectus Supplement. Unless otherwise indicated in the Prospectus Supplement, any such agent will be acting on a reasonable best efforts basis for the period of its appointment (ordinarily five business days or less). Agents may be entitled under agreements which may be entered into with the Corporation to indemnification by the Corporation against certain civil liabilities, including liabilities under the Securities Act of 1933, and may be customers of, engage in transactions with, or perform services for, the Corporation and its subsidiaries in the ordinary course of business.

If an underwriter or underwriters are utilized in the sale, the Corporation will enter into an underwriting agreement with such underwriters at the time of sale to them and the names of the underwriters and the terms of the transaction will be set forth in the Prospectus Supplement, which will be used by the underwriters to make resales of the Securities in respect of which this Prospectus is delivered to the public. The underwriters may be entitled, under the relevant underwriting agreement, to indemnification by the Corporation against certain liabilities, including liabilities under the Securities Act of 1933. Among others, one or more of the following firms may act as managing underwriter(s) with respect to the offering of the Securities: Bear, Stearns & Co. Inc., Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith, J.P. Morgan Securities Inc., Morgan Stanley Dean Witter, Morgan Stanley & Co. Incorporated, Salomon Smith Barney and Salomon Brothers Inc.

If a dealer is utilized in the sale of the Securities in respect of which this Prospectus is delivered, the Corporation will sell such Securities to the dealer as principal. The dealer may then resell such Securities to the public at varying prices to be determined by such dealer at the time of resale. Dealers may be entitled to indemnification by the Corporation against certain liabilities, including liabilities under the Securities Act of 1933.

If so indicated in the applicable Prospectus Supplement, the Corporation will authorize agents and underwriters to solicit offers by certain institutions to purchase Securities from the Corporation at the public offering price set forth in the Prospectus Supplement pursuant to Delayed Delivery Contracts ("Contracts") providing for payment and delivery on the date stated in the

Prospectus Supplement. Each Contract will be for an amount not less than, and unless the Corporation otherwise agrees the aggregate principal amount of Securities sold pursuant to Contracts shall be not less nor more than, the respective amounts stated in the Prospectus Supplement. Institutions with whom Contracts, when authorized, may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions, and other institutions but shall in all cases be subject to the approval of the Corporation. Contracts will not be subject to any conditions except that the purchase by an institution of the Securities covered by its Contract shall not at the time of delivery be prohibited under the laws of any jurisdiction in the United States to which such institution is subject. A commission indicated in the applicable Prospectus Supplement will be paid to underwriters and agents soliciting purchases of Securities pursuant to Contracts accepted by the Corporation.

The place and time of delivery for the Securities in respect of which this Prospectus is delivered are set forth in the accompanying Prospectus Supplement.

Dennis Weatherstone, a director of J. P. Morgan & Co. Incorporated, of which J. P. Morgan Securities Inc. is an indirect wholly-owned subsidiary, is a director of the Corporation. In the ordinary course of their respective businesses, affiliates of the Agents have engaged, and will in the future engage in commercial banking and investment banking transactions with General Motors and certain of its affiliates.

EXPERTS

The consolidated financial statements and the financial statement schedule included in the Corporation's 1997 Annual Report on Form 10-K, as amended, incorporated by reference herein, have been audited by Deloitte & Touche LLP, independent public accountants, as stated in their reports appearing therein, and have been so incorporated by reference in reliance upon such reports given upon the authority of such firm as experts in accounting and auditing.

LEGAL OPINIONS

Unless otherwise indicated in the Prospectus Supplement relating to the Securities, the legality of the Securities will be passed upon for the Corporation by Martin I. Darvick, Attorney, Legal Staff, of the Corporation. Mr. Darvick owns shares, and has options to purchase shares, of the Corporation's Common Stock, $1-2/3 Par Value and owns shares of the Corporation's Class H Common Stock, $0.10 par value.

Unless otherwise indicated in the Prospectus Supplement relating to the Securities, certain legal matters relating to the Securities will be passed upon for the Underwriters by Davis Polk & Wardwell. Davis Polk & Wardwell acts as counsel to the Executive Compensation Committee of the Board of Directors of the Corporation and has acted as counsel for the Corporation and its subsidiaries in various matters.

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Pro forma net income	$48.6	$31.3	$156.5	$71.3
Reported net income per share, basic	$0.71	$0.61	$2.32	$1.42
Pro forma net income per share, basic	$0.71	$0.59	$2.31	$1.38
Reported net income per share, diluted	$0.70	$0.61	$2.29	$1.41
Pro forma net income per share, diluted	$0.70	$0.59	$2.28	$1.37

New Accounting Standards

In May 2005, the 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 error corrections completed by the company 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.

In March 2005, the FASB issued Interpretation (FIN) No. 47, Accounting for Conditional Asset-Retirement Obligations. This standard codifies SFAS No. 143, Asset-Retirement Obligations, and states that companies must recognize a liability for the fair value of a legal obligation to perform asset-retirement obligations that are conditional on a future event if the amount can be reasonably estimated. Specifically, FIN No. 47 provides additional guidance on whether the fair value is reasonably estimable. FIN No. 47 is effective for the company starting December 31, 2005. 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.

In December 2004, the FASB issued SFAS No. 123(R), 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

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replaces SFAS No. 123 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 Securities and Exchange Commission (SEC) amended the compliance date of SFAS No. 123(R) through an amendment of Regulation S-X. The new effective date for the company is January 1, 2006. The company currently is evaluating the provisions of this standard to determine the impact on its consolidated financial statements. It is, however, expected to reduce consolidated net income.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets. This standard amended APB Opinion No. 29, Accounting for Nonmonetary Transactions, to eliminate the exception from fair-value measurement for nonmonetary exchanges of similar productive assets. This standard replaces this exception with a general exception from fair-value measurement for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The company s adoption of this standard did not have a material impact on the financial statements.

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.

Use of 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.

Reclassifications

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

3. Acquisitions and Pro Forma Financial Information

On June 3, 2004, the company completed the acquisition of Noveon International, Inc. (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® chlorinated polyvinyl chloride and Estane® thermoplastic polyurethane.

The acquisition and related costs were financed initially 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

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September 2004 with the proceeds from the permanent financing obtained by the issuance of senior notes, debentures, bank term loans and equity.

The consolidated balance sheets as of September 30, 2005 and December 31, 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 in-process research and development (IPR&D) projects, were also obtained. Through June 2005, the company finalized certain aspects of the purchase price allocation primarily surrounding the valuation of the property, plant and equipment and the deferred tax accounts. In connection with the acquisition of Noveon International, the company has targeted non-core businesses with total revenues of approximately $500.0 million for disposition. This plan was contemplated at the time of acquisition and plan activities have been underway since the fourth quarter of 2004. 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, in the six months ended June 30, 2005, the company reduced the amount allocated to property, plant and equipment by $55.2 million since December 31, 2004. Depreciation expense for the three and six months ended June 30, 2005 included a related adjustment of $1.1 million and $2.3 million, respectively, representing the change 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 June 2005 resulting in a decrease of $17.7 million to the net deferred tax liabilities since December 31, 2004. The goodwill associated with the transaction increased by $33.7 million in the six months ended June 30, 2005 representing the net impact of all adjustments recorded. The allocation of the purchase price was complete as of June 30, 2005 and the related actuarial valuations and appraisals obtained have been finalized.

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 amount charged to expense in the second quarter of 2004 was $35.0 million, of which $1.5 million was reversed in the third quarter of 2004. This amount was subsequently adjusted to $34.0 million in the fourth quarter of 2004. There were no changes to the valuation of IPR&D in 2005. The inventory step-up to fair value totaled $24.2 million, of which $4.9 million was expensed in each of the second and third quarters of 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.

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The adjusted fair value of the assets acquired and liabilities assumed in connection with the Noveon International acquisition was as follows as of June 30, 2005:

(in millions of dollars)	Fair Value of Net Assets Acquired
Receivables	$ 191.5
Inventories	180.5
Other current assets	47.4
Property and equipment	559.6
Goodwill	863.8
Intangible assets	379.1
Other non-current assets	18.2
Total assets	2,240.1
Accounts payable	129.4
Accrued expenses	107.2
Current and long-term debt	1,103.1
Noncurrent liabilities	71.8
Total liabilities	1,411.5
Increase in net assets from acquisition	$ 828.6

The company s operating results for the nine months ended September 30, 2004 only include revenues and expenses of Noveon International since June 3, 2004, the date of acquisition.

The following unaudited pro forma operating data is presented for the nine months ended September 30, 2004 as if the Noveon International acquisition had been completed at January 1, 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 (credit for) acquired IPR&D, interest expense and income taxes 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 consisting of both debt and equity until the end of April, the fourth month in the period presented. These pro forma amounts 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.

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(in millions of dollars except per share data)	Nine Months Ended September 30, 2004
Total revenues	$ 2,748.8
Income from continuing operations	$ 96.2
Discontinued operations	0.4
Net income	$ 96.6
Basic earnings per share:	
Continuing operations	$ 1.60
Discontinued operations	0.01
Net income per share, basic	$ 1.61
Diluted earnings per share:	
Continuing operations	$ 1.59
Discontinued operations	0.01
Net income per share, diluted	$ 1.60

On January 30, 2004, the company completed the acquisition of the coatings hyperdispersants business of Avecia. 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®. Historical annual revenues of this business are approximately $50.0 million. The 2004 historical results only include revenues and expenses of hyperdispersants since the date of acquisition.

4. Divestitures

In September 2005, the company sold certain assets and liabilities of its U.S. and U.K. Lubrizol Performance Systems (LPS) operations, which were included in the Lubricant Additives segment. The company retained the tax-related assets and liabilities of its LPS operations. The company received cash of $13.5 million for these net assets. The LPS operations meet the definition of a component of an entity and have been accounted for as a discontinued operation under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The results of the LPS operations have been classified as discontinued operations in all periods presented.

Revenue from discontinued operations was $6.6 million and $20.3 million for the three and nine months ended September 30, 2005, respectively, compared to $5.4 million and $11.5 million for the corresponding periods in the prior year. Income from discontinued operations was $0.9 million and $2.0 million for the three and nine months ended September 30, 2005, respectively, compared to $0.8 million and $0.5 million for the corresponding periods in the prior year. The three and nine months ended September 30, 2005 included a $4.2 million pre-tax gain ($2.9 million net of tax). Income from discontinued operations are net of tax expenses of $0.5 million and $0.7 million for the three and nine months ended September 30, 2005, respectively, compared to tax expense of $0.1 million for the three months ended September 30, 2004 and tax credits of $0.2 million for the nine months ended September 30, 2004.

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The company s consolidated balance sheet as of December 31, 2004 included $16.1 million in current assets, $3.1 million in property, plant and equipment, $1.1 million in other assets, $10.9 million in liabilities and $0.9 million in other comprehensive income currency translation adjustment pertaining to LPS.

5. Inventory

The company s inventory was comprised of the following as of September 30, 2005 and December 31, 2004:

(in millions of dollars)	September 30, 2005	December 31, 2004
Finished products	$ 320.4	$ 311.2
Products in process	79.6	75.9
Raw materials	132.0	153.1
Supplies and engine test parts	27.9	28.5
Total inventory	$ 559.9	$ 568.7

6. Goodwill and Intangible Assets

The major components of the company s identifiable intangible assets are customer lists, technology, trademarks, patents, land-use rights and non-compete agreements. Excluding the non-amortized trademarks, which are indefinite-lived and will not be amortized, the intangible assets are amortized over the lives of the respective agreements or other periods of value, which range between three and forty years. We assess the indefinite-lived trademarks for impairment separately from goodwill.

	September 30, 2005		December 31, 2004	
(in millions of dollars)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists	$ 152.5	$ 13.5	$ 157.3	$ 6.8
Technology	144.4	33.1	144.4	25.4
Trademarks	24.5	3.8	24.4	2.3
Patents	12.1	2.2	13.2	1.5
Land-use rights	7.2	0.9	7.1	0.8
Non-compete agreements	8.9	5.3	8.9	3.8
Other	5.5	0.7	5.9	0.5
Total amortized intangible assets	355.1	59.5	361.2	41.1
Non-amortized trademarks	116.4		117.0	
Total	$ 471.5	$ 59.5	$ 478.2	$ 41.1

Annual intangible amortization expense for the next five years will approximate $25.6 million for 2005, $25.4 million in 2006, $23.9 million in 2007, $22.4 million in 2008 and $20.6 million in 2009.

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The carrying amount of goodwill by reporting segment as of September 30, 2005 is as follows:

(in millions of dollars)	Lubricant Additives	Specialty Chemicals	Total
Balance, January 1, 2005	$ 100.9	$ 1,052.9	$ 1,153.8
Goodwill adjustments		32.6	32.6
Translation & other adjustments	(2.2)	(39.7)	(41.9)
Balance, September 30, 2005	$ 98.7	$ 1,045.8	$ 1,144.5

The adjustment to goodwill recorded in 2005 relates to the Noveon International purchase accounting.

Goodwill is tested for impairment at the reporting unit level annually as of October 1 of each year or if events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

7. Comprehensive Income

Total comprehensive income for the three and nine months ended September 30, 2005 and 2004 was comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions of dollars)	2005	2004	2005	2004
Net income	$ 48.6	$ 32.2	$ 157.2	$ 73.6
Foreign currency translation adjustment	1.0	8.4	(106.1)	0.7
Pension plan minimum liability				0.3
Unrealized gains - natural gas hedges	0.8		1.0	0.2
Unrealized gains - interest rate swaps				2.1
Amortization of treasury rate locks	0.7	(40.0)	2.1	(48.0)
Total comprehensive income	$ 51.1	$ 0.6	$ 54.2	$ 28.9

8. Segment Reporting

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, represented 57% and 56% of the company s consolidated revenues for the three and nine months ended September 30, 2005, respectively, and is comprised of the company s businesses in engine additives, specialty driveline and industrial oil additives and services and equipment. The Specialty Chemicals segment, also referred to as the Noveon segment, represented 43% and 44% of the company s consolidated revenues for the three and nine months ended September 30, 2005, respectively, and is comprised of the businesses of the acquired Noveon International and the former performance chemicals group of the company.

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Lubricant Additives consists of three product lines: engine additives; specialty driveline and industrial oil additives; and services and equipment. Engine additives is comprised of additives for lubricating engine oils, such as for gasoline, diesel, marine and stationary gas engines and additive components, and 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 and equipment is comprised of particulate emission trap devices, FluiPak® sensor systems and 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.

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, active 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 chlorinated polyvinyl chloride (CPVC) resins and compounds and is also a producer of thermoplastic polyurethane (TPU) and cross-linked polyethylene compounds (PEX). 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. Segment operating income will reconcile to consolidated income from continuing operations before income taxes by deducting corporate expenses and corporate other income (expense) that are not attributed to the operating segments, the write-off of (credit for) acquired IPR&D, restructuring and impairment charges and net interest expense.

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The following table presents a summary of the results of the company s reportable segments for the three and nine months ended September 30, 2005 and 2004:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions of dollars)	2005	2004	2005	2004
Revenues from external customers:				
Lubricant Additives	$ 574.1	$ 509.3	$ 1,704.9	$ 1,517.8
Specialty Chemicals	440.0	407.8	1,333.1	693.4
Total revenues	$ 1,014.1	$ 917.1	$ 3,038.0	$ 2,211.2
Segment operating income:				
Lubricant Additives	$ 68.6	$ 66.0	$ 220.7	$ 201.6
Specialty Chemicals	47.5	29.6	150.5	46.0
Segment operating income	116.1	95.6	371.2	247.6
Corporate expenses	(16.7)	(10.5)	(47.4)	(32.2)
Corporate other income (expense)	(0.8)	1.0	(1.1)	2.7
Credit for (write-off of) acquired IPR&D		1.5		(33.5)
Restructuring and impairment charges	(7.4)	(10.5)	(18.9)	(17.9)
Interest expense net	(25.1)	(26.1)	(74.4)	(48.5)
Income from continuing operations before income taxes	$ 66.1	$ 51.0	$ 229.4	$ 118.2

The company s total assets by segment were as follows:

(in millions of dollars)	September 30, 2005	December 31, 2004
Segment total assets:		
Lubricant Additives	$ 1,322.0	$ 1,337.1
Specialty Chemicals	2,542.7	2,669.2
Total segment assets	3,864.7	4,006.3
Corporate assets	483.4	560.0
Total consolidated assets	$ 4,348.1	$ 4,566.3

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9. Pension and Postretirement Benefits

The components of net periodic pension cost and postretirement benefits costs consist of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions of dollars)	2005	2004	2005	2004
Pension benefits:				
Service cost benefits earned during period	$ 7.0	$ 7.0	$ 21.2	$ 15.7
Interest cost on projected benefit obligation	7.8	7.3	23.8	20.1
Expected return on plan assets	(6.7)	(6.9)	(20.3)	(20.1)
Amortization of prior service costs	0.6	0.5	1.7	1.5
Amortization of initial net asset obligation		(0.1)	0.1	(0.5)
Settlements loss		5.7		5.7
Recognized net actuarial loss	1.3	0.9	3.9	2.6
Net periodic benefit cost	$ 10.0	$ 14.4	$ 30.4	$ 25.0
Other benefits:				
Service cost benefits earned during period	$ 0.3	$ 0.6	$ 1.4	$ 1.9
Interest cost on projected benefit obligation	1.3	1.6	4.5	5.1
Amortization of prior service costs	(2.1)	(1.5)	(5.5)	(4.6)
Recognized net actuarial loss	0.5	0.7	1.6	1.9
Net periodic benefit cost	$	$ 1.4	$ 2.0	$ 4.3

Expected employer contributions worldwide for pension benefits in 2005 approximate $38.1 million for the qualified plans, of which $35.7 million was paid in the nine months ended September 30, 2005. The portion of the 2005 total expected contributions attributable to the U.S. qualified pension plans is $23.6 million, all of which was paid in the nine months ended September 30, 2005. The non-qualified pension plans and postretirement benefit plans are unfunded. As a result, the 2005 expected contributions to these plans of $2.1 million and $4.7 million, respectively, represent actuarial estimates of future assumed payments based on historic retirement and payment patterns as well as medical trend rates and historical claim information, as appropriate.

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 our aggregate net periodic pension and postretirement benefit cost by $1.3 million and $2.2 million in the

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three and nine months ended September 30, 2005, respectively. The annual savings resulting from this benefits change projected for 2005 are estimated at approximately $3.5 million and the annualized savings are estimated to be approximately $5.3 million.

10. Restructuring and Impairment Charges

In the three and nine months ended September 30, 2005, the company recorded aggregate restructuring charges of $1.2 million and $12.7 million, respectively. The restructuring charges were related primarily 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 in September 2005 at one of our European Specialty Chemicals segment facilities based on the fair value estimates obtained in our divestiture proceedings.

The following table shows the reconciliation of the restructuring liability since December 31, 2004 by major restructuring activity:

(in millions of dollars)	Liability December 31, 2004	Restructuring Charges	Cash Paid	Restructuring Asset Impairments	Liability September 30, 2005
Coatings plant closures and workforce reductions	$	$ 7.6	$ (1.7)	$ (4.2)	$ 1.7
Bromborough, United Kingdom closure		4.2	(1.8)	(0.7)	1.7
Corporate workforce reductions	2.7	0.7	(3.0)		0.4
Noveon International restructuring liabilities assumed	6.1	0.2	(4.6)		1.7
	$ 8.8	$ 12.7	$ (11.1)	$ (4.9)	$ 5.5

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 19 positions in North America and Europe. These reductions were completed by September 30, 2005 and resulted in a severance-related charge of $0.1 million and $1.3 million recorded in the three and nine months ended September 30, 2005, respectively.

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 three months ended September 30, 2005 was $0.5 million, comprised primarily of severance costs. The aggregate restructuring charge recorded for these closures for the nine months ended September 30, 2005 was $6.3 million, comprised of $4.2 million in asset impairments, $0.9 million in exit costs and $1.2 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 for these sites will be transferred to other facilities in the United States. The facility in Mountaintop, Pennsylvania was closed in October of 2005, 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.

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

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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 late 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 for the three months ended September 30, 2005 was $0.8 million, comprised primarily of severance costs. The aggregate restructuring charge recorded for this closure for the nine months ended September 30, 2005 was $4.2 million, comprised of $0.7 million in asset impairments, $0.5 million in exit costs and $3.0 million in severance costs. The company currently anticipates that pre-tax charges for cash expenditures of approximately $13.5 million to $15.5 million will be incurred in 2005 through 2007 to satisfy severance and retention obligations, plant dismantling, site restoration and other site environmental evaluation costs and lease-related costs, including the $4.2 million recorded through September 30, 2005.

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 headquarters offices in Ohio. Through these restructuring efforts, the company eliminated seven positions resulting in a severance-related charge of $0.7 million in the nine months ended September 30, 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. The company continues to evaluate other opportunities to integrate general and administrative functions. As such opportunities are identified in future periods, the company expects further restructuring charges.

The company assumed a restructuring liability of $7.2 million in 2004 relating to the legacy operations of Noveon International. This liability was $6.1 million at December 31, 2004 and $1.7 million at September 30, 2005.

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.

11. Debt

On September 14, 2005, certain wholly owned foreign subsidiaries of the company entered into a new five-year unsecured 250.0 million revolving credit agreement. This credit agreement permits these designated foreign 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. On September 20, 2005, Europe Chemical Holdings C.V. borrowed 175.0 million under this agreement. During the three and nine months ended September 30, 2005, the company repaid $350.0 million and $475.0 million, respectively against the bank term loan. The balance outstanding at September 30, 2005 under the term-loan arrangement was $25.0 million.

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12. Shareholders Equity

The following table summarizes the changes in shareholders equity since January 1, 2005:

			Shareholders Equity		
	Number of Shares Outstanding	Common Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
(in millions)					
Balance, January 1, 2005	66.8	$ 610.6	$ 897.4	$ 15.5	$ 1,523.5
Comprehensive income:					
Net income			157.2		157.2
Other comprehensive loss				(103.0)	(103.0)
Comprehensive income					54.2
Dividends declared			(53.0)		(53.0)
Deferred stock compensation	0.2	8.0			8.0
Common shares treasury:					
Shares issued upon exercise of stock options and awards	1.0	41.7			41.7
Balance, September 30, 2005	68.0	$ 660.3	$ 1,001.6	$ (87.5)	$ 1,574.4

13. 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

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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 $27.3 million at September 30, 2005 and $26.4 million at December 31, 2004. Of these amounts, $3.5 million and $4.5 million were included in accrued expenses and other current liabilities at September 30, 2005 and December 31, 2004, respectively. The company s September 30, 2005 balance sheet includes liabilities, measured on an undiscounted basis, of $17.8 million to cover future environmental expenditures for Noveon International sites either payable by Noveon International or indemnifiable by Goodrich. Accordingly, the current portion of the Noveon International environmental obligations of $0.7 million is recorded in accrued expenses and other current liabilities and $0.4 million of the recovery due from Goodrich is recorded in receivables. Non-current Noveon International liabilities include $17.1 million and other assets include $2.6 million reflecting the recovery due from Goodrich. 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 $3.0 million. 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 $4.4 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 $4.4 million cannot currently be estimated.

14. 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 company s statements of income for the three

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and nine months ended September 30, 2005 and 2004, its balance sheets as of September 30, 2005 and December 31, 2004 and its statements of cash flow for the nine months ended September 30, 2005 and 2004. 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 Three Months Ended September 30, 2005				
(in millions of dollars)	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Eliminations	Total Consolidated
Net sales	$ 335.5	$ 328.7	$ 497.0	$ (147.8)	$ 1,013.4
Royalties and other revenues	0.6	0.1			0.7
Total revenues	336.1	328.8	497.0	(147.8)	1,014.1
Cost of sales	268.5	256.4	388.3	(147.8)	765.4
Selling and administrative expenses	38.2	29.9	25.0		93.1
Research, testing and development expenses	22.4	9.6	17.9		49.9
Amortization of intangible assets	0.7	4.0	1.6		6.3
Restructuring and impairment charges			7.4		7.4
Total costs and expenses	329.8	299.9	440.2	(147.8)	922.1
Other income (expense) net	5.7	8.3	(15.0)	0.2	(0.8)
Interest (expense) income net	(26.0)		0.9		(25.1)
Equity in income of subsidiaries	60.0	14.7		(74.7)	
Income from continuing operations before income taxes	46.0	51.9	42.7	(74.5)	66.1
Provision (benefit) for income taxes	(2.6)	11.8	12.1		21.3
Income from continuing operations	48.6	40.1	30.6	(74.5)	44.8
Discontinued operations net of tax		2.8	1.0		3.8
Net income	$ 48.6	$ 42.9	$ 31.6	$ (74.5)	$ 48.6

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Condensed Consolidating Statement of Income
Nine Months Ended September 30, 2005

(in millions of dollars)	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Eliminations	Total Consolidated
Net sales	$ 997.4	$ 980.5	$ 1,500.9	$ (443.0)	$ 3,035.8
Royalties and other revenues	1.9	0.2	0.1		2.2
Total revenues	999.3	980.7	1,501.0	(443.0)	3,038.0
Cost of sales	790.9	763.3	1,156.4	(443.0)	2,267.6
Selling and administrative expenses	111.4	88.2	79.1		278.7
Research, testing and development expenses	68.4	29.4	53.2		151.0
Amortization of intangible assets	2.2	12.1	4.6		18.9
Restructuring and impairment charges	4.7	2.6	11.6		18.9
Total costs and expenses	977.6	895.6	1,304.9	(443.0)	2,735.1
Other income (expense) net	20.4	15.1	(33.3)	(1.3)	0.9
Interest (expense) income net	(78.1)	(1.0)	4.7		(74.4)
Equity in income of subsidiaries	191.9	59.9		(251.8)	
Income from continuing operations before income taxes	155.9	159.1	167.5	(253.1)	229.4
Provision (benefit) for income taxes	(1.5)	34.2	44.4		77.1
Income from continuing operations	157.4	124.9	123.1	(253.1)	152.3
Discontinued operations net of tax	(0.2)	3.3	1.8		4.9
Net income	$ 157.2	$ 128.2	$ 124.9	$ (253.1)	$ 157.2

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Condensed Consolidating Statement of Income
Three Months Ended September 30, 2004

(in millions of dollars)	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Eliminations	Total Consolidated
Net sales	$ 308.6	$ 305.7	$ 440.8	$ (139.2)	$ 915.9
Royalties and other revenues	0.9	0.3			1.2
Total revenues	309.5	306.0	440.8	(139.2)	917.1
Cost of sales	236.4	251.7	339.6	(139.2)	688.5
Selling and administrative expenses	36.1	19.9	30.7		86.7
Research, testing and development expenses	24.8	13.5	12.7		51.0
Amortization of intangible assets	0.7	3.8	0.5		5.0
Credit for acquired in-process research and development		(1.5)			(1.5)
Restructuring and impairment charges	8.4	0.2	1.9		10.5
Total costs and expenses	306.4	287.6	385.4	(139.2)	840.2
Other income (expense) net	8.3	3.3	(10.9)	(0.5)	0.2
Interest (expense) income net	(27.4)	0.8	0.5		(26.1)
Equity in income of subsidiaries	45.4	15.3		(60.7)	
Income from continuing operations before income taxes	29.4	37.8	45.0	(61.2)	51.0
Provision (benefit) for income taxes	(2.8)	0.1	22.3		19.6
Income from continuing operations	32.2	37.7	22.7	(61.2)	31.4
Discontinued operations net of tax		0.2	0.6		0.8
Net income	$ 32.2	$ 37.9	$ 23.3	$ (61.2)	$ 32.2

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Condensed Consolidating Statement of Income
Nine Months Ended September 30, 2004

(in millions of dollars)	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Eliminations	Total Consolidated
Net sales	$ 924.3	$ 500.6	$ 1,119.7	$ (336.8)	$ 2,207.8
Royalties and other revenues	2.6	0.7	0.1		3.4
Total revenues	926.9	501.3	1,119.8	(336.8)	2,211.2
Cost of sales	688.8	405.7	882.4	(336.8)	1,640.1
Selling and administrative expenses	108.9	35.6	62.7		207.2
Research, testing and development expenses	79.9	20.3	36.7		136.9
Amortization of intangible assets	2.2	7.4	1.8		11.4
Write-off of acquired in-process research and development		33.5			33.5
Restructuring and impairment charges	14.1	0.2	3.6		17.9
Total costs and expenses	893.9	502.7	987.2	(336.8)	2,047.0
Other income (expense) net	28.1	10.0	(33.8)	(1.8)	2.5
Interest (expense) income net	(47.0)	(2.5)	1.0		(48.5)
Equity in income of subsidiaries	66.8	23.7		(90.5)	
Income from continuing operations before income taxes	80.9	29.8	99.8	(92.3)	118.2
Provision for income taxes	7.3	0.2	37.6		45.1
Income from continuing operations	73.6	29.6	62.2	(92.3)	73.1
Discontinued operations net of tax		(0.3)	0.8		0.5
Net income	$ 73.6	$ 29.3	$ 63.0	$ (92.3)	$ 73.6

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	Condensed Consolidating Balance Sheet September 30, 2005				
(in millions of dollars)	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Eliminations	Total Consolidated
ASSETS					
Cash and short-term investments	$ 94.2	$ 9.2	$ 149.5	$	$ 252.9
Receivables net	137.7	147.9	334.7		620.3
Inventories	99.9	175.4	316.2	(31.6)	559.9
Other current assets	73.5	20.0	8.7	10.6	112.8
Total current assets	405.3	352.5	809.1	(21.0)	1,545.9
Property and equipment net	385.7	451.6	348.7		1,186.0
Goodwill	27.1	676.4	441.0		1,144.5
Intangible assets net	10.2	273.9	127.9		412.0
Investments in subsidiaries and intercompany balances	2,645.7	1,849.9	579.5	(5,075.1)	
Investments in non-consolidated companies	6.6	1.4			8.0
Other assets	33.7	2.5	15.5		51.7
TOTAL	$ 3,514.3	$ 3,608.2	$ 2,321.7	$ (5,096.1)	$ 4,348.1
LIABILITIES AND SHAREHOLDERS EQUITY					
Short-term debt and current portion of long-term debt	$	$ 0.1	$ 2.9	$	$ 3.0
Accounts payable	111.0	88.7	110.4		310.1
Accrued expenses and other current liabilities	117.7	105.8	122.9		346.4
Total current liabilities	228.7	194.6	236.2		659.5
Long-term debt	1,472.8	0.1	216.7		1,689.6
Postretirement health-care obligations	95.0	4.4	6.5		105.9
Noncurrent liabilities	56.7	44.5	81.2		182.4
Deferred income taxes	65.7	(8.9)	26.5		83.3
Total liabilities	1,918.9	234.7	567.1		2,720.7
Minority interest in consolidated companies				53.0	53.0

Total shareholders equity	1,595.4	3,373.5	1,754.6	(5,149.1)	1,574.4
TOTAL	$ 3,514.3	$ 3,608.2	$ 2,321.7	$ (5,096.1)	$ 4,348.1

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THE LUBRIZOL CORPORATION
Notes to Consolidated Financial Statements
September 30, 2005

Condensed Consolidating Balance Sheet
December 31, 2004

(in millions of dollars)	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Eliminations	Total Consolidated
ASSETS					
Cash and short-term investments	$ 40.3	$ (0.1)	$ 295.7	$	$ 335.9
Receivables net	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	1,625.9	(238.0)	(4,474.9)	
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	$ 3,404.4	$ 1,739.3	$ (4,495.2)	$ 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	99.4	121.9		339.6
Accrued expenses and other current liabilities	145.0	54.8	109.7		309.5
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	1,537.5	3,164.1	1,370.7	(4,548.8)	1,523.5
TOTAL	$ 3,917.8	$ 3,404.4	$ 1,739.3	$ (4,495.2)	$ 4,566.3

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THE LUBRIZOL CORPORATION
Notes to Consolidated Financial Statements
September 30, 2005

Condensed Consolidating Statement of Cash Flows
Nine Months Ended September 30, 2005

(in millions of dollars)	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Eliminations	Total Consolidated
CASH PROVIDED BY (USED FOR):					
OPERATING ACTIVITIES:					
Net income	$ 157.2	$ 128.2	$ 124.9	$ (253.1)	$ 157.2
Adjustments to reconcile net income to cash provided by (used for) operating activities	102.1	41.9	(270.5)	253.1	126.6
Total operating activities	259.3	170.1	(145.6)		283.8
INVESTING ACTIVITIES:					
Capital expenditures	(30.2)	(27.1)	(34.2)		(91.5)
Net proceeds from divestitures and sales of property and equipment	2.1	10.1	5.0		17.2
Other items net	(0.2)	0.1	(0.1)		(0.2)
Total investing activities	(28.3)	(16.9)	(29.3)		(74.5)
FINANCING ACTIVITIES:					
Changes in short-term debt net			(4.9)		(4.9)
Repayments of long-term debt	(475.0)		(0.2)		(475.2)
Long-term borrowings		(0.4)	214.2		213.8
Dividends paid	(52.7)				(52.7)
Changes in intercompany activities	313.2	(146.1)	(167.1)		
Proceeds from the exercise of stock options	37.4				37.4
Total financing activities	(177.1)	(146.5)	42.0		(281.6)
Effect of exchange rate changes on cash		2.6	(13.3)		(10.7)
Net increase (decrease) in cash and short-term investments	53.9	9.3	(146.2)		(83.0)
Cash and short-term investments at beginning of period	40.3	(0.1)	295.7		335.9
Cash and short-term investments at end of period	$ 94.2	$ 9.2	$ 149.5	$	$ 252.9

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THE LUBRIZOL CORPORATION
Notes to Consolidated Financial Statements
September 30, 2005

Condensed Consolidating Statement of Cash Flows
Nine Months Ended September 30, 2004

(in millions of dollars)	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Eliminations	Total Consolidated
CASH PROVIDED BY (USED FOR):					
OPERATING ACTIVITIES:					
Net income	$ 73.6	$ 29.3	$ 63.0	$ (92.3)	$ 73.6
Adjustments to reconcile net income to cash provided by (used for) operating activities	(6.4)	(33.3)	66.4	92.3	119.0
Total operating activities	67.2	(4.0)	129.4		192.6
INVESTING ACTIVITIES:					
Capital expenditures	(39.7)	(19.5)	(23.2)		(82.4)
Acquisitions net of cash received and liabilities assumed	(3.6)	(828.4)	(126.2)		(958.2)
Net proceeds from sale of property and equipment	0.6		1.3		1.9
Other items net	(0.5)	0.1			(0.4)
Total investing activities	(43.2)	(847.8)	(148.1)		(1,039.1)
FINANCING ACTIVITIES:					
Changes in short-term debt net		(78.3)	8.6		(69.7)
Repayments of long-term debt	(93.4)	(1,024.6)			(1,118.0)
Long-term borrowings	1,741.7		1.5		1,743.2
Dividends paid	(40.3)				(40.3)
Changes in intercompany activities	(2,006.9)	1,966.0	40.9		
Proceeds from sale of common shares	427.2				427.2
Payment of debt issuance costs	(16.8)				(16.8)
Payment of treasury rate lock settlement	(73.9)				(73.9)
Proceeds from the exercise of stock options	12.8				12.8
Total financing activities	(49.6)	863.1	51.0		864.5
Effect of exchange rate changes on cash	6.4	(0.8)	1.8		7.4
Net (decrease) increase in cash and short-term investments	(19.2)	10.5	34.1		25.4
	56.2	(1.0)	203.5		258.7

Cash and short-term investments at beginning of period										
Cash and short-term investments at end of period	$	37.0	$	9.5	$	237.6	$		$	284.1

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the unaudited consolidated financial statements and the notes thereto appearing elsewhere in this quarterly report on Form 10-Q. 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 risk 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 quarterly report on Form 10-Q.

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 2,100 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 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, comprised of production facilities in 21 countries and laboratories in 11 countries, through the efforts of more than 7,600 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 September 2005, we sold certain assets and liabilities of our U.S. and U.K. Lubrizol Performance Systems (LPS) operations, which were included in the Lubricant Additives segment. We have reflected the results of the LPS business as a discontinued operation 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 operation. We recorded a gain on sale of discontinued operations of $4.2 million ($2.9 million net of tax), in the third quarter of 2005.

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® chlorinated polyvinyl chloride (CPVC) and Estane® thermoplastic polyurethane (TPU).

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.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

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 our permanent financing that included the issuance of senior notes, debentures, bank term loans and equity.

Our consolidated balance sheets as of September 30, 2005 and December 31, 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 post-employment 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 surrounding the valuation of the property, plant and equipment and the deferred tax accounts. In connection with the acquisition of Noveon International, we have targeted non-core businesses with total revenues of approximately $500.0 million for disposition. This plan was contemplated at the time of acquisition and plan activities have been underway since the fourth quarter of 2004. In addition, through June 2005, we continued the process of finalizing the reconciliation of the underlying fixed-asset records to the respective appraisals. As a result of both of these efforts, in the six months ended June 30, 2005, we reduced the amount allocated to property, plant and equipment by $55.2 million since December 31, 2004. Depreciation expense for the three and six months ended June 30, 2005 included a related adjustment of $1.1 million and $2.3 million, respectively, representing the change 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 June 2005 resulting in a decrease of $17.7 million to the net deferred tax liabilities since December 31, 2004. The goodwill associated with the transaction increased by $33.7 million in the six months ended June 30, 2005 representing the net impact of all adjustments recorded. The allocation of the purchase price was complete as of June 30, 2005 and the related actuarial valuations and appraisals obtained have been finalized.

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 amount charged to expense in the second quarter of 2004 was $35.0 million, of which $1.5 million was reversed in the third quarter of 2004. This amount was subsequently adjusted to $34.0 million in the fourth quarter of 2004. There were no changes to the valuation of IPR&D in 2005. The inventory step-up to fair value totaled $24.2 million, of which $4.9 million was expensed in each of the second and third quarters of 2004. As the remaining step-up relates to inventories accounted for on the LIFO method of accounting, we do not anticipate that additional amounts of step-up will be expensed in the near term.

In 2005, we have continued to integrate the Noveon International acquisition ahead of schedule. We are projecting to realize savings of approximately $40.0 million by the end of 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.

In conjunction with the integration of Noveon International, we have also made progress in our plan to divest non-core businesses. Negotiations are in progress for three small businesses that are targeted for divestiture. Together, with the already completed sale of LPS, these four businesses have revenues of approximately $100 million. Management presentations have been completed for the largest divestiture, consisting of $400 million in revenues, and the due diligence phase is underway. We do not believe the businesses or assets we are evaluating are considered held for sale pursuant to the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, as of September 30, 2005.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS

Our net income for the three months ended September 30, 2005 primarily increased over the prior-year third quarter as improved price and product mix more than offset higher raw material and energy costs. The increase in net income for the nine months ended September 30, 2005 as compared to the prior-year nine-month period was due in part to the significant non-recurring charges associated with the Noveon International purchase accounting that included the write-off of IPR&D of $33.5 million and inventory step-up amortization of $9.8 million partially offset by a gain on a foreign currency forward contract of $6.4 million. Excluding the impact associated with the Noveon International acquisition, the related purchase accounting and the currency forward contract, the increase in net income for the first nine months of the year primarily was attributed to improved price and product mix, favorable currency, and a lower tax rate that more than offset higher raw material and energy costs and lower shipment volumes. We recorded restructuring charges that reduced earnings by $0.01 and $0.13 per share for the three and nine months ended September 30, 2005, respectively, primarily related to the phase-out of manufacturing facilities located in Bromborough, United Kingdom; Linden, New Jersey; and Mountaintop, Pennsylvania and other workforce reductions. We also recorded an impairment charge that reduced earnings by $0.06 per share for the three and nine months ended September 30, 2005 related to one of our European facilities based on the fair value estimates obtained in our divestiture proceedings. We incurred a restructuring charge of $0.13 and $0.22 per share in the three and nine months ended September 30, 2004, respectively, primarily related to the restructuring initiated after the acquisition of Noveon International.

During the third quarter of 2005, Hurricane Rita bypassed our two Houston-area manufacturing facilities without causing significant damage and repair costs. The plants were shut down briefly in preparation for the storm. As a result, we realized an unfavorable impact of approximately $6.0 million related to the hurricane-related interruptions for the three-month period. This consisted of approximately $3.0 million of gross profit associated with delayed customer shipments and $3.0 million of higher manufacturing costs primarily related to manufacturing variances attributed to the temporary shutdown of the facilities that were appropriately expensed in the period rather than capitalized into inventory. Both facilities returned to normal operations within days of the hurricane. The effects of the hurricanes are continuing to be felt by the industry and overall tightness of supply has led to significant increases in raw material and energy costs. We have responded to these issues with price increases in many of our product lines.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Revenues

The changes in consolidated revenues are summarized as follows:

(in millions of dollars)	Three Months Ended September 30, 2005	2004	$ Change	% Change
Net sales	$ 1,013.4	$ 915.9	$ 97.5	11%
Royalties and other revenues	0.7	1.2	(0.5)	(42%)
Total revenues	$ 1,014.1	$ 917.1	$ 97.0	11%

	Nine Months Ended September 30,				Excluding Acquisitions	
(in millions of dollars)	2005	2004	$ Change	% Change	$ Change	% Change
Net sales	$ 3,035.8	$ 2,207.8	$ 828.0	38%	$ 236.8	11%
Royalties and other revenues	2.2	3.4	(1.2)	(35%)	(1.1)	(32%)
Total revenues	$ 3,038.0	$ 2,211.2	$ 826.8	37%	$ 235.7	11%

The acquisition of Noveon International accounted for a significant portion of the increase in consolidated revenues for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. The 2004 acquisitions of Noveon International and the hyperdispersants business purchased from Avecia contributed $591.2 million toward the increase in revenues for the nine months ended September 30, 2005 as compared with the same period in 2004.

The increase in revenues for both the three and nine months (excluding acquisitions) ended September 30, 2005 primarily was due to an improvement in price and product mix resulting from the cumulative impact of a series of price increases over the past year. We also experienced favorable currency impacts for the nine months ended September 30, 2005. As summarized in the volume tables below, we experienced slight volume declines for the three and nine months (excluding acquisitions) ended September 30, 2005 compared to the respective prior-year periods.

The following table shows our shipment volume by geographic zone for the three and nine months ended September 30, 2005.

	3rd Quarter 2005 Volume	Year-to-Date 2005 Volume
North America	49%	50%
Europe	26%	26%
Asia-Pacific / Middle East	20%	19%
Latin America	5%	5%
Total	100%	100%

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)
The following table shows the changes in our shipment volume by geographic zone as compared with the corresponding periods in 2004.

	2005 vs. 2004 % Change
Third Quarter:	
North America	(5%)
Europe	(1%)
Asia Pacific / Middle East	7%
Latin America	(2%)
Total	(1%)

	2005 vs. 2004 % Change	Excluding Acquisitions 2005 vs. 2004 % Change
Year-to-Date:		
North America	17%	(7%)
Europe	11%	2%
Asia Pacific / Middle East	16%	6%
Latin America	6%	(6%)
Total	15%	(2%)

Segment shipment volume variances by geographic zone as well as the factors explaining the changes in segment revenues for both the three and nine months ended September 30, 2005 compared with the respective periods in 2004 are contained within the Segment Analysis section below.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Costs and Expenses

The changes in consolidated costs and expenses are summarized as follows:

	Three Months Ended September 30,			
(in millions of dollars)	2005	2004	$ Change	% Change
Cost of sales	$ 765.4	$ 688.5	$ 76.9	11%
Selling and administrative expenses	93.1	86.7	6.4	7%
Research, testing and development expenses	49.9	51.0	(1.1)	(2%)
Amortization of intangible assets	6.3	5.0	1.3	*
Credit for acquired IPR&D		(1.5)	1.5	*
Restructuring and impairment charges	7.4	10.5	(3.1)	*
Total costs and expenses	$ 922.1	$ 840.2	$ 81.9	10%

	Nine Months Ended September 30,				Excluding Acquisitions	
(in millions of dollars)	2005	2004	$ Change	% Change	$ Change	% Change
Cost of sales	$ 2,267.6	$ 1,640.1	$ 627.5	38%	$ 198.8	12%
Selling and administrative expenses	278.7	207.2	71.5	35%	10.8	5%
Research, testing and development expenses	151.0	136.9	14.1	10%	(8.1)	(6%)
Amortization of intangible assets	18.9	11.4	7.5	*	0.3	*
Write-off of acquired IPR&D		33.5	(33.5)	*	(33.5)	*
Restructuring and impairment charges	18.9	17.9	1.0	*	(0.8)	*
Total costs and expenses	$ 2,735.1	$ 2,047.0	$ 688.1	34%	$ 167.5	8%

* Calculation not meaningful

The increase in cost of sales for the three and nine months ended September 30, 2005 compared with the same periods in 2004 primarily was due to higher average raw material cost and higher utility expenses, excluding acquisitions for the nine-month period. Average raw material cost increased 16% for the three months ended September 30, 2005 and 18%, excluding acquisitions, for the nine months ended September 30, 2005 compared with the same periods in 2004, primarily due to higher unit raw material cost for both periods along with unfavorable currency effects for the nine months ended September 30, 2004. In the third quarter of 2004, we also recorded a purchase accounting adjustment associated with the increased valuation of Noveon International-acquired inventory of $4.9 million. Year-to-date

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

purchase accounting adjustments associated with the increased valuation of Noveon International-acquired inventory was $9.8 million for the nine months ended September 30, 2004. We expect higher raw material costs in the fourth quarter of 2005 as compared to the third quarter of 2005.

Total manufacturing expenses, which are included in cost of sales, increased 4% for the three months ended September 30, 2005 and 5%, excluding acquisitions, for the nine months ended September 30, 2005 compared to the respective prior year periods. Including acquisitions, total manufacturing expenses increased 34% for the nine months ended September 30, 2005 compared to the same period in 2004. The increase for the three months ended September 30, 2005 primarily was due to increases in utility costs and an increase in maintenance activities, offset by a $1.6 million environmental charge incurred in the three months ended September 30, 2004 that did not recur in 2005. We estimate that currency accounted for approximately 37% of the increase, excluding acquisitions, for the nine months ended September 30, 2005. The remainder of the increase for the nine-month period primarily was due to an increase in utility costs and an increase in maintenance activities, offset by a $3.4 million environmental charge incurred in the first nine months of 2004 that did not recur in 2005. On a per-unit-sold basis, manufacturing costs increased 5% for the three months ended September 30, 2005 and 6%, excluding acquisitions, for the nine months ended September 30, 2005 compared to the respective prior-year periods.

Gross profit (net sales less cost of sales) increased $20.6 million, or 9.0% and $200.4 million, or 35% ($38.1 million, or 7%, excluding acquisitions) in the three and nine months ended September 30, 2005, respectively, compared with the same periods in 2004. The increase primarily was due to higher average selling prices and improved product mix partially offset by higher average raw material cost, manufacturing costs and lower volumes. Our gross profit percentage (gross profit divided by net sales) decreased to 24.5% in the third quarter of 2005 compared to 24.8% in the third quarter of 2004. The gross profit percentage decrease primarily was due to the impact of increasing unit raw material costs compared to similar increases in per unit sales prices.

Selling and administrative expenses increased 7% for the three months ended September 30, 2005 and 5%, excluding acquisitions, for the nine months ended September 30, 2005 primarily due to higher compensation expense. We experienced an increase in compensation-related costs due to increases in variable compensation and annual salaries.

Research, testing and development expenses (technology expenses), decreased $1.1 million for the three months ended September 30, 2005 and $8.1 million, excluding acquisitions, for the nine months ended September 30, 2005 compared to the respective periods in 2004 primarily due to decreases in salary and benefit expenses as a result of the 2004 reduction in workforce. We anticipate higher testing expenses in the fourth quarter of 2005 as we increase testing for the next North American diesel engine oil upgrade.

We included a one-time, non-cash charge of $33.5 million, or $0.40 per share, in total costs and expenses for the first nine months of 2004 to write off the estimated fair value of acquired IPR&D projects associated with the Noveon International acquisition. Approximately $35.0 million was recorded in the second quarter of which $1.5 million, or $0.02 per share, was reversed in the third quarter of 2004. Costs to acquire IPR&D projects that have no future alternative use and that have not yet reached technological feasibility at the date of acquisition are expensed upon acquisition. This amount was subsequently adjusted to $34.0 million in the fourth quarter of 2004. No further adjustments were made in 2005 to the valuation in connection with the completion of the Noveon International purchase accounting.

In the three and nine months ended September 30, 2005, we recorded restructuring charges aggregating $1.2 million, or $0.01 per share, and $12.7 million, or $0.13 per share, respectively, primarily related to the phase-out of 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, for the three and nine months ended September 30, 2005 related to one of our European facilities based on the fair value estimates obtained in our divestiture proceedings.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)
The components of the 2005 restructuring charges are detailed as follows:

	Periods Ended September 30, 2005			
(in millions of dollars)	Asset Impairments	Other Plant Exit Costs	Severance	Total
Three Months:				
Coatings plant closures and workforce reductions	$	$	$ 0.6	$ 0.6
Bromborough, UK closure			0.8	0.8
Noveon International restructuring liabilities assumed			(0.2)	(0.2)
	$	$	$ 1.2	$ 1.2
Nine Months:				
Coatings plant closures and workforce reductions	$ 4.2	$ 0.9	$ 2.5	$ 7.6
Bromborough, UK closure	0.7	0.5	3.0	4.2
Corporate workforce reductions			0.7	0.7
Noveon International restructuring liabilities assumed			0.2	0.2
	$ 4.9	$ 1.4	$ 6.4	$ 12.7

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 the company s legacy operations. In connection with the reorganization, management eliminated 19 positions in North America and Europe. These reductions were completed by September 30, 2005 and resulted in a severance-related charge of $0.1 million and $1.3 million recorded in the three and nine months ended September 30, 2005, respectively.

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 three months ended September 30, 2005 was $0.5 million, comprised primarily of severance costs. The aggregate restructuring charge recorded for these closures for the nine months ended September 30, 2005 was $6.3 million, comprised of $4.2 million in asset impairments, $0.9 million in exit costs and $1.2 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 for these sites will be transferred to other facilities in the United States. The facility in Mountaintop, Pennsylvania was closed in October of 2005, 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.

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. 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.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Production phase-out of this site began in the third quarter of 2005 and is expected to be completed by late 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 for the three months ended September 30, 2005 was $0.8 million, comprised primarily of severance costs. The aggregate restructuring charge recorded for this closure for the nine months ended September 30, 2005 was $4.2 million, comprised of $0.7 million in asset impairments, $0.5 million in exit costs and $3.0 million in severance costs. We currently anticipate that pre-tax charges for cash expenditures of approximately $13.5 million to $15.5 million will be incurred in 2005 through 2007 to satisfy severance and retention obligations, plant dismantling, site restoration and other site environmental evaluation costs and lease-related costs, including the $4.2 million recorded through September 30, 2005.

In addition to the restructuring charges recorded for the above facilities, we also expect to invest approximately $1.4 million relating to the two Specialty Chemicals plants and $20.0 million related to Bromborough through the end of 2006 for capacity upgrades at alternative manufacturing facilities that will absorb production previously undertaken at these facilities. 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 Specialty Chemicals and $10.0 million for Lubricant Additives by 2007.

In 2004, we 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, we began 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 headquarters offices in Ohio. Through these restructuring efforts, we eliminated seven positions resulting in a severance-related charge of $0.7 million in the nine months ended September 30, 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.

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.

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Other Items and Net Income

The changes in other items and net income are summarized as follows:

(in millions of dollars)	Three Months Ended September 30, 2005	2004	$ Change	% Change
Other income (expense) net	$ (0.8)	$ 0.2	$ (1.0)	*
Interest expense net	(25.1)	(26.1)	1.0	(4%)
Income from continuing operations before income taxes	66.1	51.0	15.1	30%
Provision for income taxes	21.3	19.6	1.7	9%
Income from continuing operations	44.8	31.4	13.4	43%
Discontinued operations	3.8	0.8	3.0	*
Net income	48.6	32.2	16.4	51%

(in millions of dollars)	Nine Months Ended September 30, 2005	2004	$ Change	% Change	Excluding Acquisitions $ Change	% Change
Other income (expense) net	$ 0.9	$ 2.5	$ (1.6)	*	$ (2.3)	*
Interest expense net	(74.4)	(48.5)	(25.9)	*	7.6	*
Income from continuing operations before income taxes	229.4	118.2	111.2	94%	73.5	62%
Provision for income taxes	77.1	45.1	32.0	71%	19.1	42%
Income from continuing operations	152.3	73.1	79.2	108%	54.4	74%
Discontinued operations	4.9	0.5	4.4	*	4.4	*
Net income	157.2	73.6	83.6	114%	58.8	80%

* Calculation not meaningful

The changes in net other income (expense) for the three and nine months ended September 30, 2005, respectively, compared to the same periods in 2004, primarily were due to fluctuations in net translation gains (losses) of $0.7 million for the three-month period and ($2.2) million for the nine-month period. In addition, net other income for the nine months ended September 30, 2004 included a gain of $6.4 million, or $0.08 per share, on a currency forward contract to purchase pound sterling related to the acquisition of the hyperdispersants business. We secured the forward

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contract in December 2003 and completed the acquisition at the end of January 2004.

The increase in net interest expense for the nine months ended September 30, 2005 primarily was due to the Noveon International acquisition-related financing costs. These financing costs for the three and nine months ended September 30, 2005 were $21.0 million and $62.7 million, respectively, compared to $21.7 million and $33.9 million for the corresponding periods in the prior year. The 2004 costs were comprised of the interest incurred on the bridge loan and assumed Noveon International debt not repaid at the time of acquisition of $13.3 million and $19.8 million and the amortization of bridge loan fees of $8.4 million and $11.2 million for the three and nine months ended September 30, 2004, respectively. In addition, interest cost for the nine months ended September 30, 2004 includes $2.9 million for the termination of an interest rate swap. We obtained permanent transaction financing for the Noveon International acquisition in the third quarter of 2004, of which the debt component had a weighted average interest rate of 5.4% in the first nine months of 2005.

Our effective tax rates of 32.2% and 33.6% for the three and nine months ended September 30, 2005, respectively, compared with 38.4% and 38.2% in the same periods in 2004. The effective tax rate for the three and nine months ended September 30, 2005 was lower than the comparable prior-year periods mainly because of reductions in tax liabilities related to prior years.

Revenue from discontinued operations was $6.6 million and $20.3 million for the three and nine months ended September 30, 2005, respectively, compared to $5.4 million and $11.5 million for the corresponding periods in the prior year. Income from discontinued operations was $0.9 million and $2.0 million for the three and nine months ended September 30, 2005, respectively, compared to $0.8 million and $0.5 million for the corresponding periods in the prior year. The three and nine months ended September 30, 2005 included a $4.2 million pre-tax gain ($2.9 million net of tax). Income from discontinued operations are net of tax expenses of $0.5 million and $0.7 million for the three and nine months ended September 30, 2005, respectively, compared to tax expense of $0.1 million for the three months ended September 30, 2004 and tax credits of $0.2 million for the nine months ended September 30, 2004.

Primarily as a result of the above factors, our basic net income per share from continuing operations was $0.66 and $2.24 for the three and nine months ended September 30, 2005 as compared to $0.60 and $1.41 for the comparable prior-year periods, respectively. Basic net income per share from discontinued operations was $0.05 and $0.08 for the three and nine months ended September 30, 2005 as compared to $0.01 and $0.01 for the comparable prior-year periods, respectively. The per share amounts from discontinued operations in 2005 consisted of $0.04 per share gain on the sale of LPS for the three and nine months ended September 30, 2005 and $0.01 and $0.04 per share of LPS operating income, respectively. Restructuring and impairment charges recorded in the three and nine months ended September 30, 2005 reduced earnings by $0.07 and $0.19 per share, respectively. Earnings in the third quarter of 2004 included a purchase adjustment associated with the increased valuation of Noveon International-acquired inventory of $0.06 per share and a restructuring charge for $0.13 per share and an IPR&D credit of $0.02 per share. Earnings in the first nine months of 2004 included a one-time write-off for IPR&D projects from the Noveon International acquisition of $0.40 per share, a purchase adjustment associated with the increased valuation of Noveon International-acquired inventory of $0.12 per share, a restructuring charge of $0.22 per share, and a gain on a foreign currency forward contract of $0.08 per share.

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 income (expense) that are not attributed to the operating segments, the write-off of or (credit for) acquired IPR&D, restructuring and impairment charges and net interest expense.

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The proportion of consolidated revenues and segment operating income attributed to each segment was as follows:

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Revenues:				
Lubricant Additives	57%	56%	56%	69%
Specialty Chemicals	43%	44%	44%	31%
Segment Operating Income:				
Lubricant Additives	59%	69%	59%	81%
Specialty Chemicals	41%	31%	41%	19%

The operating results by segment for the three and nine months ended September 30, 2005 and 2004 were as follows:

	Three Months Ended September 30,			
(in millions of dollars)	2005	2004	$ Change	% Change
Revenues:				
Lubricant Additives	$ 574.1	$ 509.3	$ 64.8	13%
Specialty Chemicals	440.0	407.8	32.2	8%
Total	$ 1,014.1	$ 917.1	$ 97.0	11%

	Nine Months Ended September 30,				Excluding Acquisitions	
(in millions of dollars)	2005	2004	$ Change	% Change	$ Change	% Change
Revenues:						
Lubricant Additives	$ 1,704.9	$ 1,517.8	$ 187.1	12%	$ 187.1	12%
Specialty Chemicals	1,333.1	693.4	639.7	92%	48.6	7%
Total	$ 3,038.0	$ 2,211.2	$ 826.8	37%	$ 235.7	11%

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The operating results by segment for the three and nine months ended September 30, 2005 and 2004 were as follows (continued from previous page):

(in millions of dollars)	Three Months Ended September 30, 2005	2004	$ Change	% Change
Gross Profit:				
Lubricant Additives	$ 134.7	$ 131.0	$ 3.7	3%
Specialty Chemicals	113.3	96.4	16.9	18%
Total	$ 248.0	$ 227.4	$ 20.6	9%

(in millions of dollars)	Nine Months Ended September 30, 2005	2004	$ Change	% Change	Excluding Acquisitions $ Change	% Change
Gross Profit:						
Lubricant Additives	$ 416.3	$ 401.5	$ 14.8	4%	$ 14.8	4%
Specialty Chemicals	351.9	166.2	185.7	112%	23.3	14%
Total	$ 768.2	$ 567.7	$ 200.5	35%	$ 38.1	7%

(in millions of dollars)	Three Months Ended September 30, 2005	2004	$ Change	% Change
Segment Operating Income:				
Lubricant Additives	$ 68.6	$ 66.0	$ 2.6	4%
Specialty Chemicals	47.5	29.6	17.9	60%
Total	$ 116.1	$ 95.6	$ 20.5	21%

(in millions of dollars)	Nine Months Ended September 30, 2005	2004	$ Change	% Change	Excluding Acquisitions $ Change	% Change
Segment Operating Income:						

Lubricant Additives	$ 220.7	$ 201.6	$ 19.1	9%	$ 19.1	9%
Specialty Chemicals	150.5	46.0	104.5	227%	31.5	68%
Total	$ 371.2	$ 247.6	$ 123.6	50%	$ 50.6	20%

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Lubricant Additives Segment

Revenues increased 13% and 12% for the three and nine months ended September 30, 2005, respectively, compared to the same periods in 2004, primarily due to a 12% improvement in the combination of price and product mix in both periods.

Shipment volume patterns vary in different geographic zones. The following table shows our shipment volume by geographic zone for the three and nine months ended September 30, 2005.

	3rd Quarter 2005 Volume	Year-to-Date 2005 Volume
North America	37%	38%
Europe	32%	31%
Asia-Pacific / Middle East	25%	25%
Latin America	6%	6%
Total	100%	100%

The following table shows the changes in our shipment volume by geographic zone for the three and nine months ended September 30, 2005 compared with the corresponding periods in 2004.

	3rd Quarter 2005 vs. 2004 % Change	Year-to-Date 2005 vs. 2004 % Change
North America	(4%)	(7%)
Europe	2%	3%
Asia-Pacific / Middle East	8%	7%
Latin America	1%	(6%)
Total	1%	(1%)

Although volume decreased 1% for the nine months ended September 30, 2005 compared to the same period in 2004, this decrease included 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 items, volume increased 4% in total and 2% in North America for the nine months ended September 30, 2005. These same factors did not significantly impact the third quarter volume comparison. However, we estimate that Hurricane Rita negatively impacted our third quarter volumes by approximately 1% due to delayed shipments, of which more than half were attributed to North America. Volume for the three months ended September 30, 2005 also was negatively affected by some customer inventory build-up in the second quarter of 2005. Higher shipment volume in Europe for both periods primarily was due to increases in our engine additives product line due to market share gains. The shipment volume increase in Asia-Pacific for both periods primarily was due to market growth as well as some temporary business gains due to one of our competitor s supply difficulties. The decrease in Latin America for the nine-month period primarily was due to some lost business within our engine additives product line and a shift in finished fluid blending volume from Latin America to North America.

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The Lubricant Additives segment has 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. We implemented a price increase in April 2005 for all products sourced from North America, Asia-Pacific and Latin America and in May 2005 for products sourced from Europe. We implemented a second round of price increases that became effective in July 2005 for products sourced from North America, in August 2005 for products sourced from Asia-Pacific and Latin America and in September 2005 for shipments made to all customers in Europe and Africa. We implemented a third round of price increases that became effective in September 2005 for products sourced from North America and in October 2005 for products sourced from Asia-Pacific and Latin America and will become effective in November 2005 for shipments made to all customers in Europe and Africa. In addition, we have announced another round of price increases to become effective in November 2005 for products sourced from North America and in December 2005 for products sourced from Asia-Pacific and Latin America. We anticipate raw material and utility costs will continue to increase in the fourth quarter of 2005 as compared to the third quarter of 2005.

Segment gross profit includes material cost and all manufacturing expenses. Segment gross profit increased 3% and 4% for the three and nine months ended September 30, 2005, respectively, compared with the same periods in 2004. The increase for both periods primarily was due to the cumulative impact of the selling price increases, partially offset by higher average raw material cost and to a lesser extent, higher manufacturing costs as well as an increase in volume for the three-month comparative period. Currency was a positive factor in the year-to-date comparison and a neutral factor in the quarterly comparison. In the three and nine months ended September 30, 2005, average material cost increased 21% and 22%, respectively, compared to the same periods in 2004. On a per unit sold basis, manufacturing expenses remained relatively flat for the three-month comparative periods but increased 4% for the nine months ended September 30, 2005 as compared to the prior year. For both the three- and nine-month comparative periods, higher utilities and maintenance costs were incurred in 2005. We incurred environmental expenses of $1.6 million and $3.4 million, respectively, for the three and nine months ended September 30, 2004 that did not recur in 2005. In addition, higher gross profit from our equipment company contributed 23% and 11% of the increase in segment gross profit for the three and nine months ended September 30, 2005, respectively, compared to the same periods in 2004.

The gross profit percentage for the segment was 23.5% and 24.4% for the three and nine months ended September 30, 2005, respectively, compared with 25.7% and 26.5%, in the prior-year periods. The decrease primarily was due to the time lag between the effective date of selling price increases in the wake of raw material increases and raw material costs rising proportionally faster than selling prices.

STAR expenses were relatively flat for the three months ended September 30, 2005 and decreased $4.3 million (2%) for the nine months ended September 30, 2005 compared to the same periods in 2004. The decrease for the nine-month period primarily was due to lower technical expenses of $5.1 million. The decrease in technical expenses primarily was due to lower outside technical expenses. We anticipate testing expenses will accelerate in the fourth quarter of 2005 as compared to the first nine months of 2005.

Segment operating income increased 4% and 9% for the three and nine months ended September 30, 2005, respectively, compared with the same periods in 2004 due to the factors discussed above.

Specialty Chemicals Segment

Revenues for the Specialty Chemicals segment increased 8% for the three months ended September 30, 2005 and 92% for the nine months ended September 30, 2005 compared with the same periods in the prior year. The increase for the three-month period was due to a 13% improvement in the combination of price and product mix partially offset by a 5% decrease in shipment volume. The increase for the nine-month period primarily was due to the 2004 acquisitions of Noveon International and the hyperdispersants business. Excluding acquisitions, segment revenues increased 7% for the nine months ended September 30, 2005 compared with the same period in the prior year due to a 12% improvement

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in the combination of price and product mix and a 1% favorable currency impact partially offset by a 6% decrease in shipment volume. The higher-priced product mix for both the three- and nine-month periods 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 for the three and nine months ended September 30, 2005.

	3rd Quarter 2005 Volume	Year-to-Date 2005 Volume
North America	71%	71%
Europe	14%	15%
Asia-Pacific / Middle East	11%	10%
Latin America	4%	4%
Total	100%	100%

The following table shows the changes in our shipment volume by geographic zone as compared with the corresponding periods in 2004.

	2005 vs. 2004 % Change
Third Quarter:	
North America	(5%)
Europe	(11%)
Asia-Pacific / Middle East	1%
Latin America	(7%)
Total	(5%)

	2005 vs. 2004 % Change	Excluding Acquisitions 2005 vs. 2004 % Change
Year-to-Date:		
North America	56%	(7%)
Europe	60%	(2%)
Asia-Pacific / Middle East	88%	
Latin America	56%	(5%)
Total	59%	(6%)

Excluding acquisitions, the shipment volume decrease in North America for the three months ended September 30, 2005 was due to decreases in our consumer specialties and performance coatings product lines. The decrease for the nine months ended September 30, 2005 occurred in all product lines. The decrease in our consumer specialties and performance coatings product lines for both periods primarily was due to exiting certain low margin business and some

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market share loss due to competitive activity in response to our price increases. The decrease for the nine months in specialty materials primarily was due to reduced customer buying in part because of the merger of two large customers and reduced business in military applications. The decrease in Europe for the three- and nine-month periods primarily was in our consumer specialties product line because of market share loss due to competitive activity in response to our price increases.

Segment gross profit increased $16.9 million, or 18%, for the three months ended September 30, 2005 compared with the same period in 2004 and increased $185.7 million, or 112%, (increased $23.3 million, or 14%, excluding acquisitions) for the nine months ended September 30, 2005 compared to the same period in 2004. The increase in segment gross profit for the three-month and nine-month (excluding acquisitions) periods primarily was due to higher revenues due to an improvement in the combination of price and product mix partially offset by higher raw material costs and manufacturing expenses. Material cost for the three and nine months ended September 30, 2004 includes the impact of $4.9 million and $9.8 million respectively, of inventory step-up amortization from acquisition accounting. Excluding the impact of the step-up in 2004, average raw material cost increased 13% for the three-month and 14% for the nine-month periods ended September 30, 2005 compared to the same periods in 2004. Manufacturing expenses increased 5% for the three months ended September 30, 2005 and 6%, excluding acquisitions, for the nine months ended September 30, 2005, primarily due to higher spending related to utilities partially offset by a favorable depreciation adjustment of $2.3 million in the nine months ended September 30, 2005 related to a purchase accounting adjustment.

The gross profit percentage for this segment was 25.8% and 26.4% for the three and nine months ended September 30, 2005, respectively, compared with 23.6% and 24.0% in the prior-year periods. Excluding acquisitions, the gross profit percentage was 25.5% for the nine months ended September 30, 2005. Excluding the impact of the inventory step-up amortization, the gross profit percentage for the three and nine months ended September 30, 2004 was 24.8% and 25.4%, respectively. The increase in the gross profit percentage for the three-month and, to a lesser extent, the nine-month periods of 2005 compared to the same periods in 2004, excluding the impact of the inventory step-up in 2004, primarily was due to the run-up in material costs that we began to see in the second half of 2004 that unfavorably impacted 2004 being offset by the price increases that we began implementing in the fourth quarter of 2004.

STAR expenses decreased $1.0 million, or 2%, for the three months ended September 30, 2005 compared with the same period in 2004 and increased $74.7 million, or 67%, (decreased $8.2 million, or 7%, excluding acquisitions) for the nine months ended September 30, 2005 compared with the same period in 2004. Excluding acquisitions, the decrease in STAR expenses primarily was due to the consolidation of some segment administrative functions into corporate functions, reduced spending as a result of the integration of general and administrative functions and savings from a restructuring in our Performance Coatings product line.

Segment operating income increased $17.9 million for the three months ended September 30, 2005 compared with the same period in 2004 and increased $104.5 million for the nine months ended September 30, 2005 (increased $31.5 million excluding acquisitions), compared with the same period in 2004. Excluding acquisitions for the nine-month period, the increase in segment operating income for both periods primarily was due to the increase in segment gross profit and the decrease in STAR expenses.

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PRO FORMA ANALYSIS

The following table presents major components of and information derived from the pro forma consolidated statements of income and pro forma consolidated statements of cash flows for the nine months ended September 30, 2004. The major components of the pro forma consolidated statements of income and pro forma consolidated statements 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 statements of income and the pro forma consolidated statements of cash flows for the nine months ended September 30, 2004 are derived from our unaudited consolidated financial statements for the nine months ended September 30, 2004 and the unaudited consolidated financial statements of Noveon International for the period from January 1, 2004 to the acquisition date.

Our consolidated balance sheet as of September 30, 2005 reflects the acquisition of Noveon International under the purchase method of accounting. The allocation of the purchase price was complete as of June 30, 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 is 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. These pro forma amounts 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.

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The following table summarizes the pro forma data for 2004 compared to actual data for 2005:

	Nine Months Ended September 30,	
(in millions of dollars)	Actual 2005	Pro Forma 2004
Consolidated Data		
Total revenues	$ 3,038.0	$ 2,748.8
Gross profit	$ 768.2	$ 729.1
Income before income taxes	$ 229.4	$ 150.3
Income from continuing operations	$ 152.3	$ 96.2
Net income	$ 157.2	$ 96.6
Depreciation expense	$ 116.7	$ 122.0
Amortization of intangible assets	$ 18.9	$ 18.7
Capital expenditures	$ 91.5	$ 105.5
Segment Data		
Lubricant Additives Segment		
Total revenues	$ 1,704.9	$ 1,517.8
Gross profit	$ 416.3	$ 401.5
Segment operating income	$ 220.7	$ 201.6
Depreciation expense	$ 60.0	$ 64.2
Amortization of intangible assets	$ 2.3	$ 2.3
Capital expenditures	$ 50.1	$ 58.4
Specialty Chemicals Segment		
Total revenues	$ 1,333.1	$ 1,231.0
Gross profit	$ 351.9	$ 327.6
Segment operating income	$ 150.5	$ 117.7
Depreciation expense	$ 56.1	$ 56.9

Amortization of intangible assets	$	16.6	$	16.4
Capital expenditures	$	41.1	$	46.5
Unallocated corporate depreciation expense	$	0.6	$	0.9
Unallocated corporate capital expenditures	$	0.3	$	0.6

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Comparative pro forma data (continued):

	Nine Months Ended September 30,	
	Actual	Pro Forma
(in millions of dollars)	2005	2004
Reconciliation of Segment Operating Income to Income from Continuing Operations before Income Taxes		
Segment operating income:		
Lubricant Additives Segment	$ 220.7	$ 201.6
Specialty Chemicals Segment	150.5	117.7
Total segment operating income	371.2	319.3
Corporate expenses	(47.4)	(32.3)
Corporate other income (expenses)	(1.1)	2.8
Write-off of acquired IPR&D		(34.0)
Restructuring and impairment charges	(18.9)	(21.2)
Interest expense net	(74.4)	(84.3)
Income from continuing operations before income taxes	$ 229.4	$ 150.3

WORKING CAPITAL, LIQUIDITY AND CAPITAL RESOURCES
The following table summarizes the major components of cash flow:

	Nine Months Ended September 30,		
(in millions of dollars)	2005	2004	$ Change
Cash provided by (used for):			
Operating activities	$ 283.8	$ 192.6	$ 91.2
Investing activities	(74.5)	(1,039.1)	964.6
Financing activities	(281.6)	864.5	(1,146.1)
Effect of exchange rate changes on cash	(10.7)	7.4	(18.1)
Net increase (decrease) in cash and short-term investments	$ (83.0)	$ 25.4	$ (108.4)

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Operating Activities

The increase in cash provided by operating activities in the nine months ended September 30, 2005 compared with the prior year primarily was due to an increase in earnings after adjusting for non-cash items. The increase in earnings partially was offset by a $73.3 million increase in receivables since December 31, 2004. This compares to a $79.5 million increase in receivables in the prior-year comparable period. The year-end seasonality in sales and collections for the holidays is a significant contributing factor related to the change in the receivables balance since December 31, 2004.

We manage our levels of inventories and accounts receivable 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 adequate supply for our customers. Improvement in both the timing of cash collections and inventory turns helped mitigate the increase in working capital due to higher average selling price and higher inventory costs. We continue to expect incremental improvement in the days sales metrics as compared to 2004 by the end of the year.

Investing Activities

Our capital expenditures for the nine months ended September 30, 2005 were $91.5 million, as compared with $82.4 million for the same period in 2004. In 2005, we estimate annual capital expenditures will be approximately $140.0 to $145.0 million, including $6.0 million of capital expenditures related to the transfer of production from the three manufacturing facilities scheduled for closure to other facilities.

The net decrease in cash used to fund acquisitions in the first nine months of 2005 as compared to the prior year relates to the acquisitions of the hyperdispersants business of Avecia in January 2004 and Noveon International in June 2004. The increase in net proceeds from divestitures and sale of property relates primarily to net cash received from the sale of the LPS business of $13.5 million in September 2005.

Financing Activities

The decrease in cash provided by financing activities of $281.6 million in the nine months ended September 30, 2005 primarily was due to the $475.0 million in term-loan principal payments made during 2005, offset by borrowings of 175.0 million against the euro revolving credit agreement in September 2005 as compared to an increase in borrowings of $1,797.0 million under our then $2,450.0 million 364-day bridge facility in June 2004, the proceeds of which were used to fund the Noveon International acquisition and repay related assumed debt of $1,103.1 million.

Capitalization, Liquidity and Credit Facilities

On September 14, 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. In the three and nine months ended September 30, 2005, we repaid $350.0 million and $475.0 million, respectively, against the bank term loan. The balance outstanding at September 30, 2005 under the term loan was $25.0 million.

At September 30, 2005, our total debt outstanding of $1,692.6 million consisted of 62% fixed-rate debt and 38% variable-rate debt, including $400.0 million of fixed-rate debt that effectively has been swapped to variable-rate debt. Our weighted-average borrowing rate as of September 30, 2005 was approximately 5.4%.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

A major activity this year has been to repatriate overseas cash. By the end of the third quarter, we had repatriated $233.6 million of foreign subsidiary cash towards our current year goal of $250.0 million. We expect to bring back the remainder in the fourth quarter. In addition, we have repatriated another $213.8 million through the euro bank facility entered into in September 2005.

Our net debt to capitalization ratio at September 30, 2005 was 48%. 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 52% at September 30, 2005.

Our ratio of current assets to current liabilities decreased from 2.4 at December 31, 2004 to 2.3 at September 30, 2005, primarily due to decreases in cash and short term investments due to the repayment of $350.0 million against the bank term loan in the quarter, offset by borrowings of 175.0 million from the euro revolving credit facility, working capital increases associated with higher sales and the timing of collections and disbursements. The increase in accounts receivable of $37.5 million since December 31, 2004 primarily was driven by higher sales in the third quarter of 2005 as compared to the fourth quarter of 2004 as well as seasonality.

At September 30, 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 September 30, 2005, we had no outstanding borrowings under this agreement.

On March 29, 2005, we amended and restated our five-year unsecured bank credit agreement to reduce the credit spread paid on the outstanding $500.0 million term loan. Based on our current unsecured senior debt ratings from Standard and Poor s and Moody s Investors Services, the credit spread on the term loan was reduced by 50 basis points. No other terms or conditions of the agreement were modified.

Contractual Cash Obligations

Our contractual cash obligations as of December 31, 2004 are contained on page 21 of our 2004 Annual Report to shareholders. During the first nine months of 2005, we made $475.0 million in term-loan payments and borrowed 175.0 million against the euro revolving credit agreement. Other than this net decrease in total debt of over $250.0 million, we do not believe there have been any other significant changes since December 31, 2004 in that information.

Our debt level will require us to dedicate a significant portion of our cash flow to make interest and principal payments, thereby reducing the availability of our cash flow for acquisitions or other purposes. Nevertheless, we believe our future operating cash flows will be sufficient to cover our debt repayments, capital expenditures, dividends and other obligations and that 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 September 30, 2005, we maintained cash and short-term investment balances of $252.9 million and had $500.0 million available under our revolving U.S. credit facility and another 75.0 million available under our revolving European facility.

NEW ACCOUNTING STANDARDS

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

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)
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 completed by the company starting January 1, 2006. We do not believe the adoption of this standard will have a material impact on our financial position, results of operations or cash flows.

In March 2005, the FASB issued Interpretation (FIN) No. 47, Accounting for Conditional Asset-Retirement Obligations. This standard codifies SFAS No. 143, Asset-Retirement Obligations, and states that companies must recognize a liability for the fair value of a legal obligation to perform asset-retirement obligations that are conditional on a future event if the amount can be reasonably estimated. Specifically, FIN No. 47 provides additional guidance on whether the fair value is reasonably estimable. FIN No. 47 is effective for the company starting December 31, 2005. We do not believe the adoption of this standard will have a material impact on our financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 123(R), 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 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. 123(R) through an amendment of Regulation S-X. The new effective date for us is January 1, 2006. We are currently evaluating the provisions of this standard to determine the impact on our consolidated financial statements. It is, however, expected to reduce consolidated net income.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets. This standard amended APB Opinion No. 29, Accounting for Nonmonetary Transactions, to eliminate the exception from fair value measurement for nonmonetary exchanges of similar productive assets. This standard replaces this exception with a general exception from fair value measurement for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Our adoption of this standard did not have a material impact on the financial statements.

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. We do not believe the adoption of this standard will have a material impact on our financial position, results of operations or cash flows.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

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 quarterly 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, especially our ability to integrate the acquisition of Noveon International;
- 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.

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Item 3. 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 $43.7 million in 2005. 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 $2.1 million in 2005 on an annualized basis.

Our primary currency rate exposures are to foreign-denominated debt, intercompany loans, 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 foreign 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 foreign currency exchange rates. A hypothetical 10% increase in foreign currency exchange rates would have had a favorable impact and a hypothetical 10% decrease in foreign currency exchange rates would have had an unfavorable impact on fair values of $9.1 million, on annualized cash flows of $22.9 million and on annualized income before tax of $8.5 million in 2005.

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 values of $0.9 million and on annualized cash flows and income before tax of $0.9 million.

Item 4. 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 September 30, 2005. Based on that evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 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 third quarter of 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the third quarter of 2005, we were notified by the Seattle office of the U.S. Environmental Protection Agency (EPA) that it is 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 EPA s Seattle office has proposed a penalty of approximately $0.7 million, which we believe is excessive under the circumstances. We currently are discussing those circumstances with the regulators. No enforcement proceeding has been commenced at this time.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) On July 18, 2005, we issued 62 common shares in transactions exempt from registration under the Securities Act of 1939 pursuant to Regulation S. We issued the common shares under an employee benefit plan to two employees of a wholly owned Canadian subsidiary of the company.

On August 1, 2005, we issued 5,120 common shares in private placement transactions 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 deferred compensation plans for officers.

On September 1, 2005, we issued 282 common shares in private placement transactions 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.

(c) The following table provides information regarding the company s purchases of its common shares during the third quarter.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds (continued)

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 (July 1, 2005 through July 31, 2005)	17,941 Shares	$ 43.93	N/A	N/A
Month #2 (August 1, 2005 through August 31, 2005)	8,002 Shares	$ 42.54	N/A	N/A
Month #3 (September 1, 2005 through September 30, 2005)	10,942 Shares	$ 41.29	N/A	N/A
Total	36,885 Shares			

[1] This column represents common shares that were purchased by the company 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. Exhibits

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 the 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.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE LUBRIZOL CORPORATION

/s/ W. Scott Emerick
W. Scott Emerick
Chief Accounting Officer and Duly
Authorized
Signatory of The Lubrizol Corporation

Date: November 3, 2005

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