DiCarlo Dominic
Form 5
May 07, 2008

FORM 5

OMB APPROVAL

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).
Form 3 Holdings Reported
Form 4 Transactions Reported

ANNUAL STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

1. Name and Address of Reporting Person *
DiCarlo Dominic

(Last) (First) (Middle)

1981 RAINBOW TRAIL

(Street)

SARNIA,Â A6Â N7T 7H6

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
LAMPERD LESS LETHAL INC [LLLI]

3. Statement for Issuer's Fiscal Year Ended (Month/Day/Year)
12/31/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Vice President

6. Individual or Joint/Group Reporting

(check applicable line)

_X_ Form Filed by One Reporting Person
___ Form Filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) Amount	(A) or (D)	Price	5. Amount of Securities Beneficially Owned at end of Issuer's Fiscal Year (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
Common Shares	12/31/2006	Â	J (1) (2)	1,118,338	A	$ (1) (2)	1,118,338	I	1109630 Ontario Ltd.
Common Shares	08/07/2006	Â	S	10,000	D	$ 0.14	2,980,000	D	Â
Common Shares	08/08/2006	Â	S	10,000	D	$ 0.12	2,970,000	D	Â
	08/09/2006	Â	S	10,000	D	$ 0.12	2,960,000	D	Â

Common Shares									
Common Shares	08/11/2006	Â	S	10,000	D	$ 0.12	2,950,000	D	Â
Common Shares	08/14/2006	Â	S	10,000	D	$ 0.12	2,940,000	D	Â
Common Shares	05/15/2006	Â	S	10,000	D	$ 0.12	2,930,000	D	Â
Common Shares	08/16/2006	Â	S	10,000	D	$ 0.12	2,920,000	D	Â
Common Shares	08/17/2006	Â	S	10,000	D	$ 0.12	2,910,000	D	Â
Common Shares	08/21/2006	Â	S	100	D	$ 0.125	2,909,900	D	Â
Common Shares	08/21/2006	Â	S	9,900	D	$ 0.12	2,900,000	D	Â
Common Shares	08/21/2006	Â	S	1,000	D	$ 0.12	2,899,000	D	Â
Common Shares	08/21/2006	Â	S	9,000	D	$ 0.124	2,890,000	D	Â
Common Shares	08/22/2006	Â	S	10,000	D	$ 0.12	2,880,000	D	Â
Common Shares	08/24/2006	Â	S	10,000	D	$ 0.115	2,870,000	D	Â
Common Shares	08/31/2006	Â	S	3,600	D	$ 0.12	2,866,400	D	Â
Common Shares	09/01/2006	Â	S	10,000	D	$ 0.12	2,856,400	D	Â
Common Shares	09/05/2006	Â	S	7,325	D	$ 0.12	2,849,075	D	Â

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 2270 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. of D Se B O E

Disposed of (D) (Instr. 3, 4, and 5)						Is Fi (I
(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
DiCarlo Dominic 1981 RAINBOW TRAIL SARNIA,Â A6Â N7T 7H6	Â X	Â	Â Vice President	Â

Signatures

/s/ Dominic Dicarlo	05/06/2008
**Signature of Reporting Person	Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- **(1)** Shares were issued for services rendered to the Company
- **(2)** Mr. Dicarlo has 50% depository voting control over 1109630 Ontario Ltd.

Note: File three copies of this Form, one of which must be manually signed. If space provided is insufficient, *see* Instruction 6 for procedure.
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3

0.2

0.2

Stock issuance costs

(0.5

)

(0.5

)

Deferred compensation

0.3

0.3

Redeemable convertible preferred redemption accretion

Explanation of Responses:

(11.2

)

(11.2

)

Fair value of warrants

6.1

6.1

Minimum pension liability, net of tax

(1.3

)

$

(1.3

)

(1.3

)

Foreign currency translation

40.8

40.8

40.8

Intercompany foreign currency transactions

Explanation of Responses:

10.4

10.4

10.4

Net loss

(91.7

)

(91.7

)

(91.7

)

Comprehensive loss

$

(41.8

)

BALANCE, DECEMBER 31, 2003

20,740

0.2

291.2

84.4

(247.3

)

94

(1.4

)

(1.0

)

126.1

Issuance of common stock

29,570

0.3

431.7

432.0

Stock issuance costs

(0.1

)

(0.1

)

Deferred compensation

0.3

0.3

Redeemable convertible preferred redemption accretion

Explanation of Responses:

(4.2

)

(4.2

)

Minimum pension liability, net of tax

(14.3

)

$

(14.3

)

(14.3

)

Foreign currency translation

150.0

150.0

150.0

Intercompany foreign currency transactions

163.4

163.4

163.4

Net investment hedge, net of tax

(13.1

)

(13.1

)

(13.1

)

Net loss

(216.1

)

(216.1

)

(216.1

)

Comprehensive income

$

69.9

BALANCE, DECEMBER 31, 2004

50,310

0.5

718.6

370.4

(463.4

)

94

(1.4

)

(0.7

)

624.0

Issuance of common stock

23,469

0.2

471.2

471.4

Stock issuance costs

(33.8

)

(33.8

)

Redeemable convertible preferred redemption accretion

(4.3

)

(4.3

)

Minimum pension liability, net of tax

(16.1

)

$

(16.1

)

(16.1

)

Foreign currency translation

(163.4

)

(163.4

)

(163.4

)

Intercompany foreign currency transactions

(183.7

)

(183.7

)

(183.7

)

Net investment hedges, net of tax

45.4

45.4

45.4

Explanation of Responses:

Cash flow hedges, net of tax

(0.6

)

(0.6

)

(0.6

)

Net income

95.8

95.8

95.8

Comprehensive loss

$

(222.6

)

BALANCE DECEMBER 31, 2005

73,779

$

0.7

$

1,151.7

$

52.0

$

(367.6

)

94

$

(1.4

Explanation of Responses:

)

$

(0.7

)

$

834.7

See accompanying notes to consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business Description, Background Rockwood Holdings, Inc. and Subsidiaries (Rockwood or the Company) is a global developer, manufacturer and marketer of high value-added specialty chemicals and advanced materials used for industrial and commercial purposes.

Rockwood is controlled by affiliates of Kohlberg Kravis Roberts & Co. L.P. (KKR) and was formed in connection with an acquisition of certain assets, stock and businesses from Laporte plc (Laporte) on November 20, 2000 (the KKR Acquisition).

On July 31, 2004, the Company completed the acquisition of four businesses of Dynamit Nobel from mg technologies ag. The businesses acquired are focused on highly specialized markets and consist of: white pigments; surface treatment and lithium chemicals; ceramics; and pharmaceutical intermediates. The cost of the acquisition (the Dynamit Nobel Acquisition), along with related fees and expenses, as well as the repayment of the borrowings under the Company s then existing senior secured facilities (the 2003 Senior Secured Credit Facilities) and $20.0 million of the pay-in-kind notes was financed using a new equity contribution from affiliates of KKR and an initial equity contribution from DLJMB, and borrowings under the new senior secured credit facilities (the Senior Secured Credit Facilities) and the new senior subordinated loan facility (the Senior Subordinated Loan Facility) (collectively, the Acquisition Financing) from certain lending institutions including Credit Suisse, an affiliate of DLJMB. Certain components of these borrowings were subsequently refinanced (the Refinancing). See Note 3, Acquisitions, and Note 9, Long Term Debt, for a more complete description of the Dynamit Nobel Acquisition, the Acquisition Financing and the Refinancing.

On August 22, 2005, the Company completed an initial public offering (IPO) of 23,469,387 shares of its common stock, which included 3,061,224 shares issued and sold as a result of the underwriters exercise of the over-allotment option. See Note 2, Initial Public Offering, for further details.

Basis of Presentation The accompanying financial statements of Rockwood are presented on a consolidated basis. All significant intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, this information contains all adjustments necessary for a fair presentation of the results for the periods presented.

The results of operations and cash flows of the rheological additives and carbonless developers businesses of Sud Chemie AG are not included in the twelve month period ended December 31, 2005 as the acquisition was completed on December 31, 2005. The financial position of these businesses are included in the consolidated balance sheet as of December 31, 2005. See Note 3, Acquisitions.

The results of operations and cash flows of the businesses acquired in the Dynamit Nobel Acquisition, the Groupe Novasep combination and the pigments and dispersions business of Johnson Matthey Plc. are included in the consolidated financial statements for the twelve-month period ended December 31, 2005. The results of the Dynamit Nobel businesses prior to the acquisition date of July 31, 2004 are not included in the consolidated financial statements for the twelve month period ended December 31, 2004. The results of the Groupe Novasep combination are not included in the consolidated financial statements in the twelve month period ended December 31, 2004 as the combination was completed on December 31, 2004. The financial position of Groupe Novasep as of December 31, 2004 is included in the consolidated balance sheet as of that date. The results of the pigments and dispersions business of Johnson Matthey Plc. prior to the acquisition date of September 2, 2004 are not included in the consolidated financial statements in the twelve month period ended December 31, 2004. See Note 3, Acquisitions.

The Company s minority interest represents the total of the minority party s equity interest in certain investments (principally the Groupe Novasep segment) that are consolidated but less than 100% owned.

Effective July 18, 2005, the Company s board of directors authorized a 34.22553019-for-one stock split of its common stock. As a result of the stock split, the accompanying consolidated financial statements reflect an increase in the number of outstanding shares of common stock and the transfer of the additional paid-in-capital to par value. All share amounts have been restated to reflect the retroactive effect of the stock split for all periods presented.

Nature of Operations/Segment Reporting The Company is a global developer, manufacturer and marketer of high value-added specialty chemicals and advanced materials. The Company operates in various business lines within its seven reportable segments consisting of: (1) Performance Additives, which includes color pigments and services, timber treatment chemicals, clay-based additives, and water treatment chemicals, (2) Specialty Compounds, which consists of plastic compounds, (3) Electronics, which consists of electronic chemicals, wafer reclaim and photomasks, (4) Specialty Chemicals, which includes lithium compounds and chemicals, metal surface treatment chemicals, and synthetic metal sulfides, (5) Titanium Dioxide Pigments, which consists of titanium dioxide pigments, and zinc- and barium-based compounds, (6) Advanced Ceramics, which includes ceramic-on-ceramic ball

96

head and liner components used in hip-joint prostheses systems, ceramic cutting tools and a range of other ceramic components, and (7) Groupe Novasep (formerly known as Custom Synthesis), which includes hazardous chemistry and chiral technologies for the synthesis of pharmaceutical compounds.

The basis for determining an enterprise s operating segments is the manner in which financial information is used internally by the enterprise s chief operating decision maker, the Company s Chief Executive Officer. See Note 4, Segment Information, for further segment reporting information.

Use of Estimates The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the periods reported. These estimates include, among other things, assessing the collectibility of accounts receivable, the use and recoverability of inventory, the valuation of deferred tax assets, impairment of goodwill as well as property, plant and equipment and other intangible assets, and the useful lives of tangible and intangible assets, among others. Actual results could differ from those estimates.

Such estimates also include the fair value of assets acquired and liabilities assumed allocated to the purchase price of business combinations consummated. See Note 3, Acquisitions.

Major Customers and Concentration of Credit The Company has a number of major end-user, retail and OEM customers, with the largest concentration in Europe, and the United States. No single customer accounted for more than 10% of net sales during any of the periods presented. The Company does not believe a material part of its business is dependent upon any single customer, the loss of which would have a material long-term impact on the business of the Company. However, the loss of one or more of the Company s largest customers would most likely have a negative short-term impact on the Company s results of operations. Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable and derivative contracts. See Note 9, Long-Term Debt, and Critical Accounting Policies and Estimates in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations for further discussion of estimates used.

Accounts Receivable The allowance for doubtful accounts is estimated at each reporting date based on factors such as receivable age, customer liquidity status and previous write-off history. The Company performs ongoing credit evaluations of customers and generally does not require collateral. Credit insurance is maintained by certain of the Company s businesses. Allowance is maintained for aggregate expected credit losses. Write-offs are charged to the allowance when taken, net of recoveries. Allowance for doubtful account activity is as follows:

	Year Ended December 31,		
($ in millions)	**2005**	**2004**	**2003**
Balance, January 1	$ 10.2	$ 5.2	$ 4.5
Additions charged to expense	4.5	2.8	1.7

Acquisitions		4.4	
Write-offs, net of recoveries	(2.5)	(2.4)	(1.7)
Other (a)	(0.5)	0.2	0.7
Balance, December 31	$ 11.7	$ 10.2	$ 5.2

(a) Primarily the impact of currency changes as well as divestitures of certain businesses.

Risks Associated with International Operations and Currency Risk The Company s international operations are subject to risks normally associated with foreign operations, including, but not limited to, the disruption of markets, changes in export or import laws, restrictions on currency exchanges and the modification or introduction of other governmental policies with potentially adverse effects. A majority of the Company s sales and expenses are denominated in currencies other than U.S. dollars. Changes in exchange rates may have a material effect on the Company s reported results of operations and financial position. In addition, a significant portion of the Company s indebtedness is denominated in euros.

Revenue Recognition The Company recognizes revenue when the earnings process is complete, except for a small amount (less than 1% of consolidated revenues in 2005) derived from long-term contracts accounted for under the percentage of completion method within the Groupe Novasep segment. Product sales are recognized when products are shipped to the customer in accordance with the terms of the contract of sale, title and risk of loss have been transferred, collectibility is reasonably assured, and pricing is fixed or determinable. Accruals are made for sales returns and other allowances based on the Company s experience. Revenue under service agreements is realized when the service is performed.

Foreign Currency Translation The functional currency of each of the Company s foreign subsidiaries is primarily the respective local currency. Balance sheet accounts of the foreign operations are translated into U.S. dollars at period-end exchange rates and income and expense accounts are translated at average exchange rates during the period. Translation gains and losses related to net assets located outside the U.S. are shown as a component of accumulated other comprehensive income. Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity s functional currency) should be included in determining net income for the period in which exchange rates change. However, the related gains or losses on certain intercompany transactions that are of a long-term investment nature for which settlement is not planned or anticipated in the foreseeable future and gains or losses on euro-denominated debt that is designated as a net investment hedge of our euro-denominated investments should be reported and accumulated in the same manner as translation adjustments.

Accretion on Senior Discount Notes The Company s senior discount notes accreted principal value for a portion of their term. The Company recorded such accretion as interest expense for financial reporting purposes. As a result of the completion of the IPO, the Company used $89.2 million of the proceeds to redeem the outstanding principal amount of the senior discount notes (including accreted and unpaid interest).

Advertising The Company expenses advertising costs as incurred.

Research and Development Research and development costs are charged to expense, as incurred. Such costs were $60.8 million in 2005, $23.7 million in 2004 and $8.7 million in 2003.

Accounting for Shipping and Handling Costs The Company records shipping and handling costs in cost of products sold and records shipping and handling costs billed to customers in net sales in accordance with the Emerging Issues Task Force s (EITF) guidance (EITF 00-10: *Classification of Shipping and Handling Costs*).

Cash and Cash Equivalents All highly liquid instruments and money market funds with an original maturity of three months or less are considered to be cash equivalents. The carrying amount approximates fair value because of the short maturities of these instruments.

Inventories Inventories are stated at the lower of cost or market. Cost is determined primarily on average cost or the first-in, first-out method. Inventory quantities on hand are regularly reviewed, and where necessary, provisions for excess and obsolete inventory are recorded based primarily on either the Company s estimated forecast of product demand and production requirements or historical usage. See Note 5, Inventories.

Property, Plant and Equipment Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the various asset classes. Estimated lives range from 20-30 years for buildings and improvements (including land improvements), 7-12 years for machinery and equipment, 3-5 years for furniture and fixtures and 14-50 years for mining rights. See Note 6, Property, Plant and Equipment.

The estimated useful lives of leasehold improvements are the lesser of the estimated life of the improvement or the term of the lease.

Major renewals and improvements are capitalized and minor replacements, maintenance and repairs are charged to current operations as incurred. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the balance sheet and any gain or loss is reflected in the statement of operations.

Deferred Debt Issuance Costs Costs related to the July 2003 refinancing, the Acquisition Financing and two additional refinancings completed during the fourth quarter of 2004 have been capitalized and are being amortized using the effective interest rate method over the term of the debt outstanding. This amortization is reflected in interest expense. See Note 9, Long-Term Debt.

Loss on Early Extinguishment of Debt In the third quarter of 2005, the Company paid a redemption premium of $13.2 million to redeem long-term debt and wrote off $13.4 million of deferred financing costs associated with the debt repaid in connection with the IPO.

Goodwill Goodwill represents the cost in excess of fair value of net assets acquired for transactions accounted for using the purchase method of accounting. See Note 7, Goodwill, for details of goodwill activity by segment.

Other Intangible Assets Other intangible assets primarily consists of patents and other intellectual property, trade names and trademarks, and customer relationships. Patents and other intellectual property are recorded at their estimated fair values at the time of acquisition and are being amortized over their estimated remaining useful lives, ranging from 4 to 20 years. Trade names and trademarks are being amortized over 25 years, and customer relationships are being amortized over periods ranging from 7 to 15 years. See Note 8, Other Intangible Assets.

Impairment Accounting The recoverability of goodwill is reviewed on an annual basis during the fourth quarter. Additionally, the recoverability of goodwill, long-lived tangible, and certain intangible assets is reviewed when events or changes in circumstances occur indicating that the carrying value of the assets may not be recoverable. See Note 17, Impairment Charges.

The Company s initial goodwill impairment review begins with the estimate of fair value of each reporting unit generally based on an industry metric such as the ratio of enterprise value (commonly defined as market capitalization plus long-term debt less cash) to Adjusted EBITDA. This calculation is performed on both the current year actual results and on the budgeted amounts for the following year. Similarly, when testing for impairment of long-lived assets other than goodwill, the Company initially reviews the estimated future undiscounted cash flows to be derived from the asset or asset group (collectively asset). If it appears that the asset is impaired based on undiscounted cash flows, the estimated fair value of the asset is calculated on a present value basis by multiplying the estimated future annual cash flows of the asset by the then current enterprise value ratio (a discounted measure) or by a discount factor appropriate to the related reporting unit, in accordance with paragraph 23 of Statement of Financial Accounting Standards (SFAS) No. 144. An impairment loss is recognized when the carrying value of the asset or goodwill exceeds the discounted cash flow (or other measure of) fair value.

These calculations are based on inherent assumptions and estimates about future cash flows and appropriate benchmark peer companies or groups. Subsequent changes in these assumptions could result in future impairment. Although we consistently use the same methods in developing the assumptions and estimates underlying the fair value calculations, such estimates are uncertain by nature and can vary from actual results.

Financial Instruments Management believes the carrying amount of financial instruments, including accounts receivable, accounts payable and debt, approximates fair value, except as described in Note 9, Long-Term Debt.

Derivatives The Company accounts for derivatives based on SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted. SFAS 133 requires that all derivatives be recognized as either assets or liabilities at fair value. Changes in the fair value of derivatives not designated as hedging instruments are recognized currently in earnings. The Company uses derivative instruments to manage its exposure to market risks associated with fluctuations in interest rates and foreign currency exchange rates. See the Comprehensive Income section of Note 1 for the impact of the Company s net investment hedges. The Company does not enter into derivative contracts for trading purposes nor does it use leveraged or complex instruments.

Pension, Postemployment and Postretirement Costs Defined benefit costs and liabilities have been determined in accordance with SFAS 87, *Employers Accounting for Pensions*. Other postretirement benefit costs and liabilities have been determined in accordance with SFAS 106, *Employers Accounting for Postretirement Benefits Other Than Pensions*. Postemployment benefit costs and liabilities have been determined in accordance with SFAS 112, *Employers Accounting for Postemployment Benefits*.

Related Party Transactions In the ordinary course of business, Rockwood has engaged in transactions with certain related parties including KKR and DLJMB and affiliates of each. See Note 3, Acquisitions and Note 9, Long-Term Debt for additional information concerning these transactions. In addition, see discussion of Redeemable convertible preferred stock below.

Through the date of the Dynamit Nobel Acquisition, KKR provided consulting and management advisory services to Rockwood for an annual fee of $0.6 million. From the date of the Dynamit Nobel Acquisition through the IPO date, KKR and DLJMB provided the Company with consulting and management advisory services for an annual fee of $2.1 million, increasing 5% annually. In connection with the IPO, the parties agreed to terminate the management services agreement for an aggregate consideration of $10.0 million.

Further, the 12% senior discount notes, issued by our indirect subsidiary, Rockwood Specialties International, Inc., were held by affiliates of KKR. As a result of the completion of the IPO, the Company used $89.2 million of the proceeds to redeem the outstanding principal amount of the senior discount notes (including accreted and unpaid interest). Interest on the senior discount notes was $6.5 million, $9.1 million and $3.7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Income Taxes Income taxes are determined in accordance with SFAS 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts and the corresponding tax carrying amounts of assets and liabilities. Deferred tax assets are also recognized for tax loss and tax credit carryforwards. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized based on available evidence weighted toward evidence that is objectively verifiable. Deferred taxes are not provided on the undistributed earnings of subsidiaries as such amounts are considered to be permanently invested or could be distributed to the parent company in a tax free manner.

Future realization of the tax benefit of an existing deductible temporary difference or carryforward ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryforward period available under the tax law. The Company s policy is to consider the following sources of taxable income, which may be available under the tax law to realize a tax benefit for deductible temporary differences and carryforwards:

Future reversals of existing taxable temporary differences.

Future taxable income exclusive of reversing temporary differences and carryforwards.

Taxable income in prior carry back year(s) if carry back is permitted under the tax law.

Tax planning strategies that would, if necessary, be implemented to:

(1) Accelerate taxable amounts to utilize expiring carryforwards.

(2) Change the character of taxable or deductible amounts from ordinary income or loss to capital gain or loss.

(3) Switch from tax-exempt to taxable investments.

Evidence available about each of those possible sources of taxable income will vary between tax jurisdictions and, possibly, from year to year. To the extent evidence about one or more sources of taxable income is sufficient to support a conclusion that a valuation allowance is not necessary, the Company s policy is that other sources need not be considered. Consideration of each source is required, however, to determine the amount of the valuation allowance that may be required to be recognized for deferred tax assets.

For any specific jurisdiction where a history of three years of cumulative losses has occurred or where there has been a substantial change in the business (e.g., a major acquisition or divestiture), the Company does not rely on projections of future taxable income as described above. Instead, the Company determines its need for a valuation allowance on deferred tax assets, if any, by determining an average steady-state normalized taxable income amount over the last three years, adjusted for acquisitions or divestitures if necessary.

The Company will also consider the following positive evidence in the above scenarios, if present:

Existing contracts or firm sales backlog that will produce more than enough taxable income to realize the deferred tax asset based on existing sales prices and cost structures.

An excess of appreciated asset value over the tax basis of the entity s net assets in an amount sufficient to realize the deferred tax asset.

Comprehensive Income Comprehensive income includes net income and the other comprehensive income components which include unrealized gains and losses from foreign currency translation and from certain intercompany transactions that are of a long-term investment nature as well as minimum pension liability adjustments that are recorded directly into a separate section of stockholders equity in the balance sheets. Also included are the net investment hedges discussed below. Foreign currency translation amounts are not adjusted for income taxes since they relate to indefinite length investments in non-U.S. subsidiaries and certain intercompany debt. See Note 20, Comprehensive Income.

Accounting for Environmental Liabilities In the ordinary course of business, Rockwood is subject to extensive and changing federal, state, local and foreign environmental laws and regulations, and has made provisions for the estimated financial impact of environmental cleanup related costs. Rockwood s policy has been to accrue costs of a non-capital nature related to environmental clean-up when those costs are believed to be probable and can be reasonably estimated. If the aggregate amount of the obligation and the amount and timing of the cash payments for a site are fixed or reliably determinable, the liability is discounted. Expenditures that extend the life of the related property or mitigate or prevent future environmental contamination are capitalized and expenditures related to existing conditions resulting from past or present operations and from which no current or future benefit is discernible are immediately expensed. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, advancements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation and the length of time involved in remediation or settlement. In some matters, Rockwood may share costs with other parties. Rockwood does not include anticipated recoveries from insurance carriers or other third parties in its accruals for environmental liabilities.

Reclassifications Certain prior year amounts have been reclassified to conform to current year classification.

Recent Accounting Pronouncements - The Company implemented the financial accounting standards listed below on January 1, 2006. The adoption of these standards is not expected to have a material impact on the Company s financial position, results of operations, or cash flows.

SFAS 123R	Share Based Payment
SFAS 151	Inventory Costs
SFAS 153	Exchanges of Nonmonetary Assets
SFAS 154	Accounting Changes and Error Corrections

SFAS 123R revises SFAS 123, *Accounting for Stock-Based Compensation,* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS 123R requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which the employee is required to provide services in exchange for the award. This standard eliminates the use of the intrinsic value method of accounting for share based payments as previously provided in APB 25. The Company will apply SFAS 123R on a modified prospective basis. In accordance with SFAS 123R, Rockwood Holdings became a public company when it first filed its registration statement with the Securities and Exchange Commission (SEC) in February 2005. As a result, the Company will record compensation cost for the unvested portion of awards issued after February 2005 and for any awards modified, repurchased or cancelled after the required effective date.

SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage), requiring that such items be recognized as current-period charges. This statement eliminates a narrow difference between the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) accounting standards to improve the comparability of cross-border financial reporting.

SFAS 153 eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. This statement eliminates a narrow difference between the FASB and IASB accounting standards to improve the comparability of cross-border financial reporting.

SFAS 154 replaces APB Opinion No. 20, *Accounting Changes*, and SFAS Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting and reporting of a change in accounting principle. SFAS 154 requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that (1) a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle and (2) correction of errors in previously issued financial statements should be termed a restatement. This statement eliminates a narrow difference between the FASB and IASB accounting standards to improve the comparability of cross-border financial reporting.

FASB Interpretation (FIN) 47 clarifies that the term conditional asset retirement obligation as used in SFAS 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 was effective on December 31, 2005 for the Company. The adoption of FIN 47 did not have a material impact on the Company.

In June 2005, the FASB issued FASB Staff Position (FSP) 143-1, *Accounting for Electronic Waste Obligations,* to address accounting for obligations associated with Directive 2002/96/EC on Waste Electrical and Electronic Equipment adopted by the European Union. This FSP requires commercial users to apply the provisions of SFAS 143, *Accounting for Asset Retirement Obligations*, to obligations associated with historical waste (i.e., products put on the market on or before August 13, 2005). FSP 143-1 was effective for the first reporting period ending after June 8, 2005, or the date of adoption of the Waste Electrical and Electronic Equipment Directive by the applicable EU-member country. The adoption of FSP 143-1 did not have a material impact on the Company.

Redeemable convertible preferred stock During 2003, the Company issued redeemable convertible preferred stock to an affiliate of KKR. As a result of the completion of the IPO, the Company used $38.5 million of the proceeds to redeem all outstanding shares of the redeemable convertible preferred stock, including a redemption premium and accumulated and unpaid dividends. See Note 2, Initial Public Offering, and Note 15, Redeemable Convertible Preferred Stock.

Stock-Based Compensation At December 31, 2005, the Company had in place the 2005 Amended and Restated Stock Purchase and Option Plan of Rockwood Holdings, Inc. and Subsidiaries (the Plan). Through December 31, 2005, the Company accounted for the Plan under the recognition and measurement principles of APB Opinion 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based employee compensation related to this Plan is reflected in net income, as all options granted had an exercise price at least equal to the market value of the underlying common stock on the date of the grant. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. Volatility is assumed to be zero for options granted prior to the date Rockwood Holdings filed its first registration statement with the SEC (February 2005). For these options, the Company used the minimum value method that permitted nonpublic entities to omit expected volatility in determining fair value for its options. For options granted after February 2005, the Company used a volatility factor of 35%. Dividend yield is assumed to be zero.

During the fourth quarter of 2005, Groupe Novasep SAS, a subsidiary of the Company, adopted a stock option plan for certain of its employees. The Company accounted for this plan under the recognition and measurement principles of APB Opinion 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based compensation related to this Plan is reflected in net income, as all options granted had an exercise price at least equal to the market value of the underlying common stock on the date of grant.

If compensation cost for the Company s stock option plan had been determined based on the fair value at grant date consistent with the provisions of SFAS No. 123 as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure,* the Company s net income (loss) and earnings (loss) per share would have been as follows:

	Year Ended December 31,		
($ in millions, except per share amounts)	**2005**	**2004**	**2003**
Net income (loss), as reported	$ 95.8	$ (216.1)	$ (91.7)
Add: Stock-based compensation expense included in reported net loss, net of tax		0.2	0.2
Less: Stock-based employee compensation expense determined under fair value based method, net of tax	(1.7)	(0.8)	(0.7)
Pro forma net income (loss)	94.1	(216.7)	(92.2)
Redeemable convertible preferred stock dividends	(4.3)	(4.2)	(1.7)
Accretion of redeemable convertible preferred stock to redemption value			(9.5)
Pro forma net income (loss) applicable to common shareholders	$ 89.8	$ (220.9)	$ (103.4)
Earnings (loss) per common share, as reported:			
Basic	$ 1.55	$ (6.66)	$ (4.96)
Diluted	$ 1.52	$ (6.66)	$ (4.96)
Pro forma earnings (loss) per common share, as reported:			
Basic	$ 1.52	$ (6.68)	$ (4.99)
Diluted	$ 1.50	$ (6.68)	$ (4.99)
Other assumptions used in fair-value pricing model:			
Rockwood Plan			
Risk-free interest rate	4.18 - 4.50%	3.51%	3.32%
Expected lives of option grants (years)	6 - 8	5 - 8	5 - 8
Subsidiary Plan			
Risk-free interest rate	2.79 - 3.22%		
Expected lives of option grants (years)	3 - 6.5		

In accordance with FASB Interpretation No. 38, as the subsidiary performance option triggering events were not probable at year end, no compensation cost related to the subsidiary performance options has been recorded at December 31, 2005. See Note 14, Stock-Based Compensation, for further detail.

The Company accounts for earnings (loss) per share under the provisions of SFAS No. 128 *Earnings per Share* and Emerging Issues Task Force (EITF) 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128.* Basic earnings (loss) per common share was calculated by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if Rockwood s securities or other contracts to issue common stock were exercised, converted into or resulted in the issuance of common stock. The effect of common stock issuable under the assumed exercise of stock options and warrants, computed on the treasury stock method, and the assumed conversion of the Company s issued and outstanding redeemable convertible preferred stock have been excluded from the diluted earnings per share calculation for the years ended December 31, 2004 and 2003, since the effect of such securities is anti-dilutive. See Note 13, Earnings Per Common Share, for further detail.

2. INITIAL PUBLIC OFFERING:

On August 22, 2005, the Company completed an initial public offering (IPO) of 23,469,387 shares of its common stock, which included 3,061,224 shares issued and sold as a result of the underwriters exercise of the over-allotment option. As a result, the Company received net proceeds of approximately $435.7 million (net of underwriting discounts and commissions and estimated offering expenses aggregating $33.6 million). The net proceeds were used as follows:

$61.1 million and 98.3 million ($120.2 million, based on the August 22, 2005 exchange rate of 1.00= $1.2232) was used to redeem the outstanding principal amounts of the pay-in-kind loans and notes, which were reported as part of long-term debt, and to pay accrued and unpaid interest and a redemption premium;

$89.2 million was used to redeem the outstanding principal amount of the 12% senior discount notes, which were reported as part of long-term debt (including accreted and unpaid interest), which were held by an affiliate of KKR;

$116.2 million of the net proceeds was used to redeem $101.6 million, or 27%, of the 2011 Notes, which were reported as part of long-term debt, and pay a redemption premium and accrued and unpaid interest;

$38.5 million was used to redeem all outstanding shares of the redeemable convertible preferred stock, which were held by an affiliate of KKR, including a redemption premium and accumulated and unpaid dividends; and

$10.0 million was used to terminate the management services agreement with affiliates of KKR and DLJMB.

Except with respect to the pay-in-kind loans and notes in which repayment became mandatory upon completing the IPO, each of these repayments and redemptions was voluntary.

A total of $137.7 million, or 31%, of the net proceeds were paid to affiliates of KKR and DLJMB consisting of $89.2 million to redeem the 12% senior discount notes held by an affiliate of KKR (including accrued and unpaid interest), $38.5 million (including a redemption premium and accumulated and unpaid dividends) to redeem the redeemable convertible preferred stock held by an affiliate of KKR and $10.0 million to terminate the management services agreement with affiliates of KKR and DLJMB. This amount does not include underwriting discounts and commissions received by Credit Suisse, an affiliate of DLJMB, in its capacity as an underwriter. At the time of the IPO, five of the nine members of the Company s board of directors were affiliated with KKR; two were affiliated with DLJMB; one, the Company s Chairman, is the Company s chief executive officer; and one is an independent director appointed on August 1, 2005. Prior to August 1, 2005, the Company s board of directors consisted of eight members who voted unanimously to approve the offering. Currently, the Company s board of directors consists of nine members, four of which are affiliated with KKR.

The pay-in-kind loans and notes, which were incurred and issued by the Company s direct subsidiary, Rockwood Specialties Consolidated, Inc., accrued interest at the rate of 15% per year and were to mature in 2011 and 2015, respectively. Interest was paid on these loans and notes by increasing the principal amount outstanding rather than making cash payments. The senior discount notes, which were issued by the Company s indirect subsidiary, Rockwood Specialties International, Inc., accrued interest at the rate of 12% per year, but did not require cash interest payments until 2007, and were to mature in 2011. The 2011 Notes, which were issued by Rockwood Specialties Group, Inc. (Group), accrue interest at the rate of 10 5/8% per year and mature in 2011. The redeemable convertible preferred stock accumulated dividends at 15% per year. See Note 15, Redeemable Convertible Preferred Stock, for further details.

Pre-tax charges related to the write-off of deferred financing costs associated with debt repaid with IPO proceeds were approximately $13.4 million. This amount is reported in loss on early extinguishment of debt in the Consolidated Statements of Operations.

In connection with the IPO, effective July 18, 2005, the Company s board of directors authorized a 34.22553019-for-one stock split of its common stock and increased our authorized shares of common stock to 400 million shares. As a result of the stock split, the accompanying consolidated financial statements reflect an increase in the number of outstanding shares of common stock, authorized shares and the transfer of the additional paid-in-capital to par value. All share amounts have been restated to reflect the retroactive effect of the stock split for all periods presented.

3. ACQUISITIONS:

Dynamit Nobel

On July 31, 2004, the Company consummated the Dynamit Nobel Acquisition. The Company paid approximately 1,635.0 million (or $1,968.5 million) (excluding repayment of certain assumed debt) in cash to mg technologies ag for the businesses acquired. On July 6, 2005, the Company paid $16.1 million of additional cash purchase price consideration (based on the July 6, 2005 exchange rate of 1.00 = $1.1927) in post-closing adjustments. The four divisions of Dynamit Nobel acquired by Rockwood were

(i) Chemetall, or Specialty Chemicals; (ii) Sachtleben Chemie, or Titanium Dioxide Pigments; (iii) CeramTec, or Advanced Ceramics and (iv) DNES Custom Synthesis (consisting of Dynamit Nobel Special Chemistry, Finorga, S.A. and Rohner A.G.), or Custom Synthesis, which is now known as Groupe Novasep. Through this acquisition, the Company believes it has created a portfolio of distinct specialty chemicals and advanced performance materials businesses, with diversified geographic and end-use markets, strong market positions and margins, and limited exposure to individual raw material fluctuations. The allocation of the purchase price to the identifiable assets acquired is complete.

The excess of the total purchase price over the estimated fair value of the net assets acquired at closing was allocated to goodwill. Goodwill arising from the transaction totaled $944.8 million at December 31, 2005. This represented a $32.3 million increase to goodwill from the initial allocation of the purchase price contained in our September 30, 2004 balance sheet and was primarily due to: a) refinement and reallocation of identifiable asset valuation estimates by the independent appraiser; b) the recognition of additional liabilities for which management was seeking additional information and did not have sufficient information to record as of September 30, 2004; c) the additional cash purchase price consideration of 13.5 million that represented post-closing adjustments; and d) reversal of deferred tax valuation allowances.

Johnson Matthey Pigments and Dispersions Business

On September 2, 2004, the Company completed the acquisition of the Pigments and Dispersions business of Johnson Matthey Plc. for approximately $50.0 million (including fees and expenses). The acquisition expands the Company s global color pigments and services business specifically within transparent iron oxide pigments and dispersions, color concentrates and complex inorganic color pigments for the surface and wood coatings, plastics, building materials and printing inks markets. The Company utilized the remaining undrawn funds from the term loan portion of its senior credit facilities to finance this transaction (see Note 9, Long-Term Debt).

This acquisition was accounted for using the purchase method of accounting and is incorporated into the Company s Performance Additives segment. The allocation of the purchase price to the identifiable assets acquired is complete. Goodwill of less than $1.0 million has been recorded. This acquisition is not significant on a pro forma basis and therefore, pro forma information is not provided.

Groupe Novasep Combination

On December 31, 2004, in connection with the combination of the three business lines of the Custom Synthesis segment (now known as the Groupe Novasep segment) with Groupe Novasep SAS, one of Rockwood s subsidiaries acquired 69.4% of the stock of Groupe Novasep SAS for a total purchase price of approximately $139.7 million, including assumed debt of $48.6 million, cash acquired of $14.6 million and the exchange of the remaining 30.6% of the stock of Groupe Novasep SAS for stock in the acquiring subsidiary. As a result of this transaction, the Company owns approximately 79% of the new Groupe Novasep. Management of Groupe Novasep owns the remaining 21%. The Company used cash on hand to finance this transaction.

This combination was accounted for using the purchase method of accounting and is incorporated into the Company s Groupe Novasep segment. The Company has finalized the estimated fair value of the assets acquired and liabilities assumed. Goodwill of $33.2 million is included in the accompanying balance sheet. This acquisition is not significant on a pro forma basis and therefore, pro forma information is not provided.

In this Form 10-K, the Dynamit Nobel Acquisition, the combination of the three lines of the Custom Synthesis segment (now known as the Groupe Novasep segment) and the acquisition of the Pigments and Dispersions business of Johnson Matthey Plc. are defined as the Acquisitions.

Sud Chemie AG Rheological Additives and Carbonless Developers Businesses

On December 31, 2005, the Company completed the acquisition of the rheological additives and carbonless developers businesses of Sud Chemie AG, Munich, Germany. This acquisition complements the Company s existing Clay-based Additives businesses and allows us to better serve customers with a broader product line, enhanced technical resources and increased production capability. The results of operations of this acquisition are not included in the consolidated financial statements. The financial position of these businesses is included in the consolidated balance sheet as of December 31, 2005.

This acquisition was accounted for using the purchase method of accounting and is incorporated into the Company s Performance Additives segment. The balance sheet as of December 31, 2005 reflects a preliminary purchase price allocation based on the preliminary results of an independent asset appraisal and internal review of the fair value of other assets acquired and liabilities assumed. Except for the possible effect of the post-closing adjustments, the Company expects to complete its assessment of the fair value of assets acquired during the second quarter of 2006. Goodwill of $9.9 million has been recorded as of December 31, 2005. This acquisition is not significant on a pro forma basis and therefore, pro forma information is not provided.

4. SEGMENT INFORMATION:

Rockwood operates in seven reportable segments according to the nature and economic characteristics of its products and services as well as the manner in which the information is used internally by the Company s key decision maker, who is the Company s Chief Executive Officer. The seven segments are: (1) Performance Additives, which consists of color pigments and services, timber treatment chemicals, clay-based additives and water treatment chemicals business lines; (2) Specialty Compounds; (3) Electronics, which consists of electronic chemicals, wafer reclaim and photomasks business lines; (4) Specialty Chemicals; (5) Titanium Dioxide Pigments; (6) Advanced Ceramics; and (7) Groupe Novasep.

Items that cannot be readily attributed to individual segments have been classified as Corporate. Corporate operating loss primarily represents payroll, professional fees and other operating expenses of centralized functions such as treasury, legal, internal auditing and consolidation accounting as well as the cost of operating our central offices (including some maintained based on legal or tax considerations). The primary components of corporate loss, in addition to operating loss, are interest expense on external debt (including the amortization of deferred financing costs), foreign exchange losses or gains, and mark-to-market gains or losses on derivatives. Major Corporate components within the reconciliation of income (loss) before taxes and minority interest (described more fully below) include systems/organization establishment expenses such as outside consulting costs for Sarbanes-Oxley initial documentation, tax provision (benefit) resulting from corporate income/(losses), interest expense on external debt, foreign exchange losses or gains, refinancing expenses related to external debt and initial public offering related expenses. Corporate identifiable assets primarily represent deferred financing costs that have been capitalized in connection with corporate external debt financing, deferred income tax assets and cash balances maintained in accordance with centralized cash management techniques. The corporate classification also includes the results of operations, assets (primarily real estate) and liabilities (including pension and environmental) of legacy businesses formerly belonging to Dynamit Nobel. These operations are substantially unrelated by nature to businesses currently within the Company s operating segments.

Summarized financial information for each of the reportable segments is provided in the following table:

($ in millions)	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Groupe Novasep	Corporate	Consolidated

Year Ended December 31, 2005									
Net sales	$ 680.7	$ 237.5	$ 181.8	$ 842.0	$ 430.5	$ 369.6	$ 379.1	$	$ 3,121.2
Adjusted EBITDA	148.3	29.5	26.9	174.2	86.6	93.8	51.9	(40.3)	570.9
Capital expenditures(1)	21.8	4.9	4.3	40.8	36.1	49.5	30.9	10.9	199.2
Year Ended December 31, 2004									
Net sales	$ 630.9	$ 200.4	$ 168.1	$ 321.1	$ 175.7	$ 146.3	$ 101.0	$	$ 1,743.5
Adjusted EBITDA	149.2	28.8	28.9	60.0	37.8	35.8	23.0	(31.1)	332.4
Capital expenditures	19.0	2.2	6.3	15.5	19.6	30.8	19.4		112.8
Year Ended December 31, 2003									
Net sales	$ 477.3	$ 176.4	$ 143.6	$	$	$	$	$	$ 797.3
Adjusted EBITDA	112.5	23.9	24.8					(11.7)	149.5
Capital expenditures	16.3	3.6	14.4						34.3

	Performance Additives	**Specialty Compounds**	**Electronics**	**Specialty Chemicals**	**Titanium Dioxide Pigments**	**Advanced Ceramics**	**Groupe Novasep**	**Corporate(2)**	**Eliminations(3)**	**Consolidated**
Identifiable assets as of:										
December 31, 2005	$ 1,011.5	$ 221.9	$ 323.6	$ 1,501.6	$ 644.8	$ 653.3	$ 396.7	$ 258.1	$ (201.4)	$ 4,810.1
December 31, 2004	1,014.1	228.6	332.7	1,632.6	707.4	750.6	656.8	155.7	(89.9)	5,388.6

(1) This includes the purchase of $6.7 million of other intangible assets in 2005.

(2) This includes $39.7 million and $65.2 million of assets from the legacy businesses formerly belonging to Dynamit Nobel at December 31, 2005 and 2004, respectively.

(3) Amounts contained in the Eliminations column represent the individual subsidiaries retained interest in their cumulative net cash balance (deposits less withdrawals) included in the corporate centralized cash system and within the identifiable assets of the respective segment. These amounts are eliminated as the corporate centralized cash system is included in the Corporate segment s identifiable assets.

The following table represents summarized geographic information with net sales based on seller s location:

	Year ended December 31,		
($ in millions)	**2005**	**2004**	**2003**
Net sales:			
United States	$ 921.2	$ 741.0	$ 523.0
Germany	1,164.7	483.7	34.3
Rest of Europe	789.2	391.7	183.0
Rest of World	246.1	127.1	57.0
	$ 3,121.2	$ 1,743.5	$ 797.3

The increase in net sales in 2005 and 2004 is primarily due to the acquisitions made in 2004 (see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, for further detail).

The following table presents our long-lived assets located in the regions indicated:

	December 31,	
($ in millions)	**2005**	**2004**
Long-lived assets:		
United States	$ 232.6	$ 198.7
Germany	665.5	703.0
Rest of Europe	346.2	470.6
Rest of World	162.2	194.5
	$ 1,406.5	$ 1,566.8

The summary of segment information above includes Adjusted EBITDA, a financial measure used by our chief decision maker and senior management to evaluate the operating performance of each segment.

Items excluded from Adjusted EBITDA

The process of refocusing and restructuring the businesses acquired in the KKR Acquisition and establishing the post-acquisition corporate entity, along with the impact of the Dynamit Nobel Acquisition and the Company s initial public offering, resulted in a number of charges that have affected Rockwood s historical results. These charges, along with certain other items, are added to or subtracted from income (loss) before taxes and minority interest to derive Adjusted EBITDA, as defined below. These items include the following:

Systems/organization establishment expenses: These expenses include:

costs of $0.3 million and $1.6 million in 2004 and 2003, respectively, that arose in connection with the KKR Acquisition and our resulting organization as a stand-alone company and expenses primarily relating to the amortization of sign-on compensation arrangements for key executives;

costs of $0.3 million and $2.1 million incurred during 2005 and 2004, respectively, relating to the integration of the business acquired in the Dynamit Nobel Acquisition; and

professional fees of $3.3 million and $1.9 million incurred during 2005 and 2004, respectively, in connection with the initial implementation of systems and internal control documentation in connection with the Sarbanes-Oxley Act of 2002. These expenses are reflected in the corporate column when our results are presented on a segment basis. We estimate non-recurring costs of approximately $1.5 million are remaining to complete initial Sarbanes-Oxley compliance.

Inventory write-up reversal: Under Statement of Financial Accounting Standard No. 141, *Business Combinations*, all inventories acquired in an acquisition must be revalued to fair value.

In connection with the Dynamit Nobel Acquisition, we allocated approximately $55.4 million of the total purchase price to inventory to reflect manufacturing profit in inventory at the date of the acquisition. This resulted in a consequential reduction in gross profit, including currency effects, of $60.1 million during 2004, as the inventory was sold in the normal course of business.

In connection with the pigments and dispersions acquisition in our Performance Additives segment, we included the $1.0 million impact from the reversal of inventory step-ups in 2004.

In connection with the Groupe Novasep combination, we allocated a portion of the total purchase price to inventory to reflect manufacturing profit in inventory at the date of the acquisition. This resulted in a consequential reduction in gross profit of $3.1 million for 2005 as the inventory was sold in the normal course of business.

Stamp duty tax: In June 2004, we paid a stamp duty tax of $4.0 million on certain assets transferred to the United Kingdom in connection with the KKR Acquisition.

Business interruption costs and insurance recovery: We recorded a gain of $4.5 million in 2003 for fire insurance settlements received in connection with fire related costs in our Electronics segment incurred in 2001.

Costs incurred related to debt modifications: In December 2003, we expensed $1.4 million in connection with a modification of our then senior credit agreement resulting in a 75 basis point interest rate reduction on $290.0 million of our senior debt. In July 2004, we expensed $1.0 million related to debt refinancing. In December 2004, we expensed $1.0 million related to the second amendment of the senior secured credit agreement resulting in a 25 basis point interest rate reduction on our tranche D term loans. In December 2005, we expensed $1.0 million related to the third amendment of the senior secured credit agreement resulting in a 25 basis point interest rate reduction on each of our tranche E and tranche F term loans.

Cancelled acquisition and disposition costs: For the years ended December 31, 2005, 2004 and 2003, costs of $1.2 million, $0.5 million and $1.9 million, respectively, were incurred in connection with non-consummated acquisitions and dispositions.

Management services agreement termination fee: In connection with the IPO, we recorded an expense of $10.0 million in the third quarter of 2005 to terminate the management services agreement with affiliates of KKR and DLJMB.

Loss on early extinguishment of debt: In the third quarter of 2005, the Company paid a redemption premium of $13.2 million to redeem long-term debt and wrote off $13.4 million of deferred financing costs associated with the debt repaid in connection with the IPO.

Impairment charges: In conjunction with the downsizing of our manufacturing operations at our Rohner AG facility within the Groupe Novasep segment, we recorded impairment charges of $44.7 million in 2005 primarily related to the write-down of property, plant and equipment. In the fourth quarter of 2005, we also recorded an impairment charge of $0.4 million to our property, plant and equipment in our Color Pigments and Services business within our Performance Additives segment.

As part of our annual impairment testing, we determined that there were asset impairments in certain businesses within our Electronics segment. These impairments resulted from a significant decline in earnings and operating cash flows, both historical and prospective, based on global economic conditions common to significant competitors, including overcapacity, as well as the erosion of the Electronics segment s business lines relative competitive position due to continued industry concentration and resulting pricing pressure. Accordingly, we recorded non-cash asset impairment charges to goodwill of $4.0 million and $19.3 million, respectively, in 2004 and 2003. Also, we recorded non-cash impairment charges to property, plant and equipment of $7.0 million and $15.7 million in 2004 and 2003, respectively.

Deferred Debt Issuance Costs:

In July 2003, we wrote off $36.9 million of deferred debt issuance costs relating to our previous long-term debt that was repaid as part of the July 2003 debt refinancing.

In July 2004, we wrote off $1.8 million of debt issuance costs related to previous long-term debt that was repaid as part of the Dynamit Nobel Acquisition.

In October 2004, we wrote off $6.1 million of deferred financing costs in connection with the first amendment of the senior secured credit agreement.

In November 2004, we wrote off $17.2 million of deferred financing costs in connection with the bridge loan repayments due to the issuance of the 2014 Notes.

As noted above, we wrote off $13.4 million of deferred financing costs in 2005 associated with the debt repaid in connection with the IPO. This write-off was reported in loss on early extinguishment of debt in the Consolidated Statements of Operations.

Foreign exchange gain (loss): During all periods presented, we have recorded foreign exchange gains and (losses) related to our long-term debt. These amounts reflect gains of $114.6 million during 2005 and losses of $115.5 million and $18.5 million during 2004 and 2003, respectively, for the non-cash translation impact on our euro-denominated debt resulting from the strengthening or weakening of the euro against the U.S. dollar. In addition, the foreign exchange loss in 2004 included a $10.9 million mark-to-market realized loss on foreign currency derivative agreements that we entered into in connection with the Dynamit Nobel Acquisition.

Losses from disposed businesses: During 2004, we incurred a loss of $0.8 million in connection with the disposition of a business in our Groupe Novasep segment.

Gains related to asset sales and other: The Company recorded $6.9 million of income in 2005 primarily related to asset sales and business sales from prior years. This includes the reversal of a bad debt reserve of $2.9 million related to a note receivable from the buyer in connection with the sale of a business by Dynamit Nobel prior to the Dynamit Nobel Acquisition, which was collected from the buyer in 2005. In addition, a gain of $1.7 million was recorded in the fourth quarter of 2005 related to the sale and leaseback of a facility in our Specialty Chemicals segment.

Restructuring and related charges: Restructuring charges of $14.4 million (including $0.5 million of charges recorded in cost of products sold in the consolidated statements of operations), $1.1 million and $1.8 million were recorded in 2005, 2004 and 2003, respectively, for miscellaneous restructuring activities, including facility closures and headcount reductions (see Note 18, Business Restructurings and Asset Sales, for further detail).

CCA litigation defense costs: During 2005, we incurred costs of $1.2 million in connection with litigation defense costs related to our Timber Treatment Chemicals business of our Performance Additives segment.

On a segment basis, the Company defines Adjusted EBITDA as operating income excluding depreciation and amortization, certain non-cash gains and charges, certain other special gains and charges deemed by our senior management to be non-recurring gains and charges and certain items deemed by senior management to have little or no bearing on the day-to-day operating performance of its business segments and reporting units. The adjustments made to operating income directly correlate with the adjustments to net income in calculating Adjusted EBITDA on a consolidated basis pursuant to the senior secured credit agreement. The indentures governing the 2011 Notes and the 2014 Notes exclude certain adjustments permitted under the senior credit agreement. Senior management uses Adjusted EBITDA on a segment basis as the primary measure to evaluate the ongoing performance of the Company s business segments and reporting units.

The Company uses Adjusted EBITDA on a segment and consolidated basis to assess its operating performance. In addition, management uses Adjusted EBITDA on a consolidated basis as the most significant criterion in the calculation of performance-based bonuses under its short-term incentive plan and the determination of whether certain performance-based stock options vest.

The Company believes this financial measure on a consolidated basis is helpful in highlighting trends in its overall business because Adjusted EBITDA excludes those items that have little or no bearing on day-to-day operating performance.

Because the Company views Adjusted EBITDA on both a segment basis and consolidated basis as an operating performance measure, the Company uses income (loss) before taxes and minority interest as the most comparable GAAP measure on a segment basis and net income (loss) as the most comparable GAAP measure on a consolidated basis. The following table presents a reconciliation of income (loss) before taxes and minority interest to Adjusted EBITDA on a segment GAAP basis:

($ in millions)	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Groupe Novasep	Corporate	Consolidated
Year Ended December 31, 2005									
Income (loss) before taxes and minority interest	$ 85.9	$ 22.3	$ 5.2	$ 89.4	$ 20.2	$ 34.1	$ (47.8)	$ (44.7)	$ 164.6
Interest expense, net (a)	20.6	(1.6)	5.3	36.2	30.8	30.1	17.5	76.7	215.6
Depreciation and amortization	33.2	8.3	15.3	44.7	36.2	29.8	35.8	3.1	206.4
Impairment charges	0.4						44.7		45.1
Restructuring and related charges (b)	6.3	(0.1)	3.0	4.2		2.6	(1.5)	(0.1)	14.4
CCA litigation defense costs	1.1							0.1	1.2
Systems/organization establishment expenses	0.3			(0.1)		0.1	0.2	3.6	4.1
Cancelled acquisition and disposal costs	0.2		0.1					0.9	1.2
Cost incurred related to debt modifications								1.0	1.0
Inventory write-up reversal							3.1		3.1
Management services agreement termination fee (c)								10.0	10.0
Loss on early extinguishment of debt (c)	1.1	0.6	0.3					24.6	26.6
Losses (gains) related to asset sales	0.2			(1.7)		(2.9)			(4.4)
Foreign exchange (gain) loss	(1.0)		(2.3)	1.9			(0.1)	(113.1)	(114.6)
Other				(0.4)	(0.6)			(2.4)	(3.4)
Total Adjusted EBITDA	$ 148.3	$ 29.5	$ 26.9	$ 174.2	$ 86.6	$ 93.8	$ 51.9	$ (40.3)	$ 570.9
Year Ended December 31, 2004									
Income (loss) before taxes and minority interest	$ 88.3	$ 21.0	$ (10.1)	$ (7.1)	$ 0.3	$ (13.8)	$ (1.0)	$ (261.4)	$ (183.8)
Interest expense, net (a)	26.8	(0.7)	5.4	24.3	15.7	16.6	5.5	68.5	162.1
Depreciation and amortization	32.0	7.7	20.8	17.4	15.0	11.5	9.8	1.0	115.2
Impairment charges			11.0						11.0
Restructuring and related charges	0.5	0.3		0.3					1.1
Systems/organization establishment expenses	0.2		0.2	0.1				4.3	4.8
Cancelled acquisition and disposal costs			0.2					0.3	0.5
Cost incurred related to debt modifications								2.0	2.0
Stamp duty tax								4.0	4.0
Inventory write-up reversal	1.0			25.4	6.6	20.8	7.3		61.1
Write-off of deferred debt issuance costs	0.4	0.2	0.1					24.4	25.1
Loss from disposed businesses							0.8		0.8
Foreign exchange loss (gain)	0.3		1.4	(0.9)			0.2	125.4	126.4
Other	(0.3)	0.3	(0.1)	0.5	0.2	0.7	0.4	0.4	2.1
Total Adjusted EBITDA	$ 149.2	$ 28.8	$ 28.9	$ 60.0	$ 37.8	$ 35.8	$ 23.0	$ (31.1)	$ 332.4
Year Ended December 31, 2003									
Income (loss) before taxes and minority interest	$ 54.1	$ 16.7	$ (31.5)	$	$	$	$	$ (147.3)	$ (108.0)
Interest expense, net (a)	30.0	(0.5)	6.6					76.2	112.3
Depreciation and amortization	27.4	7.2	17.1					0.7	52.4
Impairment charges			35.0						35.0
Restructuring and related charges	0.8	0.6	0.4						1.8
Systems/organization establishment expenses								1.6	1.6

Cancelled acquisition and disposal costs			1.6					0.3	1.9
Cost incurred related to debt modifications								1.4	1.4
Business interruption costs and insurance recovery			(4.5)						(4.5)
Inventory write-up reversal	0.2								0.2
Write-off of deferred debt issuance costs								36.9	36.9
Foreign exchange (gain) loss		(0.1)	0.1					18.5	18.5
Total Adjusted EBITDA	$ 112.5	$ 23.9	$ 24.8	$	$	$	$	(11.7)	$ 149.5

(a) Includes gains (losses) of $22.4 million, $6.0 million and $(6.0) million for the years ended December 31, 2005, 2004 and 2003, respectively, representing the movement in the mark-to-market valuation of the Company s interest rate and cross-currency hedging instruments.

(b) Includes inventory writedowns of $0.5 million recorded in cost of products sold for the year ended December 31, 2005.

(c) In connection with the IPO, the management services agreement with the affiliates of KKR and DLJMB was terminated for $10.0 million. In addition, a redemption premium of $13.2 million was paid in connection with the repayment of long-term debt and deferred financing costs of $13.4 million were written off.

The following table, which sets forth the applicable components of Adjusted EBITDA, presents a reconciliation of net income (loss) to Adjusted EBITDA on a consolidated basis:

($ in millions)	Year ended December 31, 2005	2004	2003
Net income (loss)	$ 95.8	$ (216.1)	$ (91.7)
Income tax provision (benefit)	71.8	32.3	(16.3)
Minority interest	(3.0)		
Income (loss) before taxes and minority interest	164.6	(183.8)	(108.0)
Interest expense, net (a)	215.6	162.1	112.3
Depreciation and amortization	206.4	115.2	52.4
Impairment charges	45.1	11.0	35.0
Restructuring and related charges (b)	14.4	1.1	1.8
CCA litigation defense costs	1.2		
Systems/organization establishment expenses	4.1	4.8	1.6
Cancelled acquisition and disposal costs	1.2	0.5	1.9
Costs incurred related to debt modifications	1.0	2.0	1.4
Business interruption and insurance recovery			(4.5)
Stamp duty tax		4.0	
Inventory write-up reversal	3.1	61.1	0.2
Management services agreement termination fee (c)	10.0		
Loss on early extinguishment of debt (c)	26.6		
Write-off of deferred debt issuance costs		25.1	36.9
Gains related to asset sales	(4.4)		
Loss from disposed businesses		0.8	
Foreign exchange (gain) loss	(114.6)	126.4	18.5
Other	(3.4)	2.1	
Total Adjusted EBITDA	$ 570.9	$ 332.4	$ 149.5

(a) Includes gains (losses) of $22.4 million, $6.0 million and $(6.0) million for the years ended December 31, 2005, 2004 and 2003, respectively, representing the movement in the mark-to-market valuation of the Company s interest rate and cross-currency hedging instruments.

(b) Includes inventory writedowns of $0.5 million recorded in cost of products sold for the year ended December 31, 2005.

(c) In connection with the IPO, the management services agreement with the affiliates of KKR and DLJMB was terminated for $10.0 million. In addition, a redemption premium of $13.2 million was paid in connection with the repayment of long-term debt and deferred financing costs of $13.4 million were written off.

5. INVENTORIES:

Inventories are comprised of the following:

($ in millions)	December 31, 2005	2004
Raw materials	$ 141.6	$ 140.4
Work-in-process	75.0	81.6
Finished goods	227.9	240.3
Packaging materials	13.7	14.6
	$ 458.2	$ 476.9

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6. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment, net is comprised of the following:

($ in millions)	December 31, 2005		December 31, 2004	
Land	$	147.6	$	190.0
Buildings and improvements, including land improvements		417.2		423.7
Machinery and equipment		906.7		873.3
Furniture and fixtures		87.7		80.3
Mining rights		86.3		86.3
Construction-in-progress		102.6		135.2
Property, plant and equipment, at cost		1,748.1		1,788.8
Less accumulated depreciation and amortization		(341.6)		(222.0)
Property, plant and equipment, net	$	1,406.5	$	1,566.8

Depreciation expense was $154.6 million, $88.6 million and $46.3 million for the years ended December 31, 2005, 2004 and 2003 respectively.

In 2005, the Company recorded an impairment charge of $44.4 million related to property, plant and equipment in its Groupe Novasep segment. The Company recorded an impairment charge of $7.0 million and $15.7 million in 2004 and 2003, respectively, related to property, plant and equipment in its Electronics segment. See Note 17, Impairment Charges.

In addition, property, plant and equipment at December 31, 2005 and 2004 includes items recorded under capital leases as follows:

($ in millions)	December 31, 2005		December 31, 2004	
Land	$	2.2	$	0.2
Buildings and improvements, including land improvements		51.1		58.0
Machinery and equipment		16.0		11.4
Furniture and fixtures		3.3		4.6
		72.6		74.2
Accumulated depreciation		(10.5)		(1.9)
Total	$	62.1	$	72.3

7. GOODWILL:

Below are goodwill balances and activity by segment:

Titanium

($ in millions)	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Dioxide Pigments	Advanced Ceramics	Groupe Novasep	Total
Balance, January 1, 2004	$ 450.9	$ 110.3	$ 122.7	$	$	$	$	$ 683.9
Impairment charges			(4.0)					(4.0)
Acquisitions	3.3		0.1	580.1	152.4	203.9	33.8	973.6
Foreign exchange	9.6	5.2	5.4	85.4	20.0	26.8		152.4
Balance, December 31, 2004	463.8	115.5	124.2	665.5	172.4	230.7	33.8	1,805.9
Acquisitions	9.9							9.9
Reversal of deferred tax valuation allowances				(12.5)		(5.1)		(17.6)
Other tax adjustments	2.5			(17.3)	0.6	(7.5)	2.0	(19.7)
Post-closing consideration and other related adjustments	3.5			3.5	1.7	1.9	1.9	12.5
Restructuring reserves				(0.9)	(0.4)	(1.6)		(2.9)
Foreign exchange	(21.1)	(6.3)	(4.7)	(98.9)	(22.8)	(31.1)	(4.5)	(189.4)
Other	0.9		(0.2)	(0.6)	0.2	0.2		0.5
Balance, December 31, 2005	$ 459.5	$ 109.2	$ 119.3	$ 538.8	$ 151.7	$ 187.5	$ 33.2	$ 1,599.2

SFAS 142, *Goodwill and Other Intangible Assets*, also requires impairment testing at least annually. The goodwill test for impairment begins with an estimation of the fair value of each reporting unit. In general, the Company has determined reporting units to be each of its divisions, one level below the reportable segment level. The impairment charge recorded in 2004 was recognized as a result of this testing. The Company did not record any goodwill impairment charges in 2005 as a result of the impairment testing performed. See Note 17, Impairment Charges.

8. OTHER INTANGIBLE ASSETS:

Other intangible assets, net consist of:

($ in millions)	As of December 31, 2005 Gross Carrying Amount (a)	As of December 31, 2005 Accumulated Amortization	As of December 31, 2005 Net	As of December 31, 2004 Gross Carrying Amount	As of December 31, 2004 Accumulated Amortization	As of December 31, 2004 Net
Patents and other intellectual property	$ 340.1	$ (64.3)	$ 275.8	$ 377.3	$ (39.4)	$ 337.9
Trade names and trademarks	114.3	(7.4)	106.9	115.0	(1.5)	113.5
Customer relationships	190.6	(20.9)	169.7	210.5	(6.5)	204.0
Other	32.0	(5.5)	26.5	7.8	(3.1)	4.7
Total	$ 677.0	$ (98.1)	$ 578.9	$ 710.6	$ (50.5)	$ 660.1

(a) Decrease from December 31, 2004 primarily due to currency effects.

Amortization of other intangible assets was $51.8 million, $26.6 million and $6.1 million for the years ended December 31, 2005, 2004 and 2003, respectively. Estimated amortization expense for each of the five succeeding fiscal years is as follows:

($ in millions) Year ended	Amortization Expense
2006	$ 47.6
2007	45.8
2008	45.3
2009	45.0
2010	43.9

9. LONG-TERM DEBT:

Long-term debt and loans payable are summarized as follows:

($ in millions)		December 31, 2005		2004
Senior secured credit facilities:				
Tranche A-1 term loans (39.1 as of December 31, 2005 and 2004)	$	46.1	$	53.2
Tranche A-2 term loans (170.4 as of December 31, 2005 and 2004)		201.0		231.6
Tranche C term loans (274.8 as of December 31, 2004) (repaid December 13, 2005)				373.5
Tranche D term loans (repaid December 13, 2005)				1,145.0
Tranche E term loans		1,139.3		
Tranche F term loans (273.4 as of December 31, 2005)		322.5		
Revolving short-term loans		30.0		
2011 Notes		273.4		375.0
2014 Notes (375.0 and $200.0 as of December 31, 2005 and 2004)		642.4		709.7
Pay-in-kind loans and notes (87.8 and $54.4 as of December 31, 2004) (repaid August 22, 2005)				173.7
Senior discount notes (repaid August 22, 2005)				82.8
Other term loan facilities		92.7		127.5
Capitalized lease obligations (51.0 and 48.8, respectively)		61.2		66.3
Preferred stock of subsidiary (£12.0 as of December 31, 2005 and 2004)		20.6		23.0
Other (12.2 and 14.1, respectively)		14.6		19.3
		2,843.8		3,380.6
Less current maturities		(113.1)		(47.2)
	$	2,730.7	$	3,333.4

Maturities of long-term debt are as follows:

($ in millions)		
2006	$	113.1
2007		79.9
2008		99.5
2009		72.0
2010		74.2
Thereafter		2,405.1
	$	2,843.8

Senior Secured Credit Facilities

a) Structure

In connection with the Acquisition Financing, the Company entered into a senior secured credit agreement on July 30, 2004. The full amount of the tranche A-1 term loans, 128.5 million of the tranche A-2 term loans, $985.0 million of the tranche B term loans and 222.1 million of the tranche C term loans were drawn in a single drawing on the closing of the Dynamit Nobel Acquisition. The remaining 41.9 million of the tranche A-2 term loans were drawn in a single drawing on September 30, 2004 in connection with the acquisition of the pigments and dispersions business of Johnson Matthey Plc.

On October 8, 2004, the Company amended its senior secured credit facilities to borrow an additional $160.0 million of tranche B term loans and 52.7 million (or $65.5 million) of tranche C term loans (or $225.5 million in the aggregate) and used the proceeds to repay a portion (105.9 million and $89.9 million or $221.4 million in the aggregate) of the higher interest rate bearing borrowings under the senior subordinated loan facility (subsequently repaid in full through the issuance of the 2014 Notes described herein) and to pay related fees of $2.3 million. The Company wrote off $6.1 million of deferred financing costs in connection with the repayment under this amendment. On December 10, 2004, the Company entered into the second amendment to the senior secured credit agreement to borrow $1,145.0 million of tranche D term loans and used the proceeds to repay in full the tranche B term loans, reducing the interest rate on this debt by 25 basis points as a result. Related fees of $1.0 million were expensed.

On December 13, 2005, the Company entered into the third amendment to the senior secured credit agreement to borrow $1,139.3 million of new tranche E term loans and 273.4 million of new tranche F term loans and used the proceeds to repay in full the tranche C and tranche D term loans, reducing the interest rates on this debt by 25 basis points each. Related fees of $1.0 million were expensed.

b) Availability

The senior secured credit facilities consist of the term loan tranches listed above as well as a senior secured revolving credit facility in an aggregate principal amount of $250.0 million made available in U.S. dollars, euros and/or pounds sterling. A portion of the revolving credit facility is available in the form of letters of credit and swingline loans. Under the terms of the amendments, the Company may, under certain circumstances and subject to receipt of additional commitments from existing lenders or other eligible institutions, request that the tranche E term loans and/or the revolving credit commitments be increased by an aggregate amount of up to $250.0 million. As of December 31, 2005 the Company had outstanding borrowings of $30.0 million under the revolving credit facility, and $24.0 million of letters of credit issued on its behalf. As of March 15, 2006, the Company had outstanding borrowings of $30.0 million and 10.0 million ($12.1 million using the March 15, 2006 exchange rate of 1.00=1.2069) under the revolving credit facility.

Amounts borrowed under the term loan facilities other than the revolving credit facility that are repaid or prepaid may not be reborrowed.

c) Interest and Fees

The interest rates per year under the tranche A-1 and A-2 term loan facilities are Adjusted EURIBOR plus 2.25%. The interest rate per year, at the Company s option, under the tranche E term loan facility is Adjusted LIBOR plus 2.00% or ABR plus 0.75%. Adjusted LIBOR is the London inter-bank offered rate, adjusted for statutory reserves. The interest rate per year under the tranche F term loan facility is Adjusted EURIBOR plus 2.75%. The interest rates under the revolving credit facility are, at the Company s option, Adjusted LIBOR plus 2.25% or, ABR plus 1.00%. Adjusted EURIBOR is the euro inter-bank offered rate, adjusted for statutory reserves. In each case, the interest rates per year are subject to step-downs determined by reference to a performance test. ABR is the alternate base rate, which is the higher of Credit Suisse s prime rate and the federal funds effective rate plus 0.5%.

The Company may elect interest periods of one, two, three or six months (or in the case of revolving credit loans, nine or twelve months, to the extent available from all lenders under the revolving credit facility) for Adjusted LIBOR borrowings. Interest is payable quarterly in the case of ABR loans and at the end of each interest period and, in any event, at least every three months, in the case of Adjusted LIBOR borrowings.

The senior secured credit facilities require payment of customary commitment, letter of credit and other fees.

d) Guarantees; Security

Obligations under the senior secured credit facilities are guaranteed by Rockwood Specialties International, Inc. and each of Rockwood Specialties Group Inc. s existing and subsequently acquired or organized direct or indirect domestic subsidiaries, subject to certain exceptions, and are secured by first-priority security interests in: substantially all the tangible and intangible assets of the Company and its direct or indirect domestic subsidiaries, subject to exceptions; all the capital stock of or other equity interest in the Company and each of its direct or indirect domestic subsidiaries; a maximum of 65% of the capital stock of or other equity interests in each direct foreign subsidiary of either Group or of any domestic subsidiary of the Company.

e) Maturity, Amortization and Prepayments

The tranche A-1 and A-2 term loans will mature on July 30, 2011 and amortize at escalating percentages on a semi-annual basis commencing on January 31, 2006. The tranche E term loans and tranche F term loans will mature on July 30, 2012 and amortize on a semi-annual basis commencing on July 31, 2006, with each repayment amount prior to maturity to be equal to 0.5% of the principal amount of the former tranche C term loans and tranche D term loans, respectively. The revolving credit facility will mature on July 30, 2010. The tranche E and F term loans have a prepayment fee equal to 1.0% of the aggregate principal amount of such prepayment for one year from the date of issuance.

In addition, the Company is required to make the following mandatory prepayments of the term loans under the senior secured credit facilities, in each case subject to certain exceptions, with:

100% of the net cash proceeds of all sales or other dispositions by the Company or any of its restricted subsidiaries under the senior secured credit facilities of assets other than net cash proceeds (a) from the sale or other disposition of assets in the ordinary course of business, (b) of certain disposals permitted under the senior secured credit agreement (including the proceeds of sales or transfers of accounts receivable (including pursuant to a securitization) in the amount of up to

$200.0 million at any time) or (c) that are reinvested in the Company and its restricted subsidiaries within twelve months of the sale or other disposition (subject to extension in certain circumstances).

100% of the net cash proceeds of issuances of certain debt obligations.

50% of excess cash flows, as defined, in respect of any fiscal year at the end of which the consolidated total debt to consolidated EBITDA ratio is equal to or greater than 3.50 to 1.0, reduced by any amounts reinvested during the first six months of the year and voluntary prepayments.

f) Financial Covenants

The new senior secured credit facilities contain the following financial covenants:

a consolidated total net debt to consolidated Adjusted EBITDA test;

a consolidated Adjusted EBITDA to consolidated cash interest expense test; and

limitations on capital expenditures.

For purposes of calculating compliance with the financial covenants as of any date, foreign currency denominated indebtedness is to be converted to U.S. dollars based on average exchange rates for the twelve-month period ending on such date. The Company was in compliance with all financial covenants at December 31, 2005 and 2004.

2011 Notes In connection with the July 2003 refinancing, the Company issued $375.0 million principal amount of senior subordinated notes due 2011 (2011 Notes). As previously discussed, $101.6 million, or 27%, of the 2011 Notes were redeemed with the IPO proceeds. Interest on the 2011 Notes is payable semi-annually on May 15 and November 15 and accrues at the rate of 10.625% per year. Certain of our domestic subsidiaries guarantee the 2011 Notes on a senior subordinated basis. The Company may redeem up to 35% of the aggregate original principal amount of the 2011 Notes at a redemption price equal to 110.625% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date at any time prior to May 15, 2006, with the net proceeds of one or more equity offerings. Thereafter, the Company may redeem the 2011 Notes in whole or in part, at a premium, which declines annually through maturity. The 2011 Notes have covenants and other terms and conditions that are comparable or generally less restrictive than the senior secured credit facilities.

2014 Notes On November 10, 2004, the Company repaid the senior subordinated loan facility by completing the sale of 375.0 million aggregate principal amount of 7.625% senior subordinated notes and $200.0 million aggregate principal amount of 7.500% senior subordinated notes, both due in 2014 (2014 Notes). The 2014 Notes are *pari passu* to existing and future senior subordinated indebtedness, including the 2011 Notes and junior to all of the Company s existing and future senior indebtedness. The 2014 Notes are guaranteed on a senior subordinated unsecured basis by certain of the Company s domestic subsidiaries. Proceeds aggregating $684.7 million from the sale of the 2014 Notes were used to repay $260.1 million and 313.2 million (or $404.8 million) (an aggregate of $664.9 million), representing the remaining outstanding borrowings under the Company s senior subordinated loan facility, plus accrued interest of $2.0 million thereon, pay related fees and expenses of approximately $9.6 million and for general corporate purposes.

Other term loan facilities Certain of our subsidiaries acquired in the Dynamit Nobel Acquisition are borrowers under ten euro-denominated term loan facilities that provide aggregate outstanding borrowings of approximately 24.5 million ($28.9 million) as of December 31, 2005. These term loans mature between 2006 and 2019 and bear annual interest rates ranging between 1.00% and 4.58% or EURIBOR plus 1.45% or LIBOR plus 0.39%. In addition, certain of our subsidiaries acquired in the Dynamit Nobel Acquisition are borrowers under six term loan facilities denominated in other foreign currencies, including Swiss Francs, Taiwanese Dollars, Chinese Renminbi and Japanese Yen, providing for borrowings of an aggregate U.S. dollar equivalent amount of approximately $36.4 million as of December 31, 2005, of which $33.9 million was paid in January 2006. These term loans mature between 2006 and 2011 and bear annual interest rates ranging between 2.22% and 5.64%. The term loan facilities described above contain customary events of default and some of them are secured by mortgages or accounts receivables.

Additionally, Groupe Novasep (including subsidiaries) has three tranches of bank debt at the Novasep parent level totaling 10.8 million ($12.8 million) and $9.0 million ($21.8 million in total), each with a maturity date of 2010 and interest rates of EURIBOR plus 1.75% in the case of two of the tranches, and LIBOR plus 1.75% for the remaining tranche. In addition, there is bank debt at the Groupe Novasep subsidiary level totaling 5.0 million ($5.9 million) with maturity dates ranging from 2006 to 2010 and interest rates ranging from EURIBOR plus 0.7% to EURIBOR plus 1.25%. The remaining amount of assumed debt of 14.0 million ($16.5 million) consists primarily of capital leases with maturity dates ranging from 2006 to 2013.

Preferred stock of subsidiary Chemetall Plc., a Rockwood subsidiary, had previously issued 12.0 million shares of preferred stock, which must be redeemed at their par value (£1) on July 3, 2008 and may be called at an earlier date. The shares have a liquidation preference at their par value and pay an annual dividend of 9.0% payable on January 3 and July 3 of each year. If, in the opinion of management, the level of profit reported does not allow the payment of a dividend, the dividend arrearage must be paid in subsequent years. The preferred stock does not confer any voting rights unless the payment of the dividend or redemption price is more than six months in arrears or a vote is being held on the company s liquidation or a capital reduction. The Company is currently meeting its dividend obligations. The terms and conditions governing the issuance of the preferred stock contain covenants obliging the issuer to maintain a certain debt/equity ratio.

Senior Discount Notes In August 2005, net proceeds of $89.2 million from the IPO were used to redeem the outstanding principal amount of the 12% senior discount notes (including accreted and unpaid interest), which were held by an affiliate of KKR.

The $70.0 million initial principal balance on the senior discount notes accreted semiannually through August 22, 2005, the date the notes were repaid. Accrued interest of $3.4 million was included in the senior discount note balance at December 31, 2004.

Pay-in-kind Loans and Notes In August 2005, net proceeds of $61.1 million and 98.3 million ($120.2 million, based on the August 22, 2005 exchange rate of 1.00 = $1.2232) from the IPO were used to redeem the outstanding principal amounts of the pay-in-kind loans and notes, and to pay accrued and unpaid interest and a redemption premium.

Interest on the pay-in-kind loans and notes accrued at an annual rate of 15%, and to the extent not paid in cash, could be financed, at the option of the borrower, Rockwood Specialties Consolidated, Inc., through increasing the principal amount outstanding (or, in the case of the pay-in-kind notes, at the holder s option, through the issuance of additional pay-in-kind notes) at the end of each six-month period. Accrued interest of $4.0 million at December 31, 2004 was also included in the pay-in-kind Notes balance, as it was Consolidated s intention to finance this interest by increasing the principal amount outstanding. In connection with the Dynamit Nobel Acquisition, $20.0 million of the pay-in-kind loans issued as interest-in-kind payments on the initial $70.0 million of the pay-in-kind loans were repaid in cash, and the remaining pay-in-kind loans were exchanged for new 82.6 million aggregate principal amount of pay-in-kind loans bearing pay-in-kind interest at the same rate as the old pay-in-kind loans, with a maturity date of January 31, 2015. Also, there was a prepayment penalty equal to 2% of the accreted value of the pay-in-kind Notes being prepaid on or before July 31, 2006. The aggregate principal amount of the remaining $30.0 million of pay-in-kind loans had accreted to $54.4 million as of December 31, 2004. The agreement governing the pay-in-kind loans initially provided that the pay-in-kind loans may not be prepaid before November 20, 2005. In June 2005, the agreement was amended to require Rockwood Specialties Consolidated, Inc. to prepay the loans in the event of an equity offering by the Company prior to November 20, 2005 resulting in gross proceeds to the Company in excess of $400.0 million, at an aggregate principal amount equal to the present value of the accreted value of the prepayment date computed using an annual discount rate equal to 5.0%.

In connection with the initial issuance of the pay-in-kind loans and notes, the Company issued a total of 1,036,114 of its common shares, with a fair value of $14.61 per share. This amount has been recorded as deferred debt issuance costs.

Fair Value The Company estimates that its 2014 Notes and debt under the senior secured credit facilities, based on current interest rates and terms, approximates fair value. Based on quoted market values at December 31, 2005, the Company estimates the fair value of its 2011 Notes approximated $299.7 million.

Covenants The Company was in compliance with its applicable debt covenants at December 31, 2005 and 2004.

Derivative Contracts The Company has historically entered into interest rate swaps to manage its exposure to changes in interest rates related to euro-denominated debt. In 2005 and 2004, the Company entered into interest rate swaps. As of December 31, 2005, these contracts covered notional amounts of $749.0 million (at rates of 3.644% and 4.499%) and

478.4 million (at rates ranging from 2.497% to 4.529%). These contracts effectively convert 80% of the Company s floating rate debt instruments to fixed rate obligations for the contract periods. The swaps mature between July 2007 and July 2008. As of December 31, 2004, these contracts covered notional amounts of $652.6 million (at a rate of 5.89%) and 486.0 million (at rates ranging from 5.58% to 7.03%). The Company elected not to apply hedge accounting for these interest rate swaps in the historical periods presented and recorded the mark-to-market of these derivative transactions as a component of interest expense. These transactions decreased interest expense by $9.1 million in 2005 and increased interest expense by $4.4 million and $5.2 million in the years ended December 31, 2004 and 2003, respectively, of which gains of $18.8 million, $5.2 million and $4.5 million in 2005, 2004 and 2003, respectively, represented mark-to-market adjustments. The related asset and liability on the contracts marked-to-market adjustments is reflected in Other Assets and Other liabilities, respectively, in the Consolidated Balance Sheets. The Company believes that the counterparties to these agreements are financially sound institutions and the credit risk for non-performance of these contracts is not significant.

During 2003 the Company entered into cross-currency interest rate swaps with notional amounts aggregating $78.2 million that effectively converted $78.2 million U.S. dollar borrowings into euro based obligations at an effective interest rate of EURIBOR plus 4%. In connection with the July 2003 refinancing, the Company reduced the notional amounts of this cross currency hedge to $20.1 million and 17.7 million. These contracts have final maturity dates of July 2010. These transactions decreased interest expense by $4.4 million in 2005 and increased interest expense by $0.1 million and $11.0 million in the years ended December 31, 2004 and 2003, respectively, of which gains of $3.6 million and $0.8 million in 2005 and 2004, respectively, and losses of $10.5 million in 2003 represented mark-to-market adjustments.

In connection with the offering of the 2014 Notes, we entered into cross currency interest rate swaps with a five year term and a notional amount of   155.6 million that effectively convert the U.S. dollar fixed rate debt in respect of the 2014 dollar-denominated notes sold into euro fixed rate debt. We designated this contract as a hedge of the foreign currency exposure of our net investment in its euro-denominated operations. There was no ineffective portion of the net investment hedge as of December 31, 2005. The Company does not expect any of the loss on the net investment hedge residing in other comprehensive income at December 31, 2005 to be reclassified into earnings in 2006.

In addition, we designated the remaining portion of our euro-denominated debt that is recorded on our U.S. books as a net investment hedge of our euro-denominated investments as of October 1, 2005 (euro debt of   687.6 million and $811.1 million based on the December 31, 2005 exchange rate of   1.00=$1.1796). As a result, any foreign currency gains and losses resulting from the euro-denominated debt discussed above, effective October 1, 2005 is accounted for as a component of accumulated other comprehensive income. There was no ineffective portion of the net investment hedge as of December 31, 2005. The Company does not expect any of the loss on the net investment hedge residing in other comprehensive income at December 31, 2005 to be reclassified into earnings in 2006.

During 2005, the Company designated as cash flow hedges certain foreign currency derivative contracts to hedge its exposure to the foreign currency rate variability of the functional-currency equivalent of the foreign-currency denominated cash flows associated with forecasted sales or forecasted purchases. The ultimate maturities of the contracts are timed to coincide with the expected occurrence of the underlying forecasted transaction.

For the year ended December 31, 2005, the Company reported after-tax losses of $0.6 million in accumulated other comprehensive income (AOCI) relating to the change in the fair value of derivatives designated as foreign exchange cash flow hedges. It is expected that this amount will be reclassified into earnings within the next twelve months. There was no gain or loss reclassified from AOCI into income as a result of the discontinuance of cash flow hedges due to the probability of the original forecasted transactions not occurring. As of December 31, 2005, the maximum length of time over which the Company has hedged its exposure to movements in foreign exchange rates for forecasted transactions is six months.

As of December 31, 2005, $1,135.2 million of the debt outstanding was denominated in euros.

In order to mitigate the effect of any exchange rate changes which may have taken place prior to the closing of the Dynamit Nobel Acquisition, the Company entered into call options, permitting it to purchase up to   750.0 million at a price of $1.225 =   1.00. The options expired unexercised and the Company recorded an aggregate loss of $11.0 million on the call options in 2004. Rockwood also entered into a forward contract in July 2004 to purchase   1,057.0 million of euros at a fixed U.S. dollar rate of $1.208 =   1.00 which was utilized to pay for a portion of the purchase price at the closing of the Dynamit Nobel Acquisition. The Company recorded a related charge of $4.2 million in 2004.

Deferred Debt Issuance Costs In connection with the Dynamit Nobel Acquisition, the Company wrote-off $1.8 million of deferred debt issuance costs during 2004. Also, the Company capitalized fees of $69.7 million during the same period related to the financing of the Dynamit Nobel Acquisition which are being amortized using the effective interest rate method over the term of the debt outstanding. The Company wrote off $6.1 million of deferred financing costs in connection with the October 8, 2004 amendment of the secured credit facilities. Also, a write-off of $17.2 million of deferred financing costs was incurred related to the bridge loan repayments in connection with the issuance of the 2014 Notes.

Loss on Early Extinguishment of Debt In the third quarter of 2005, the Company paid a redemption premium of $13.2 million ($10.8 million on the 2011 Notes and $2.4 million on the pay-in-kind loans and notes) and wrote-off $13.4 million ($10.9 million on the pay-in-kind loans and notes and $2.5 million on the 2011 Notes) of deferred financing costs associated with the debt repaid in connection with the IPO.

10. TAXES ON INCOME:

Income (loss) before income taxes is as follows:

($ in millions)	Year Ended December 31, 2005	2004	2003
United States	$ 76.0	$ (146.4)	$ (81.0)
Foreign	88.6	(37.4)	(27.0)
	$ 164.6	$ (183.8)	$ (108.0)

The provision (benefit) for taxes on income consisted of the following:

($ in millions)	Year Ended December 31 2005	2004	2003
Current income tax expense (benefit):			
Federal	$	$	$ 0.8
State	2.0	5.3	(0.3)
Foreign	30.0	16.2	9.0
	$ 32.0	$ 21.5	$ 9.5
Deferred income tax expense (benefit):			
Federal	$ 9.1	$ 28.9	$ (20.4)
State	7.3	(3.8)	2.7
Foreign	23.4	(14.3)	(8.1)
	39.8	10.8	(25.8)
Total provision (benefit) for taxes	$ 71.8	$ 32.3	$ (16.3)

Amounts are reflected in the preceding table based on the location of the taxing authorities. Changes in enacted rates impact tax provision in the year a rate change is enacted.

Deferred income taxes are provided for the effects of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes. The deferred tax assets and liabilities are determined by applying the enacted tax rate in the year in which the temporary difference is expected to reverse.

The tax effects of the major items recorded as deferred tax assets and liabilities are as follows:

	December 31,			
($ in millions)		**2005**		**2004**
Current deferred income tax assets:				
Allowance for doubtful accounts	$	10.4	$	4.0
Restructuring		2.2		2.7
Other current reserves and accruals		13.7		25.8
Valuation allowance		(14.1)		(10.9)
Total current deferred income tax assets	$	12.2	$	21.6
Noncurrent deferred income tax assets:				
Derivative instruments and foreign currency loss		1.8		36.7
Pay-in-kind interest				29.3
Pension and postretirement benefits		59.0		29.3
Tax loss carryforwards and credits		167.4		137.9
Other non-current reserves and accruals		11.6		7.6
Valuation allowance		(63.0)		(109.8)
Total noncurrent deferred income tax assets	$	176.8	$	131.0
Noncurrent deferred income tax liabilities:				
Derivative instruments and foreign currency gain		(25.4)		(1.1)
Goodwill and other intangibles		(93.6)		(79.2)
Property, plant and equipment		(78.1)		(77.1)
Other		(6.9)		(4.5)
Total noncurrent deferred income tax liabilities	$	(204.0)	$	(161.9)
Net deferred income tax liability	$	(15.0)	$	(9.3)

Reconciliations of the U.S. statutory income tax rate to the effective tax rate are as follows:

	Year Ended December 31,		
	2005	**2004**	**2003**
Federal statutory rate	35.0%	(35.0)%	(35.0)%
State taxes, net of federal effect	3.7	0.5	2.2
Foreign/U.S. tax differential	6.2	4.4	1.9
Goodwill	0.1	0.7	6.4
(Decrease) increase in valuation allowance	(5.4)	40.5	5.9
Debt instruments	2.9	2.9	
Other	1.1	3.6	3.5
Effective tax rate	43.6%	17.6%	(15.1)%

The Company s U.S. operations are included in a consolidated federal income tax return. The amount of current and deferred tax expense is computed on a separate entity basis for each member of the group based on applying the principles of SFAS 109.

As of December 31, 2005, the Company has U.S. federal and foreign tax loss carryforwards (excluding state and local amounts) of approximately $458.6 million, of which $320.6 million expire in years 2006 through 2025 and $138.0 million have no current expiration date. Included in the U.S. federal and foreign carryforwards are U.S. federal tax loss carryforwards of $264.5 million, of which $243.5 million expire in 2020 and beyond. The Company also has state and local tax loss carryforwards of approximately $181.3 million expiring in years 2007 through 2025.

The Company has reduced its worldwide valuation allowance during 2005 by $43.6 million, from $120.7 million to $77.1 million primarily due to reductions in the U.S. valuation allowance due to the decrease in U.S. deferred tax assets. The reduction consists of amounts equal to $17.6 million related to the valuation allowance booked to goodwill in connection with prior year acquisitions, $12.7 million related to the reduction in deferred tax assets relating to amounts recorded in other comprehensive income and $8.7 million related to the valuation allowance for amounts recorded as income from continuing operations with the remainder related to foreign currency fluctuations.

In 2005, based on the Company s policy and steady-state analysis, we determined we did not have sufficient positive evidence of future taxable income in order to release the U.S. valuation allowance recorded in 2004. During 2005, our U.S. net deferred tax assets were reduced by $42.9 million and based on our policy, we reversed the valuation allowance by the same amount resulting in a net zero deferred tax asset in the U.S., other than a $0.6 million noncurrent deferred tax liability relating to goodwill with an indefinate reversal period. The U.S. valuation allowance reduction was allocated to goodwill, other comprehensive income and income from continuing operations in accordance with the respective activity generating the reversal in the net deferred tax assets and is included in the overall consolidated reversal equal to $43.6 million above.

The valuation allowance as of December 31, 2005 and 2004 is attributable to deferred tax assets related to certain tax loss carryforwards in the United Kingdom, Italy, Switzerland, Germany and the U.S., including certain states, as well as other net deferred tax assets, for which it is more likely than not that the related tax benefits will not be realized. It is the Company s policy that the valuation allowance is decreased or increased in the year management determines that it is more likely than not that the deferred tax assets will be realized or not.

A table reflecting the activity in the valuation allowance is as follows:

($ in millions)	**Balance at Beginning of Period**	**Deductions Charged to Expense**	**Additions Acquired**	**Deletions Other**	**Balance at End of Period**
Valuation Allowance					
For the year ended December 31, 2005	$ 120.7	$ (8.7)	$	$ (34.9)	$ 77.1
For the year ended December 31, 2004	$ 16.4	$ 81.1	$ 23.2	$	$ 120.7
For the year ended December 31, 2003	$ 10.1	$ 6.3	$	$	$ 16.4

At December 31, 2005 and 2004 the Company had undistributed foreign earnings of $262.3 million and $106.6 million, respectively, which the Company intends to be permanently reinvested. The Company has determined that it is not practicable to compute a deferred tax liability for foreign withholding taxes or U.S. income taxes on these earnings. The foreign currency gains recorded in other comprehensive income related to intercompany debt and foreign currency translation have not been tax effected in accordance with the indefinite reversal criteria.

The Company records liabilities for potential assessments in various tax jurisdictions. The liabilities relate to tax return positions, although supportable by the Company, that may be challenged by the tax authorities. The Company adjusts these liabilities as a result of changes in tax legislation, interpretations of laws by Courts, rulings by tax authorities, changes in estimates and the closing of the statute of limitations. The Company s effective tax rate in any given year includes the impact of any changes to these liabilities. Settlement of any issue with the tax authorities would require the use of cash. Favorable resolution of an issue would be recognized either as reduction to the Company s annual tax rate or, in the case of acquired liabilities, an adjustment to goodwill.

11. OPERATING LEASE OBLIGATIONS:

The following is a schedule of minimum future rentals under the terms of noncancelable operating leases as of December 31, 2005:

($ in millions)	
Years ended December 31:	
2006	$ 20.9
2007	15.2

2008		10.9
2009		7.4
2010		5.3
Thereafter		21.6
Total	$	81.3

Rent expense under all operating leases was $28.3 million, $21.8 million and $10.1 million for the years ended December 31, 2005, 2004 and 2003, respectively. Rent escalations and other lease concessions are reflected on a straight-line basis over the minimum lease term. Minimum future rentals include the effect of any index or rate that was applicable at lease inception.

12. EMPLOYEE BENEFIT PLANS:

The Company maintains various defined benefit pension plans, which cover certain employees in the U.S., U.K., Germany, and other countries. Two subsidiaries in the United States provide various retirees with postretirement benefits, principally health care benefits. In addition, the Company provides certain retired employees in Germany with postretirement benefits for private health insurance premiums.

Funding requirements and investment policies for the Company s various defined benefit plans are governed by local statutes and fiduciary standards outlined below.

The following tables provide a reconciliation of the benefit obligations, plan assets and the funded status of the plans, along with the amounts recognized in the consolidated balance sheets and the weighted average assumptions used. The Company uses a December 31 measurement date for a majority of its plans.

	Pension Benefits			
	U.S. Plans		**Non-U.S. Plans**	
($ in millions)	**2005**	**2004**	**2005**	**2004**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 25.5	$ 5.3	$ 597.1	$ 42.0
Service cost	1.0	1.0	9.1	4.9
Interest cost	1.5	0.8	24.9	12.4
Plan participants contributions			0.5	0.7
Acquisitions		21.4	1.0	506.9
Actuarial loss	0.7	1.8	60.6	21.7
Foreign exchange (gain) loss			(102.4)	22.2
Benefits paid	(1.1)	(0.4)	(25.6)	(13.7)
Curtailment/settlement		(4.4)	1.4	
Purchase accounting adjustments			0.1	
Other			(8.8)	
Benefit obligation at end of year	$ 27.6	$ 25.5	$ 557.9	$ 597.1
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	$ 19.1	$ 3.3	$ 209.7	$ 22.5
Actual return on assets	1.3	0.7	17.2	8.1
Employer contributions	1.1	1.3	6.3	10.5
Plan participants contributions			1.7	0.7
Acquisition of Dynamit Nobel		14.2		184.2
Foreign exchange gain			(49.5)	(2.6)
Benefits paid	(1.1)	(0.4)	(10.9)	(13.7)
Other			(0.3)	
Fair value of plan assets at end of year	$ 20.4	$ 19.1	$ 174.2	$ 209.7
The accumulated benefit obligation at December 31 is as follows:	$ 26.5	$ 24.6	$ 513.5	$ 573.1
Reconciliation of funded status at end of year:				
Funded status	$ (7.1)	$ (6.4)	$ (383.7)	$ (387.4)
Unrecognized prior service cost	0.1		75.9	
Unrecognized net loss	3.0	2.2		29.1
Accrued benefit cost	$ (4.0)	$ (4.2)	$ (307.8)	$ (358.3)
Amount recognized in the consolidated balance sheets:				
Accrued benefit liability	$ (6.4)	$ (6.0)	$ (354.5)	$ (379.6)
Intangible asset	0.1	0.1		
Accumulated other comprehensive income	2.3	1.7	46.7	21.3
Net amount recognized	$ (4.0)	$ (4.2)	$ (307.8)	$ (358.3)
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate	5.69%	5.75%	3.96%	4.83%

Rate of compensation increase	4.50%	4.50%	2.64%	2.86%

	U.S. Plans			Non-U.S. Plans		
	2005	2004	2003	2005	2004	2003
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:						
Discount rate	5.75%	6.22%	6.63%	4.89%	5.13%	5.75%
Expected return on plan assets	8.30%	8.41%	8.16%	5.50%	5.59%	7.20%
Rate of compensation increase	4.50%	4.50%	N/A	2.93%	2.77%	3.25%
Components of net pension benefit costs:						
Service cost	$ 1.0	$ 1.0	$ 0.2	$ 9.1	$ 4.9	$ 1.0
Interest cost	1.5	0.8	0.3	24.9	12.4	1.7
Expected return on assets	(1.6)	(0.9)	(0.3)	(9.5)	(5.8)	(1.3)
Net amortization of actuarial losses (gains)	0.1			(0.3)		
Net amortization of prior experience losses					0.5	0.2
Net periodic pension cost	1.0	0.9	0.2	24.2	12.0	1.6
SFAS 88 settlement/curtailment		(3.3)		1.4		0.5
Total pension cost	$ 1.0	$ (2.4)	$ 0.2	$ 25.6	$ 12.0	$ 2.1

Pension plans have the following weighted-average asset allocations at December 31, 2005 and 2004:

	U.S. Plans		Non-U.S. Plans	
	2005	2004	2005	2004
Equity securities	57%	58%	36%	33%
Debt securities	41%	39%	39%	31%
Real estate			8%	13%
Other	2%	3%	17%	23%

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

($ in millions)	Other Postretirement Benefits 2005		2004	
Change in benefit obligation:				
Benefit obligation at beginning of year	$	5.2	$	2.1
Service cost		0.2		0.1
Interest cost		0.3		0.2
Plan amendments				(0.2)
Acquisition of Dynamit Nobel				2.8
Actuarial loss		0.1		0.4
Benefits paid		(0.2)		(0.2)
Benefit obligation at end of year	$	5.6	$	5.2
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	$		$	
Employer contributions				0.2
Benefits paid				(0.2)
Fair value of plan assets at end of year	$		$	
Reconciliation of funded status at end of year:				
Funded status	$	(5.6)	$	(5.2)
Unrecognized prior service cost		(0.2)		(0.2)
Unrecognized net loss		1.0		1.0
Accrued benefit cost	$	(4.8)	$	(4.4)
Amount recognized in the consolidated balance sheets:				
Accrued benefit liability	$	(4.8)	$	(4.4)
Net amount recognized	$	(4.8)	$	(4.4)
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate		5.52%		5.32%
Rate of compensation increase		NA		NA

($ in millions)		2005		2004		2003
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:						
Discount rate		5.40%		5.84%		5.42%
Rate of compensation increase		NA		4.50%		NA
Components of other postretirement benefit costs:						
Service cost	$	0.2	$	0.1	$	0.1
Interest cost		0.3		0.2		0.1
Net amortization of prior experience losses				0.1		
Net periodic pension cost		0.5		0.4		0.2
SFAS 88 settlement/curtailment						
Total pension cost	$	0.5	$	0.4	$	0.2

	2005	2004
Other Postretirement Benefit Plans		
Assumed health care cost trend rates at December 31 (hourly plan/salaried plan):		
Health care cost trend rate assumed for the following year	11.00%	8.50%
Ultimate trend rate (rate to which the cost trend rate is assumed to decline)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2012	2010

($ in millions)		1% Decrease		1% Increase
2005 Healthcare cost trend rate sensitivity analysis:				
Effect on annual total of service cost and interest cost	$	(0.1)	$	0.1
Effect on postretirement benefit obligation		(0.5)		0.5

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

($ in millions)		Other Post-retirement
2006	$	0.2
2007		0.2
2008		0.2
2009		0.2
2010		0.2
Years 2011 - 2015		1.3
Expected employer contributions:		
2006	$	0.2

Plans with accumulated benefit obligations in excess of plan assets The Company s defined benefit plans all had accumulated benefit obligations in excess of plan assets.

Contributions During the year ended December 31, 2005, the Company made contributions of approximately $7.4 million to its defined benefit pension trusts and an additional $14.9 million in benefit payments directly to plan participants. For 2006, the Company expects to make payments of approximately $7.6 million as contributions to pension trusts plus benefit payments directly to plan participants of approximately $12.7 million.

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Investment policies and strategies The Company s plans have varying statutory and plan governance requirements. Although the Company has representatives of local management involved in the governance of all plans, some plans or statutes also have representation by workers, employee unions, and/or corporate-level executives. Plans in the U.K., Switzerland and the U.S. represent over 90% of total plan assets. In these countries, the general investment objectives are to maximize the expected return on the plans assets without unduly prejudicing the security of the members accrued benefits and with sufficient liquidity to meet current plan cash flow requirements. As each plan is locally governed, asset allocations may vary. In 2005, the plans were targeted to investment allocations within certain ranges that approximate the following:

	U.S.	U.K.	Switzerland
Debt	41%	37%	33%
Equity	57%	61%	17%
Real Estate		1%	33%
Other	2%	1%	17%

Plan trustees regularly consult with professional investment advisors as to whether these allocations remain appropriate in light of relative investment performance and risk and/or actuarial changes related to plan participants. U.K. plan investments are limited to listed securities not affiliated with Rockwood or the investment adviser and equities are divided between domestic and foreign equity. U.S. plan investments are generally limited to mutual funds. The Swiss plans have recently reset their targets to reduce the insurance allocation and increase the debt allocation.

Expected long-term rate of return on assets The long-term rate of return on assets listed above is the average of expected returns developed for each plan weighted by each plan s assets, as of January 1 of the year measured. Rates of return have been estimated based on various asset-appropriate price and yield indices, adjusted for projected inflation and long-term dividend growth.

Other Retirement Benefit Plans

Savings Plans The Company sponsors various defined contribution plans for certain employees. Contributions under the plans are based on specified percentages of employee compensation. In aggregate, the Company s contributions to these plans were $9.7 million, $7.7 million and $6.5 million in 2005, 2004 and 2003, respectively.

Multiemployer Plans The Company participates in two multiemployer plans. Contributions under the plans are based on specified percentages of associate contributions. The Company s contributions to the plans were $7.1 million, $1.2 million and $0.2 million in 2005, 2004 and 2003, respectively.

13. EARNINGS PER COMMON SHARE:

Basic and diluted earnings per common share (EPS) were computed using the following share data:

($ in millions, except per share amounts; shares in thousands)	Year Ended December 31, 2005	2004	2003
EPS Numerator - Basic:			
Net income (loss)	$ 95.8	$ (216.1)	$ (91.7)
Less:			
Redeemable convertible preferred stock dividends	(4.3)	(4.2)	(1.7)
Accretion of redeemable convertible preferred stock to redemption value			(9.5)
Net income (loss) applicable to common shareholders	$ 91.5	$ (220.3)	$ (102.9)
EPS Denominator - Basic:			
Weighted average number of common shares outstanding	59,133	33,054	20,739
Basic earnings (loss) per common share	$ 1.55	$ (6.66)	$ (4.96)
EPS Numerator - Diluted:			
Net income (loss)	$ 95.8	$ (216.1)	$ (91.7)
Less:			
Redeemable convertible preferred stock dividends	(4.3)	(4.2)	(1.7)
Accretion of redeemable convertible preferred stock to redemption value			(9.5)
Net income (loss) applicable to common shareholders	$ 91.5	$ (220.3)	$ (102.9)
EPS Denominator - Diluted:			
Weighted average number of common shares outstanding	59,133	33,054	20,739
Effect of dilutive stock options and other incentives	869		
Weighted average number of common shares outstanding and common stock equivalents	60,002	33,054	20,739
Diluted earnings (loss) per common share	$ 1.52	$ (6.66)	$ (4.96)

For the years ended December 31, 2004 and 2003, the effect of common stock issuable under the assumed exercise of stock options and warrants, computed on the treasury stock method, and the assumed conversion of the Company s issued and outstanding redeemable convertible preferred stock have been excluded from the diluted earnings per share calculation for all periods presented since the effect of such securities is anti-dilutive.

14. STOCK-BASED COMPENSATION:

In July 2005, the Company adopted the 2005 Amended and Restated Stock Purchase and Option Plan of Rockwood Holdings, Inc. and Subsidiaries (formerly the Amended and Restated 2003 Stock Purchase and Option Plan, which was formerly the 2000 Stock Purchase and Option Plan, the Plan), to increase the number of shares authorized under the Plan. Under the Plan, the Company may grant stock options and restricted stock to the Company s management personnel and directors and allow management personnel and directors to purchase shares of its common stock. There are 10,000,000 authorized shares available for grant under the Plan.

Restricted Stock Restricted stock of the Company can be granted with or without payment of consideration with restrictions on the recipient s right to transfer or sell the stock. During 2001, the Company granted 68,451 shares of restricted stock which vested over three years. In each of the years ended December 31, 2004 and 2003, $0.3 million was expensed.

Stock Purchase Eligible management personnel and directors can purchase shares of common stock at prices as determined by the Company s board of directors. Under the Plan, the Company sold 477,428 shares during the year ended December 31, 2004 at the fair market value of the stock as determined by the board of directors at the date of purchase for gross proceeds of $7.0 million.

Stock Options All stock options granted under this Plan have been granted to employees of the Company and its subsidiaries and have an exercise price at least equal to the fair market value of the Company s common stock on the date of grant. There are two types of options available for grant under the Plan. Time options have a life of ten years from the date of grant and vest as follows: time options granted prior to 2004 vest 10% in year one, 10% year two, 25% year three, 25% year four and 30% year five; time options granted in 2004 and after vest in installments of 20% on each of the first five anniversaries of the grant date. Performance options have a life of ten years and become exercisable with respect to 20% of the total performance options granted upon the achievement of certain performance targets. Performance options become exercisable on the eighth anniversary of the grant date to the extent that the options have not become otherwise exercisable or have not been terminated. In October 2004, the performance targets were modified as a result of the Dynamit Nobel Acquisition. Prior to 2004, none of the performance targets that would trigger exercisability had been achieved. However, certain targets were achieved for 2004 and 2005, and as a result, 307,551 options and 287,067 options vested in the years ended December 31, 2004 and 2005, respectively. Certain option holders have company-wide performance targets, for which targets are based on the achievement by Rockwood Holdings of certain implied equity values. Other option holders have divisional performance targets, for which targets are based on a particular division s achievement of annual or cumulative EBITDA.

The Company recorded no compensation expense in the historical statements of operations related to the Plan. The measurement date for determining compensation expense for each option has been the option issuance date and at that time the market price of the stock was equal to the exercise price in each case. The time options have been accounted for as a fixed plan. The performance options have been treated similar to fixed stock option plans as the Company concluded the predefined (non-accelerated) vesting schedule is substantive as it is deemed to be more likely than not that the applicable individuals will remain employed with the Company through that vesting date, particularly if the performance trigger has not occurred. As such, the measurement date for these options is the option grant date in accordance with APB Opinion 25. The change to the applicable performance targets as a result of the Dynamit Nobel Acquisition was a permitted change per the applicable stock option agreements; as such no modification occurred requiring a new measurement date calculation.

In accordance with SFAS No. 123R, Share-Based Payment, which we adopted on January 1, 2006, we are required to recognize the cost resulting from all share-based payment awards granted or modified after February 11, 2005 in our statement of operations beginning in the first quarter of 2006. The adoption of this standard will not have a material impact on the Company in the first quarter of 2006.

Options were granted during 2005 as follows: 44,500 options granted on August 16; and 12,500 options granted on November 10. The purchase price and exercise price of each option granted on August 16 was $20.00, and $18.90 for the options granted on November 10 based on the fair value of the stock underlying the options. For the year ended December 31, 2004, approximately 2,092,000 stock options were granted throughout the year all with purchase price and exercise prices per share of $14.61. The Company s board of directors determined that the $14.61 per share price-paid by DLJMB in an arm s-length transaction as part of the Dynamit Nobel Acquisition provided objective evidence of the fair value of the common stock sold and options granted in the 2004 Management Equity Program, and thus did not obtain a contemporaneous valuation by an unrelated valuation specialist.

Subsequently, the Company performed a valuation of its common stock as of November 30, 2004 using a retrospective approach consistent with the valuation techniques applied in connection with the July 2004 equity investment by KKR and DLJMB. The results of this valuation approach were materially consistent with the board of directors conclusion that the fair value of the common stock on the date of sale or grant was $14.61 per share. Additionally, the Company performed an implied market value analysis based on the stock price performance of the Company s most comparable peers that further validated this conclusion.

A summary of the status of the Company s options granted by Rockwood Holdings at December 31, 2005, 2004, and 2003, and changes during the years ended on those dates is presented below:

	2005		2004		2003	
	Shares (000)	Weighted Average Exercise Price	Shares (000)	Weighted Average Exercise Price	Shares (000)	Weighted Average Exercise Price
Outstanding at beginning of year	3,888	$ 14.61	1,810	$ 14.61	1,776	$ 14.61
Granted	57	19.76	2,092	14.61	34	14.61
Forfeited	(82)	14.61	(14)	14.61		
Outstanding at end of year	3,863	$ 14.69	3,888	$ 14.61	1,810	$ 14.61
Options exercisable at end of year	1,693	$ 14.62	931	$ 14.61	218	$ 14.61
Weighted-average fair value of options granted during the year	$ 8.74		$ 3.50		$ 3.03	
Weighted-average remaining contractual life (years)	7.24					

On July 18, 2005, in connection with a planned offering of its common stock to the public, the Company s board of directors authorized a 34.22553019 for-one stock split of its common stock and increased the Company s authorized shares of common stock to 400 million shares.

Subsidiary Plan

Stock Purchase Eligible employees and management personnel of Groupe Novasep SAS (Groupe Novasep), a subsidiary of the Company, and its subsidiaries can purchase shares of common stock at prices as determined by the Supervisory Board of Novasep SAS. Under the Subsidiary Plan, Groupe Novasep sold 4,013 shares during the quarter ended December 31, 2005 at the fair market value of the stock (211.00 per share) as determined by the Supervisory Board of Novasep SAS at the date of purchase for gross proceeds of $1.0 million.

Stock Options In September 2005, Groupe Novasep approved a stock option plan for certain of its employees (the Subsidiary Plan). Under the Subsidiary Plan, there are 24,543 authorized shares available for grant. There are two types of options available for grant under the Subsidiary Plan. Time options have a life of 62 months from the date of grant and vest as follows: 20% per year at each one year anniversary. Performance options have a maximum life of ten years and become exercisable based on attainment of certain stock price targets on the occasion of certain triggering events (IPO or Change of Control).

The Company recorded no compensation expense in the historical statements of operations related to the Subsidiary Plan. The time options qualify as a fixed plan in accordance with APB Opinion 25. The performance options do not qualify as a fixed plan and therefore are accounted for as a variable plan. In accordance with FASB Interpretation No. 38, as the triggering events were not probable at year end, no compensation cost has been recorded at December 31, 2005.

Options were granted during 2005 under the Subsidiary Plan as follows: 21,639 options granted during the quarter ended December 31, 2005. The exercise price and fair value of each option granted was 211.00.

A summary of the status of the Company s options granted by Groupe Novasep SAS at December 31, 2005 and changes during the year ended on that date is presented below:

	2005	
	Shares (000)	**Weighted Average Exercise Price**
Outstanding at beginning of year		
Granted	22	211.00
Forfeited		
Outstanding at end of year	22	211.00
Options exercisable at end of year		
Weighted-average fair value of options granted during the year	48.29	
Weighted-average remaining contractual life (years)	9.83	

15. REDEEMABLE CONVERTIBLE PREFERRED STOCK:

In connection with the July 2003 refinancing, the Company issued $25.0 million of its redeemable convertible preferred stock to an affiliate of KKR. The redeemable convertible preferred stock accrued dividends at 15% per year; the dividends accumulated and compounded semi-annually whether or not the Company had earnings or profits, whether or not there were funds legally available for payment of such dividends and whether or not dividends were declared. The redeemable convertible preferred stock was redeemable by the Company at its option at any time. The redeemable convertible preferred stock was also convertible into common stock of the Company, at the option of the holder, on or after an initial public offering of common stock of the Company at a conversion price equal to the then current market price, subject to adjustment. On August 22, 2005, the Company completed an initial public offering of its common stock and redeemed all outstanding shares of the redeemable convertible preferred stock (including a redemption premium and accumulated and unpaid dividends) with $38.5 million of the proceeds. See Note 2, Initial Public Offering, for further details.

16. WARRANTS:

In connection with the issuance of the redeemable convertible preferred stock as discussed in Note 15, Redeemable Convertible Preferred Stock, the Company issued warrants to an affiliate of KKR, exercisable at any time at a $14.61 per share exercise price, to purchase 958,315 additional shares of common stock of the Company. The warrants expire July 23, 2013. The Company has attributed a portion of the proceeds from issuance of the redeemable convertible preferred stock to the fair value of the warrants. The warrants were valued at $6.1 million and were recorded as a component of stockholders equity.

17. IMPAIRMENT CHARGES:

On December 15, 2005, Rockwood decided to substantially downsize the operations of its subsidiary Rohner in its Groupe Novasep segment, located in Pratteln, Switzerland. Rohner produces chemicals on a custom-synthesis and toll manufacturing basis for the pharmaceutical and agrochemical industries, specializing in transition metal catalysis. This decision was driven by a number of factors, including, in particular, continued capacity utilization issues as a result of the loss of a key customer in 2003 and the inability to replace this lost volume with comparable profitable volume. The downsizing included a review of Rockwood s strategic options for this business including potential sale or closure. The Company wrote off Rohner s long-term assets, primarily property, plant and equipment, totaling $44.7 million as of December 31, 2005 due to these actions.

On March 9, 2006, after exploring several alternatives, the Company sold all of Rohner s capital stock for a nominal price. The Company issued a press release on that date announcing the sale. The Company expects to record a loss on the sale of Rohner in the first quarter of 2006, representing consideration less the remaining net liabilities of Rohner, which have been transferred to the purchaser. We estimate this loss to equal approximately $4.2 million, which includes $1.2 million in potential indemnity obligations, but expect this amount to change based on Rohner s closing balance sheet.

Because the likelihood of sale was not apparent on December 31, 2005, Rockwood has not characterized the Rohner business as assets held for sale as of December 31, 2005. Rockwood has also reviewed whether the above activity should result in Rohner being treated as a discontinued operation in 2005 and concluded that such treatment would not be appropriate in 2005.

In addition, in connection with this downsizing, the Company has recorded for the year ended December 31, 2005 a minority interest charge of $13.9 million related to a guarantee, in an amount up to 55.0 million, entered into in May 2005 by one of our wholly-owned subsidiaries that is the 78.6% owner of Groupe Novasep SAS, of loans made by a Groupe Novasep SAS subsidiary to Rohner. At the time of the guarantee, the Company concluded the likelihood of having to fulfill this guarantee obligation was remote based on the limited term of the guarantee, the fact that the Company indirectly controlled the subsidiary receiving the guarantee and the expectation of continuing operations at Rohner. In connection with the preparation of the Company s 2005 financial statements, the Company concluded that it was probable that it would have to fulfill this guarantee obligation. Accordingly, the Company recorded the minority interest charge, based on the 21.4% minority interest in Groupe Novasep SAS not held by the Company. The short-term and/or long-term impact of fulfilling this guarantee from a cash flow perspective is not significant on a consolidated basis.

The Company recorded goodwill impairment charges of $4.0 million and $19.3 million in 2004 and 2003 related to the same reporting unit within the Electronics segment. These charges were recognized based on Rockwood s annual impairment testing. In computing these impairments, fair value was determined by multiplying the adjusted EBITDA of the reporting unit projected for the following year by a discount factor based primarily on the ratio of enterprise value (generally market capitalization plus long-term debt less cash) to EBITDA of publicly-held companies in similar businesses, both historical and projected, as reported in published industry analysis. The Company did not recognize an impairment loss in 2005 as a result of the impairment testing that was performed in the fourth quarter of 2005. These impairments resulted from a significant decline, in earnings and operating cash flows, both historical and prospective, based on global economic conditions common to significant competitors, including overcapacity, as well as the erosion of the reporting units relative competitive position due to continued industry concentration and resulting pricing pressure.

Based on the circumstances described above, the Company also performed impairment evaluations of the property, plant and equipment belonging to the respective reporting unit and recorded impairment charges of $7.0 million and $15.7 million in 2004 and 2003, respectively. In 2003, the evaluation was computed using the same calculations as described above for goodwill impairment. Based on the availability of additional relevant data, the 2004 impairment was computed by a discounted cash flow analysis of expected future cash flows of the reporting unit (as measured by Adjusted EBITDA).

18. BUSINESS RESTRUCTURINGS AND ASSET SALES:

The Company recorded $13.9 million, $1.1 million and $1.8 million of restructuring charges in 2005, 2004 and 2003, respectively. In addition, inventory writedowns of $0.5 million were recorded in cost of products sold in 2005 related to the restructuring of the Wafer Reclaim business in the Electronics segment. The Company records restructuring liabilities from time to time that represent charges incurred in connection with consolidations and cessations of certain of its operations, including operations from acquisitions, as well as headcount reduction programs. These charges consist primarily of write-offs of surplus assets and severance costs. Severance charges are based on various factors including the employee s length of service, contract provisions, salary levels and local governmental legislation. At the time a related charge is recorded, the Company calculates its best estimate based upon detailed analysis. Although significant changes are not expected, actual costs may differ from these estimates.

2005 Restructuring Actions

During the year ended December 31, 2005, the Company expensed $13.9 million of restructuring charges for miscellaneous restructuring actions, including $4.1 million for the announced closure of the Baulking, United Kingdom facility in the Clay-based Additives business and $2.3 million for the announced restructuring of the Wafer Reclaim business. As noted above, inventory write-downs of $0.5 million were reported in the Wafer Reclaim business in cost of products sold in 2005. The Company recorded severance and related costs for employees in connection with the closure of the Wafer Reclaim facilities (one each in the U.K. and U.S.). The Wafer Reclaim facility in the U.K. was closed in January 2006 and the facility in the U.S. is expected to close in the first half of 2006. The Company also signed a cooperation agreement to operate its German wafer reclaim facility through an outside party. The Company expects to record additional restructuring expenses in 2006 as the facility shutdowns progress. In addition, $4.2 million was recorded in the Specialty Chemicals segment, $2.2 million was recorded in the Performance Additives segment and $1.2 million was recorded in the Advanced Ceramics segment for miscellaneous headcount reductions. In addition, $1.4 million was recorded in the Advanced Ceramics segment related to the closure of a facility in Italy. In 2005, net restructuring income of $1.5 million was recorded in the Groupe Novasep segment as charges for miscellaneous headcount reductions were offset by the reversal of facility closure costs.

2004 Restructuring Actions

Dynamit Nobel Restructuring

The Company began to assess and formulate specific plans to involuntarily terminate (relocate) certain employees and/or exit certain activities of Dynamit Nobel as of the Dynamit Nobel Acquisition date. This assessment led to certain restructuring measures taken by the Company as described below.

The Company closed the former corporate office of Dynamit Nobel located in Troisdorf, Germany in the fourth quarter of 2004. We recorded $13.2 million of restructuring charges related to this closure including severance costs of $8.0 million for 44 general and administrative personnel of the former Dynamit Nobel company, closure costs on this building of $4.6 million and $0.6 million of relocation cost for the remaining 27 employees who were relocated to our Frankfurt, Germany European corporate location.

The Company believed at the time of the acquisition that reduction of certain selling, general and administrative headcount was an opportunity given a review of certain cost as a percentage of net sales metrics. As a result, $12.2 million of restructuring costs were incurred:

the Titanium Dioxide Pigments segment eliminated four high level sales personnel incurring $1.4 million of severance charges.

The former Custom Synthesis segment now known as Groupe Novasep downsized their organization by eliminating 12 staff positions. The president of this segment was also severed. Related severance costs incurred were $2.9 million. As part of the Troisdorf corporate office closure, 27 general and administrative employees of our Groupe Novasep segment that worked at this site were relocated to another location. The incurred relocation cost was $0.5 million. Closure costs were $0.4 million.

Specialty Chemicals eliminated 20 administrative employees including two executives from their business incurring severance charges of $7.0 million and relocation costs of $0.2 million.

Advanced Ceramics eliminated certain administrative employees incurring severance costs of $0.5 million.

As part of an overall plant rationalization review contemplated at the acquisition date, in the third quarter of 2004 the Advanced Ceramics segment announced the closure of its New Lebanon plant in New York with consolidation into the Laurens, South Carolina plant. This closure and relocation of certain manufacturing plant employees and equipment occurred in 2005. Restructuring charges of $2.7 million were incurred with facility closure costs of $1.7 million, severance of $0.5 million related to 54 plant workers and relocation costs of $0.5 million. The related property, plant and equipment was recorded in the opening balance sheet at its appraised sale value. Related inventory write-offs of $0.3 million were also reflected in the opening balance sheet.

Johnson Matthey Pigments and Dispersions Restructuring

As part of the acquisition of the Pigments and Dispersions business of Johnson Matthey, the Company enacted a restructuring program and 40 positions were eliminated. All of these employees were selling, general and administrative personnel.

Selected information for the 2005 restructuring actions follows:

($ in millions)	Severance Costs	Facility Closure Costs	Write-downs	Total
2005				
Liability balance, January 1, 2005	$	$	$	$
Restructuring charge	11.2	1.0	0.6	12.8
Utilized in 2005	(9.5)	(1.0)	(0.6)	(11.1)
Foreign exchange and other	(0.2)			(0.2)
Liability balance, December 31, 2005	$ 1.5	$	$	$ 1.5

Selected information for the 2004 restructuring actions follows:

($ in millions)	Severance Costs	Facility Closure Costs	Relocation Costs	Total
2004				
Liability balance, January 1, 2004	$	$	$	$
Purchase accounting	21.9	6.8	2.7	31.4
Restructuring charge	1.1			1.1
Utilized in 2004	(4.7)	(0.4)	(0.4)	(5.5)
Historic Dynamit Nobel Restructuring program		3.6		3.6
Foreign exchange and other	2.5	1.3	0.3	4.1
Liability balance, December 31, 2004	20.8	11.3	2.6	34.7
Purchase accounting	0.9	(1.9)	(1.3)	(2.3)
Restructuring charge in 2005	1.0	(0.2)		0.8
Utilized in 2005	(11.3)	(5.7)	(1.9)	(18.9)
Foreign exchange and other	(0.8)	(2.4)	1.0	(2.2)
Liability balance, December 31, 2005	$ 10.6	$ 1.1	$ 0.4	$ 12.1

Remaining facility closure costs will be paid over the lives of the related leases.

Concurrent with the KKR Acquisition, the Company began a restructuring plan involving the closure and rationalization of certain facilities acquired.

Selected information for the Acquisition related restructuring program is as follows:

($ in millions)	Severance Costs	Facility Closure Costs	Total
Liability balance, January 1, 2003	$ 1.4	$ 2.9	$ 4.3
Utilized in 2003	(0.1)	(0.9)	(1.0)
Adjustment recorded to goodwill	(1.3)	(0.8)	(2.1)
Liability balance, December 31, 2003		1.2	1.2
Utilized in 2004		(0.8)	(0.8)
Liability balance, December 31, 2004		0.4	0.4
Restructuring charge in 2005		0.3	0.3
Utilized in 2005		(0.7)	(0.7)
Liability balance, December 31, 2005	$	$	$

19. SALE AND LEASEBACK:

In November 2005, a subsidiary included in the Company s Specialty Chemicals segment entered into a sale and leaseback transaction involving real estate with a non-affiliated third party. The Company realized net proceeds of approximately $6.1 million from the sale. The resulting gain of approximately $1.7 million was recognized in full in the fourth quarter of 2005. The lease has an initial term of nine months with six 1-month renewal options. The leaseback portion, classified as an operating lease, has an initial minimum annual base rent of $0.3 million.

In June 2002, a subsidiary included in the Company s Performance Additives segment entered into a sale and leaseback transaction involving real estate with a non-affiliated third party. The Company realized net proceeds of approximately $12.1 million from the sale. The resulting gain of approximately $4.1 million was deferred and is being amortized on a straight-line basis over the initial lease term of 15 years. The deferred gain is included in other liabilities in the accompanying consolidated balance sheet. The leaseback portion, classified as an operating lease, had an initial minimum annual base rent of $1.3 million, with adjustments based on a standard economic index. The Company has two 10-year renewal options beyond the initial lease term.

20. COMPREHENSIVE INCOME:

Changes in accumulated other comprehensive income (loss) are as follows:

($ in millions)	Minimum pension liability, net of tax	Foreign currency translation	Intercompany foreign currency transactions	Net investment hedge, net of tax	Cash flow hedges, net of tax	Total accumulated other comprehensive income (loss)
Balance at January 1, 2003	$ (1.9)	$ 26.0	$ 10.4	$	$	$ 34.5
Period change	(1.3)	40.8	10.4			49.9
Balance at December 31, 2003	(3.2)	66.8	20.8			84.4
Period change	(14.3)	150.0	163.4	(13.1)		286.0
Balance at December 31, 2004	(17.5)	216.8	184.2	(13.1)		370.4
Period change	(16.1)	(163.4)	(183.7)	45.4	(0.6)	(318.4)
Balance at December 31, 2005	$ (33.6)	$ 53.4	$ 0.5	$ 32.3	$ (0.6)	$ 52.0

21. COMMITMENTS AND CONTINGENCIES:

Legal Proceedings The Company is involved in various legal proceedings, including commercial, intellectual property, product liability and environmental matters of a nature considered normal to its business. It is the Company s policy to accrue for amounts related to these matters in accordance with SFAS 5, *Accounting for Contingencies*, if it is probable that a liability has been incurred and an amount can be reasonably estimated. It is the Company s policy to disclose such matters when there is at least a reasonable possibility that a material loss may have been incurred. Although the Company expects to continue to pay legal fees in connection with certain legal actions related to chromated copper arsenate and other product liability matters, based on currently available facts, the Company does not believe that these actions will have a material effect on the financial condition, results of operations or liquidity of the Company. In accordance with the Company s policy, reserves in connection with such product liability matters do not individually exceed $350,000 and in the aggregate $1.8 million. The Company s reserve estimates are based on available facts, including damage claims and input from its internal and external legal counsel, past experience, and, in some instances where defense costs are being paid by its insurer s insurance coverage. The Company is unable to estimate the amount or range of any potential incremental charges should facts and circumstances change and may in the future revise its estimates based on new information becoming available. In addition, the Company does not believe that there is any other individual legal proceeding that is likely to have a material adverse effect on its business or financial condition. However, the Company cannot predict the outcome of any litigation or the potential for future litigation.

Indemnity Matters Under the terms of the Business and Share Sale and Purchase Agreement, the Deed of Tax Covenant and the Environmental Deed entered into in connection with the KKR Acquisition, Degussa U.K. Holdings Ltd., as successor to Laporte Plc, is obligated to indemnify the Company for certain legal, tax and environmental liabilities and obligations that relate to the period prior to the closing of the KKR Acquisition.

Under the terms of the Sale and Purchase Agreement with mg technologies ag and its subsidiary MG NAH, mg technologies is obligated to indemnify the Company for certain legal, tax and environmental liabilities and obligations that relate to the period prior to the closing, subject to certain limits and exclusions. Pursuant to these agreements, the Company has various claims for indemnification with Degussa and mg technologies. In addition, the Company may be subject to indemnity claims relating to properties or businesses it divested. In the opinion of management, and based upon information currently available, the ultimate resolution of any indemnification obligations owed to the Company or by the Company will not have a material effect on the Company s financial condition or results of operations.

Safety, Health and Environmental Matters

General

The Company is subject to extensive environmental, health and safety laws in the United States, the European Union and elsewhere at the international, national, state, and local levels. Many of these laws impose requirements relating to clean-up of contamination, and impose liability in the event of damage to human beings, natural resources or property, and provide for substantial fines, injunctions and potential criminal sanctions for violations. The products, including the raw materials handled, are also subject to rigorous industrial hygiene regulations and investigation. The nature of the Company s operations exposes it to risks of liability for breaches of these laws and regulations as a result of the production, storage, transportation and sale of materials that can cause contamination or personal injury when released into the environment. Environmental laws are subject to change and have tended to become stricter over time. Such changes in environmental laws, or the enactment of new environmental laws, could result in materially increased capital, operating and compliance costs.

Safety, Health and Environmental Systems

The Company is committed to achieving and maintaining compliance with all applicable safety, health and environmental (SHE) legal requirements, and the Company s subsidiaries have developed policies and management systems that are intended to identify the SHE legal requirements applicable to the operations, enhance compliance with such requirements, ensure the safety of the Company s employees, contractors, community neighbors and customers and minimize the production and emission of wastes and other pollutants. Although SHE legal requirements are constantly changing, these SHE management systems are designed to assist the Company in meeting its compliance goals and minimizing overall risk.

SHE Capital Expenditures

The Company may incur future costs for capital improvements and general compliance under SHE laws. For the year ended December 31, 2005, the capital expenditures for SHE matters totaled approximately $32.8 million, excluding costs to maintain and repair pollution control equipment. For 2006 and 2007, the Company estimates capital expenditures for compliance with SHE laws to be at similar levels; however, because capital expenditures for these matters are subject to changes in existing and new SHE laws, the Company cannot provide assurance that its recent expenditures will be indicative of future amounts required to comply with these laws.

Regulatory Developments

In October 2003, the European Commission adopted a proposal for a new European Union (EU) framework for chemicals known as the Registration, Evaluation and Authorization of Chemicals, or REACH which will significantly expand the European Union s regulation of chemicals. As currently proposed, REACH would include requirements that certain manufacturers and importers of chemicals register those chemicals, perform health and environmental risk analyses of those chemicals, and in certain instances, obtain authorizations for the use of the chemicals. As a specialty chemicals company, it is possible that the Company is the only manufacturer of one or more substances to be regulated under REACH and thus could potentially bear the full cost of compliance with REACH for some or all of the Company s products. The Company estimates it has over 400 products that might be subject to REACH, which is scheduled to become an EU directive in early 2007; compliance with REACH will be required starting in 2008.

Under the European Union Integrated Pollution Prevention and Control Directive (IPPC), European Union member governments are to adopt rules and implement a cross-media (air, water and waste) environmental permitting program for individual facilities. IPPC requires a consistent application of Best Available Techniques, or BAT, throughout the European Union. Generally, by 2007, facilities located within the European Union must be operating consistent with BAT. While the EU countries are at varying stages in their respective implementation of the IPPC permit program, the Company has submitted all necessary IPPC permit applications required to date, and in some cases received completed permits from the applicable government agency. The Company expects to submit all other IPPC applications and related documents on a timely basis as the various countries implement the IPPC permit program. Although it is not known with certainty what each IPPC permit will require, the Company believes, based upon its experience with the permits received to date, that the costs of compliance with the IPPC permit program will not be material to its results of operations, financial position or liquidity.

The Kyoto Protocol is an amendment to an international treaty on global warming. The Protocol establishes significant emission reduction targets for six gases considered to have global warming potential, referred to as greenhouse gases. The Protocol was adopted in 1997 and became effective in February 2005 in over 140 countries that have ratified it. The EU, including Germany and other countries where the Company has interests, ratified the Kyoto Protocol in 2002. By ratifying, the EU, and its member states agreed to enact regulation that reduces the emission of greenhouse gases or engage in a trading system covering carbon dioxide emissions by January 1, 2005. Such a system became effective at the start of 2005. The new regulation directly affects our power plants at the Duisburg and Langelsheim sites in Germany, as well as the power plant being operated by a third party on one of our sites. Rockwood and such third party may be required to purchase carbon dioxide credits, which could result in increased operating costs, or may be required to develop additional cost-effective methods to reduce carbon dioxide emissions, which could result in increased capital expenditures. The new regulation indirectly affects our other operations in the EU, which may experience higher energy costs from third party providers. The Company continues to evaluate options in order to comply with the Protocol. However, we do not expect this to have a material impact on our cash flow or results of operations.

Remediation Liabilities

Environmental laws have a significant effect on the nature and scope of any clean-up of contamination at current and former operating facilities, the costs of transportation and storage of chemicals and finished products and the costs of the storage and disposal of wastes. In addition, Superfund statutes in the United States as well as statutes in other jurisdictions impose strict, joint and several liability for clean-up costs on the entities that generated waste and/or arranged for its disposal at contaminated third party sites, as well as the past and present owners and operators of contaminated sites. All responsible parties may be required to bear some or all clean-up costs regardless of fault, legality of the original disposal or ownership of the disposal site.

Environmental contamination is known to exist at certain of the Company s present and former facilities, including its facilities located in Turin, Italy; St. Fromond, St. Cheron and Sens, France; Hainhaussen, Troisdorf, Schlebusch, Stadeln, Duisburg, Plochingen, Marktredwitz, Ronnenberg-Empelde and Langelsheim, Germany; Oss, The Netherlands; Kidsgrove, Sudbury and Barrow, U.K.; Boksburg East, South Africa; Pratteln, Switzerland and in the United States, in Valdosta, Georgia, Beltsville, Maryland, Harrisburg, North Carolina, Laurens, South Carolina, Silver Peak, Nevada and La Mirada, California. Soil contamination is also known to exist at the Company s facilities at Freeport, Texas, Chasse-sur-Rhone, France, Sudbury, U.K. and Sumperk in Czech Republic; however, no further regulatory remedial actions are currently required for these facilities and any liabilities arising from such contamination is covered by indemnity obligations or the previous owners of these facilities with the exception of Freeport. The Company is currently operating groundwater remediation systems at its Hainhaussen, Pratteln, Valdosta, and Silver Peak facilities. The Company also operates ground water remediation systems at its Schlebusch, Plochingen, Marktredwitz, Stadeln, Troisdorf, and Laurens facilities, for which prior owners or insurers have assumed responsibility. The Company has recently completed a soil remediation project at the Company s facility in St. Cheron and is currently awaiting regulatory approval. The Company also continues to monitor groundwater at the Beltsville facility, which was previously the subject of a soil removal action. Groundwater is also monitored at the St. Fromond and Barrow facilities due to prior spills and at the Harrisburg facility due to a landfill closure. The Company is also required to monitor groundwater quality at its facility at Mourenx, France. The Company believes that additional environmental studies, and possibly environmental remediations, will be required at the Pratteln and Harrisburg facilities. The Company is also in the process of determining appropriate remedial actions with the regulatory authorities at the following locations: Duisburg, Langelsheim, Troisdorf, Turin and La Mirada. Furthermore, as a result of facility closings, divestitures and offsite disposal activities such as a former disposal site in Laurel, Maryland, the Company is responsible for the following other matters: contamination beneath divested portions of the manufacturing facility in Troisdorf; contamination at a closed Specialty Chemicals facility in Houston, Texas, contamination at a former Specialty Chemicals facility in Sunbright, Virginia, contribution towards the clean-up of three industrial landfills in the Basel, Switzerland area, groundwater remediation at Stadeln and former sites operated by Dynamit Nobel s previously divested explosives business. The Company is also a *de minimis* participant in several Superfund matters.

Although the Company cannot provide assurances in this regard, the Company does not believe that these issues will have a material adverse effect on its business or financial condition, but may have a material adverse effect on the results of operations or cash flows in any given quarterly or annual reporting period. Nonetheless, the discovery of contamination arising from present or historical industrial operations at some of the Company s and the Company s predecessor s former and present properties and/or at sites the Company and its predecessor disposed wastes could expose the Company to cleanup obligations and other damages in the future.

Government Enforcement Proceedings and Civil Litigation

During the course of the Company s business, the Company may receive notices of violation, enforcement and other complaints from regulatory agencies alleging non-compliance with applicable SHE laws. Currently, the Company is a party to a consent order with the Metropolitan Sewer District (MSD) in Saint Louis, Missouri to reduce ammonia concentrations in wastewater discharge to a city treatment plant. MSD s new National Pollution Discharge Elimination System (NPDES) permit will require the Company to reduce the facility s ammonia discharge by an average of 50% by December 31, 2008. The Company is evaluating various options to reduce the amount of ammonia discharge. Although the Company will be required to make capital expenditures in connection with this matter, it does not believe that this issue will have a material adverse effect on its business or financial condition.

Environmental Indemnities

Pursuant to the environmental deed entered into in connection with the KKR Acquisition, Degussa, as successor to Laporte, is required to indemnify the Company and its subsidiaries for certain environmental matters that relate to the business as conducted prior to the closing of the KKR Acquisition. The environmental deed provides that Degussa will indemnify the Company and its subsidiaries for claims for which notice is given within a period of two years for breaches of representations and warranties, which expired in 2002, and five years, which expired in September 2005, for claims related to the contamination of the Company s properties or its subsidiaries properties (inclusive of contamination which leaks or escapes from the Company s properties or its subsidiaries properties). These indemnity obligations are subject to a minimum per matter loss of $0.2 million and are further subject to a $5.0 million deductible for the indemnity to be available. In addition, the environmental deed provides that Degussa will indemnify Rockwood and its subsidiaries for claims relating to properties that were formerly owned, occupied or used as of November 20, 2000, as well as properties owned by third parties (inclusive of disposal of waste and certain other identified issues prior to November 20, 2000). The environmental deed provides that in this instance, Degussa will be responsible for reasonable costs and expenses incurred.

In addition, pursuant to the sale and purchase agreement entered into in connection with the Dynamit Nobel Acquisition, mg technologies ag (now known as GEA Group) and its subsidiary, MG North America Holdings Inc., are required to indemnify Rockwood and its subsidiaries for 50% of the excess amount of losses over the amount of the related reserves (in the case of known claims) and 50% of claims (in the case of unknown claims) related to the contamination of the Company or its subsidiaries properties, if notified within ten years. If mg technologies and MG North America Holdings responsibility for contamination matters cannot be proven, a sliding scale reduces the percentage further for each year during the five-year period from year six to ten. mg technologies and MG North America Holdings are also obligated to indemnify the Company for 85% of claims related to legacy site matters, such as environmental matters relating to properties or businesses owned or operated by Dynamit Nobel prior to, but not on, the closing of Dynamit Nobel Acquisition, if notified within ten years. In addition, mg technologies and MG North America Holdings are obligated to indemnify the Company for 50% of the excess amount of losses over the amount of the related reserves for operational compliance matters, if notified by December 31, 2006, and 50% of the excess amount of losses over the amount of the related reserves (in the case of known claims) and 50% of claims (in the case of unknown claims) related to certain environmental damage claims unknown at the time of the closing of the Dynamit Nobel Acquisition, if notified within ten years. All of these indemnity obligations are subject to different minimum per-claim thresholds depending on whether the matter was disclosed or not, and on the subject matter, ranging between 100,000 and 750,000 ($117,960 and $884,700 using the December 31, 2005 exchange rate of 1.00=1.1796) depending on the type of claim. The indemnity obligations are further subject to certain deductibles, exclusions and limitations. Furthermore, mg technologies and MG North America Holdings are obligated to indemnify the Company for certain environmental risks arising from certain shared site structures for a duration of ten years. This indemnity obligation is not subject to the percentages, *de minimis* exclusions, deductibles and thresholds described above, and it is not subject to most of the general limitations.

In the event the Company seeks indemnity under any of these agreements or through other means, there can be no assurance that mg technologies, MG North America Holdings, Degussa or any other party who may have obligations to indemnify the Company will adhere to their obligations and the Company may have to resort to legal action to enforce its rights under the indemnities. In addition, the Company may be required to make indemnity payments in connection with certain environmental matters. However, the Company does not believe that resolution of the known environmental matters subject to indemnification obligations owed to it or by it will have a material adverse effect on the Company s business or financial condition, but may have a material adverse effect on the results of operations or cash flow in any given quarterly or annual reporting period.

Environmental Reserves

The Company has established financial reserves relating to anticipated environmental cleanup obligations, site reclamation and remediation and closure costs. Liabilities are recorded when potential liabilities are either known or believed to be probable and can be reasonably estimated. The Company s liability estimates are based upon available facts, existing technology, past experience and, in some instances where the remediation costs are being paid directly by the Company s insurers, insurance recoveries, and are generated by several means, including State-mandated schedules, environmental consultants and internal experts, depending on the circumstances. On a consolidated basis, the Company accrued approximately $44.8 million and $51.9 million for known environmental liabilities as of December 31, 2005 and 2004, respectively, all of which are classified as other non-current liabilities on the Company s consolidated balance sheets for such periods. Included in the $44.8 million as of December 31, 2005 is 6.5 million ($7.6 million using the December 31, 2005 exchange rate of 1.00 = $1.1796) that is discounted using a 5.0% discount rate (undiscounted amount equals $11.7 million), and 1.9 million ($2.2 million) that is discounted using a 5.5% discount rate (undiscounted amount equals $2.9 million). Included in the $51.9 million as of December 31, 2004 is 6.5 million ($8.8 million using the December 31, 2005 exchange rate of 1.00=$1.3593) that is discounted using a 5.0% discount rate (undiscounted amount equals $13.5 million), and 2.4 million ($3.3 million) that is discounted using a 5.5% discount rate (undiscounted amount equals $5.2 million). In certain cases, the Company s remediation liabilities are payable over periods of up to 30 years. At December 31, 2005, the environmental reserve related to the Rohner facility within our Groupe Novasep segment was $10.5 million. As we announced, Rohner AG was sold in March 2006 (see Note 17, Impairment Charges, for further detail).

The Company believes these accruals are adequate based on currently available information. The Company may incur losses in excess of the amounts accrued; however, based on currently available information the Company does not believe the additional amount of potential losses would have a material effect on the Company s results of operations, cash flows or financial condition, but may have a material adverse effect on the results of operations or cash flow in any given quarterly or annual reporting period. The Company is unable to estimate the amount or range of any potential incremental charges should facts and circumstances change and may in the future revise its estimates based on new information becoming available.

The Company is obligated to undertake soil remediation at two facilities in Europe in the event manufacturing operations are discontinued there at some future date. In addition, in the event that manufacturing operations are discontinued at any of our other facilities with known contamination, regulatory authorities may impose more stringent requirements on us including soil remediation. The Company does not contemplate any such action occurring in the foreseeable future, as these facilities remaining lives are indefinite. Given the indeterminate useful life of these facilities and the corresponding indeterminate settlement date of any soil remediation obligations, the Company does not have sufficient information to estimate a range of potential settlement dates for the obligations. Consequently, the Company cannot employ a present value technique to estimate fair value and, accordingly, it has not accrued for any environmental related costs to remediate soil at these facilities.

The Company believes these environmental matters will not have a material adverse effect on its business or financial condition. However, these matters may have a material adverse effect on its results of operations or cash flows in any given quarterly or annual reporting period.

Commitments

As of December 31, 2005, the Company has unconditional purchase obligations of $248.5 million primarily consisting of take-or-pay contracts to purchase goods that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Amounts due within one year are estimated to be $147.0 million and the majority of the remainder is due during 2007 and 2008.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2005.

Our disclosure controls and procedures are designed to ensure that (a) information required to be disclosed in our reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and (b) such information is accumulated and communicated to our management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As a result of this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2005.

Due to our inability to timely file Rockwood Specialties Group, Inc. s Form 10-K for the year ended December 31, 2004, our Chief Executive Officer and Chief Financial Officer previously concluded that our disclosure controls and procedures were not effective. We had filed a registration statement on Form S-1 with the SEC in February 2005 and we decided to incorporate into Group s 2004 Form 10-K all relevant information obtained as a result of that registration process.

Additionally, we entered into several significant acquisitions during 2004, most notably the acquisition of the Dynamit Nobel businesses, which substantially expanded the scope of our business operations and our financial reporting obligations. As a result of the registration process and the significantly increased complexity from the acquisitions, we were unable to incorporate into Group s 2004 Form 10-K in a timely manner certain information, principally related to the businesses acquired in 2004. Specifically, we identified a material weakness in internal controls within the financial reporting process with respect to the timely analyses and reporting of income tax provisions and pensions and other post-retirement benefits for the businesses acquired in 2004 mainly due to our dependence on external resources for data accumulation and analysis, and within the design and operation of our purchase accounting review procedures.

We also identified a material weakness within the design and operation of purchase accounting review procedures, which resulted in certain isolated mathematical errors that required purchase accounting adjustments in connection with the Dynamit Nobel Acquisition and the Groupe Novasep combination.

As a result of these errors, we restated Group s consolidated balance sheet as of December 31, 2004 and consolidated statement of changes in stockholders equity for the year then ended and Group s consolidated balance sheet as of December 31, 2004 and consolidated statement of stockholder s equity for the year then ended in Group s Annual Report on Form 10-K and Group s consolidated balance sheet as of March 31, 2005 in Group s quarterly report on Form 10-Q.

The errors related to the Groupe Novasep combination involved isolated manual calculations performed outside of our electronic consolidation system. As a result of these errors, we have implemented additional detailed review procedures of these calculations, including additional levels of review by our existing corporate accounting staff, as part of our quarter- and year-end close process beginning in the second quarter of 2005. We also hired an assistant controller in 2005 responsible solely for external financial reporting and technical accounting matters and recently hired an additional employee with technical accounting and external financial reporting expertise to further strengthen our corporate accounting staff.

The Dynamit Nobel purchase accounting errors, specifically related to the appraisal calculations, also occurred outside of our electronic consolidation system and involved calculations outside the normal year-end closing process. As a result of these errors, we implemented similar additional review procedures related to Dynamit Nobel purchase accounting activity as part of our quarter- and year-end close process beginning in the second quarter of 2005, and are utilizing the additional financial reporting resources identified above to strengthen our review process of significant and complex financial reporting areas, including purchase accounting.

We have also created and staffed a global tax department at our corporate headquarters to, among other matters, strengthen the income tax accounting function including the hiring of a new head of the global tax department to manage this function internally. Additionally, in the fourth quarter of 2005 we implemented a tax provision software package to assist in the timely preparation of the financial reporting of income taxes. We have also engaged a global coordinating actuary to enhance the internal controls over the accounting for pensions. Furthermore, we have engaged external consultants to review our closing process and systems and based on their recommendations, implemented additional enhancements to our closing process during the third quarter of 2005.

We have also begun the implementation of a new consolidation software system, expected to be fully operational by the third quarter of 2006, to further improve the timeliness and accuracy of the consolidation process. Among other items, this new system will significantly minimize the amount of financial information being gathered outside the consolidation software system and significantly decrease the amount of manual calculations being performed.

We believe that as a result of the actions taken during 2005, each of the above areas was adequately remedied. As such, we have concluded that our disclosure controls and procedures were effective as of December 31, 2005.

The global tax department is being established and staffed at our corporate headquarters and the tax software system that we implemented have significantly strengthened the income tax accounting function. However, as these actions were implemented late in 2005, some of the planned improvements in internal control in this area were not fully implemented. During 2006, we plan to fully implement and train our accounting personnel worldwide in our new income tax accounting software system. Additionally, we plan to continue to improve the design, documentation and implementation of our controls to ensure that our employees enhance their understanding and knowledge of the significant applicable tax matters, which affect the Company in an effort to further strengthen the financial reporting process related to income taxes.

We are currently performing the system and process evaluation of our internal controls over financial reporting in order to allow management to report on, and our independent auditors to attest to, our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002, which we refer to as Section 404. The requirements of Section 404 will initially apply to us in connection with our annual report on Form 10-K for the year ended December 31, 2006. In connection with our preliminary evaluation, we have identified other areas of internal controls that may need improvement, such as internal controls related to the segregation of duties at certain smaller locations, system access and user security profiles, operating policies and procedures and in each case particularly with respect to newly acquired businesses. We have begun the testing necessary to permit the management certification and auditor attestation required to comply with Section 404 in 2006. As we complete the evaluation and testing required by Section 404, we may identify conditions that may be categorized as significant deficiencies or material weaknesses in the future.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Information concerning directors and executive officers of the Company is included under the caption Election of Directors, Stock Ownership Security Ownership of Certain Beneficial Owners and Management, Directors and Executive Officers, and Corporate Governance and Related Matters in the Proxy Statement for the 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 11. Executive Compensation.

Information concerning executive compensation is included under the captions Executive Compensation and Related Information and Certain Relationships and Related Party Transactions in the Proxy Statement for the 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information concerning security ownership of certain beneficial owners and management is included under the caption Stock Ownership Security Ownership of Certain Beneficial Owners and Management, Directors and Executive Officers in the Proxy Statement for the 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

Information concerning certain transactions is included under the caption Certain Relationships and Related Party Transactions in the Proxy Statement for the 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

Information concerning certain transactions is included under the caption Audit and Related Fees in the Proxy Statement for the 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

List of documents filed as part of this report:

1. Financial Statements:

2. Financial Statement Schedules:

ROCKWOOD HOLDINGS, INC. (PARENT COMPANY)

SCHEDULE I CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF OPERATIONS

(Dollars in millions)

	Year ended December 31, 2005	2004	2003
EQUITY IN UNDISTRIBUTED EARNINGS (LOSSES) OF SUBSIDIARIES	$ 95.8	$ (216.1)	$ (91.7)
NET INCOME (LOSS)	$ 95.8	$ (216.1)	$ (91.7)

These condensed financial statements should be read in conjunction with the accompanying consolidated financial statements and notes thereto of Rockwood Holdings, Inc. and Subsidiaries.

See accompanying notes to condensed financial statements.

ROCKWOOD HOLDINGS, INC. (PARENT COMPANY)

SCHEDULE I CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED BALANCE SHEETS

(Dollars in millions, except per share amounts; shares in thousands)

	December 31, 2005		December 31, 2004	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	4.1	$	
Total current assets		4.1		
INVESTMENT IN SUBSIDIARIES		830.7		642.4
DUE FROM AFFILIATES		0.2		15.2
OTHER ASSETS				0.8
TOTAL ASSETS	$	835.0	$	658.4
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES:				
Accrued expenses and other current liabilities	$	0.3	$	0.1
Total current liabilities		0.3		0.1
Total liabilities		0.3		0.1
REDEEMABLE CONVERTIBLE PREFERRED STOCK ($0.01 par value, $30.8 aggregate liquidation preference; 50 shares authorized; 25 shares issued and outstanding at December 31, 2004)				34.3
STOCKHOLDERS EQUITY:				
Common stock ($0.01 par value, 400,000 shares authorized, 73,873 shares issued and 73,779 shares outstanding at December 31, 2005; 75,296 shares authorized, 50,404 shares issued and 50,310 shares outstanding at December 31, 2004)		0.7		0.5
Paid-in capital		1,151.7		718.6
Accumulated other comprehensive income		52.0		370.4
Accumulated deficit		(367.6)		(463.4)
Treasury stock; at cost		(1.4)		(1.4)
Other		(0.7)		(0.7)
Total stockholders equity		834.7		624.0
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	835.0	$	658.4

These condensed financial statements should be read in conjunction with the accompanying consolidated financial statements and notes thereto of Rockwood Holdings, Inc. and Subsidiaries.

See accompanying notes to condensed financial statements.

ROCKWOOD HOLDINGS, INC. (PARENT COMPANY)

SCHEDULE I CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in millions)

	Year Ended December 31, 2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 95.8	$ (216.1)	$ (91.7)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Equity in undistributed (income) losses of subsidiaries	(95.8)	216.1	91.7
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:			
Accrued expenses and other liabilities	1.0	0.7	(3.1)
Net cash provided by (used in) operating activities	1.0	0.7	(3.1)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in subsidiaries	(395.9)	(431.6)	(25.0)
Net cash used in investing activities	(395.9)	(431.6)	(25.0)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of common stock	471.4	432.0	0.1
Stock issuance costs	(33.8)	(0.1)	
Issuance of redeemable convertible preferred stock			25.0
Redemption of redeemable convertible preferred stock from IPO proceeds	(38.5)		
Other changes to stockholders equity		(0.3)	(0.6)
Net cash provided by financing activities	399.1	431.6	24.5
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4.2	0.7	(3.6)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	(0.1)	(0.8)	2.8
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4.1	$ (0.1)	$ (0.8)

These condensed financial statements should be read in conjunction with the accompanying consolidated financial statements and notes thereto of Rockwood Holdings, Inc. and Subsidiaries.

See accompanying notes to condensed financial statements.

Notes to Condensed Financial Statements

The accompanying condensed financial statements of Rockwood Holdings, Inc. (the Registrant) should be read in conjunction with the consolidated financial statements and notes thereto of Rockwood Holdings, Inc. and Subsidiaries included elsewhere in this filing.

1. BASIS OF PRESENTATION

Pursuant to rules and regulations of the Securities and Exchange Commission, the unconsolidated condensed financial statements of Rockwood Holdings, Inc. (the Company) do not reflect all of the information and notes normally included with financial statements prepared in accordance with generally accepted accounting principles. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in this filing.

Accounting for subsidiaries The Company has accounted for the losses of its subsidiaries under the equity method in the unconsolidated condensed financial statements.

2. REDEEMABLE CONVERTIBLE PREFERRED STOCK

The Company issued $25.0 million of its redeemable convertible preferred stock to an affiliate of KKR in July 2003. See Note 15, Redeemable Convertible Preferred Stock to the consolidated financial statements.

3. STOCK-BASED COMPENSATION

The Company has in place the 2005 Amended and Restated Stock Purchase and Option Plan. See Note 14, Stock-Based Compensation to the consolidated financial statements.

4. DIVIDEND RESTRICTIONS

Under the terms of the senior secured credit facilities of Rockwood Holdings, Inc. and subsidiaries, certain subsidiaries may not, subject to certain exceptions, (i) declare or pay any dividends, other than dividends payable solely in its equity interests; (ii) redeem or otherwise acquire or retire for value any of its or its parent companies equity interests; (iii) make any principal payment on or otherwise acquire or retire for value any subordinated indebtedness; or (iv) make any loan or capital contribution to, or purchase any securities or assets of, any person. So long as no default exists, the Company s subsidiaries may make certain otherwise restricted payments, such as (i) redeeming capital stock with the proceeds from concurrent equity contributions; (ii) repurchasing shares of their capital stock pursuant to employee stock plans or shareholder agreements;

(iii) paying dividends to any parent company; (iv) paying taxes; (v) making certain permitted investments; or (vi) redeeming or refinancing certain other debt obligations; however, some of these permitted payments are subject to certain limitations and others may only be made subject to compliance with certain financial covenants, such as Debt to EBITDA ratio (as defined).

Generally, under the terms of the 2011 Notes and the 2014 Notes, the Company s subsidiaries may not (i) declare or pay any dividend on their equity interests other than dividends payable solely in equity interests or in options, warrants, or other rights to purchase such equity interests; (ii) redeem or otherwise acquire or retire for value any of the Company s subsidiaries or the Company s equity interests; (iii) make any principal payment on or otherwise acquire or retire for value any subordinated indebtedness; or (iv) make any loan or capital contribution to, or purchase any securities or assets of, any person. These restrictions do not apply if, at the time of taking any of these actions, (a) no Default or Event of Default exists under the Company s debt obligations, (b) immediately after taking such action, the Company could incur additional indebtedness without violating the Company s debt covenants, and (c) the total amount of payments made pursuant to the above actions does not exceed the sum of (1) 50% of net income, (2) the proceeds of any capital contributions or equity offerings, and (3) the fair market value of any unrestricted subsidiary redesignated as a restricted subsidiary. Numerous exceptions to these general prohibitions exist that permit the Company s subsidiaries to make certain restricted payments without compliance with (a), (b) and (c).

5. STOCK SPLIT

On July 18, 2005, in connection with a planned offering of its common stock, the Company s board of directors authorized a 34.22553019-for-one stock split of its common stock. See Note 14, Stock-Based Compensation to the consolidated financial statements.

3. Exhibits:

Exhibit No.	Description of Exhibit
2.1(A)	Business and Share Sale and Purchase Agreement, dated September 25, 2000 between Rockwood Holdings, Inc. and Laporte plc
2.2(B)	Sale and Purchase Agreement, dated April 19, 2004 among mg technologies ag and MG North America Holdings Inc., as Sellers and other parties named as purchasers therein
3.1(I)	Form of Amended and Restated Certificate of Incorporation of Rockwood Holdings, Inc.
3.2(I)	Form of Amended and Restated By-Laws of Rockwood Holdings, Inc.
4.1(I)	Form of Certificate of Common Stock
4.2(I)	Warrant Agreement, dated as of July 23, 2003, between Rockwood Holdings, Inc. and KKR Millennium Fund L.P.
4.3(I)	Registration Rights Agreement, dated as of November 20, 2000, among Rockwood Holdings, Inc., KKR 1996 Fund L.P. and KKR Partners II, L.P.
4.4(I)	First Amendment, dated as of July 23, 2003, to the Registration Rights Agreement, among Rockwood Holdings, Inc., KKR 1996 Fund L.P., KKR Partners II, L.P. and KKR Millennium Fund L.P.
4.5(A)	Indenture, dated as of July 23, 2003, among Rockwood Specialties Group, Inc., the Guarantors named therein and The Bank of New York, as Trustee
4.6(I)	Supplemental Indenture, dated as of July 31, 2004, among Rockwood Specialties Group, Inc., the Guarantors named therein and The Bank of New York, as Trustee
4.7(A)	Registration Rights Agreement, dated as of July 23, 2003, among Rockwood Specialties Group, Inc., the Guarantors named therein and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities Inc. and Goldman, Sachs & Co., as Initial Purchasers
4.8(I)	Stockholders Agreement, dated as of July 29, 2004, among Rockwood Holdings, Inc., KKR 1996 Fund, L.P., KKR Partners II, L.P., KKR Millennium Fund, L.P., KKR Partners III, L.P., KKR European Fund, Limited Partnership and DLJ Merchant Banking Partners III, L.P., DLJ Offshore Partners III-1, C.V., DLJ Offshore Partners III-2, C.V., DLJ Offshore Partners III, C.V., DLJ MB Partners III GmbH & Co. KG, Millennium Partners II, L.P. and MBP III Plan Investors, L.P.
4.9(C)	Indenture, dated as of November 10, 2004, among Rockwood Specialties Group, Inc., the Guarantors named therein and The Bank of New York, as Trustee
4.10(C)	Registration Rights Agreement, dated as of November 10, 2004, among Rockwood Specialties Group, Inc., the Guarantors named therein and Credit Suisse First Boston (Europe) Limited, Goldman, Sachs & Co., UBS Limited, Credit Suisse First Boston LLC, UBS Securities LLC, BNP Paribas Securities Corp., ING Financial Markets LLC, NatCity Investments, Inc., Rabo Securities USA, Inc. and WestLB AG, London Branch, as the Initial Purchasers
4.11(I)	Investors Rights Agreement, dated as of November 20, 2000, among K-L Holdings, Inc., KKR 1996 Fund L.P., KKR Partners II L.P. and Merrill Lynch Capital Corporation
4.12(I)	Amendment and Supplement No. 1 dated as of February 7, 2001 to the Investors Rights Agreement, dated as of November 20, 2000,among Rockwood Holdings, Inc., KKR 1996 Fund L.P., KKR Partners II, L.P., Merrill Lynch Capital Corporation and Allianz Lebensversicherungs AG, Stuttgart
4.13(I)	Supplement No. 2 dated as of January 14, 2005 to the Investors Rights Agreement, dated as of November 20, 2000, among Rockwood Holdings, Inc., Merrill Lynch Capital Corporation and SPCP Group, L.L.C.
4.14(I)	PIK Bridge Loan Agreement, dated as of November 20, 2000, among Rockwood Specialties Consolidated, Inc., the lenders named therein, Merrill Lynch Capital Corporation and Merrill Lynch International
4.15(I)	Amendment dated as of June 20, 2005 to the PIK Bridge Loan Agreement dated as of November 20, 2000 among Rockwood Specialties Consolidated, Inc. as borrower, SPCP Group, L.L.C., as Lender, and Allianz Lebensversicherungs AG, Stuttgart, as Noteholder

4.16(L)	Amendment to Stockholders Agreement and Waiver, dated as of January 27, 2006, by and among Rockwood Holdings, Inc., KKR 1996 Fund, L.P., KKR Partners II, L.P., KKR Millennium Fund, L.P., KKR Partners III, L.P., KKR European Fund, Limited Partnership and DLJ Merchant Banking Partners III, L.P., DLJ Offshore Partners III-1, C.V., DLJ Offshore Partners III-2, C.C., DLJ Offshore Partners III, C.V., DLJ MB Partners III GmbH & Co. KG, Millennium Partners II, L.P. and MBP III Plan Investors, L.P.
10.1(D)	Credit Agreement, dated as of July 30, 2004, among Rockwood Specialties Group, Inc., Rockwood Specialties Limited, Rockwood Specialties International, Inc., the lenders party thereto, Credit Suisse First Boston, acting through its Cayman Islands Branch, as Administrative agent and Collateral agent, and UBS Securities LLC and Goldman Sachs Credit Partners L.P., as Co-Syndication Agents
10.2(E)	First Amendment, dated as of October 8, 2004, to the Credit Agreement, dated as of July 30, 2004, among Rockwood Specialties Group, Inc., Rockwood Specialties Limited, Rockwood Specialties International, Inc., the lenders party thereto, Credit Suisse First Boston, acting through its Cayman Islands Branch, as Administrative agent and Collateral agent, and UBS Securities LLC and Goldman Sachs Credit Partners L.P., as Co-Syndication Agents
10.3(F)	Second Amendment, dated as of December 10, 2004, to the Credit Agreement, dated as of July 30, 2004, among Rockwood Specialties Group, Inc., Rockwood Specialties Limited, Rockwood Specialties International, Inc., the lenders party thereto, Credit Suisse First Boston, acting through its Cayman Islands Branch, as Administrative agent and Collateral agent, and UBS Securities LLC and Goldman Sachs Credit Partners L.P., as Co-Syndication Agents
10.4(K)	Third Amendment, dated as of December 13, 2005, to the Credit Agreement dated as of July 30, 2004 and as amended by the First Amendment dated as of October 8, 2004 and by the Second Amendment dated as of December 10, 2004, among Rockwood Specialties Group, Inc., Rockwood Specialties Limited, Rockwood Specialties International, Inc., the lenders party thereto, Credit Suisse (formerly known as Credit Suisse First Boston), acting through its Cayman Islands Branch, as Administrative agent and Collateral agent, and UBS Securities LLC and Goldman Sachs Credit Partners L.P., as Co-Syndication Agents
10.5(D)	Security Agreement, dated as of July 30, 2004, among Rockwood Specialties International, Inc., Rockwood Specialties Group, Inc., as US Borrower, the Subsidiaries of the U.S. Borrower named therein and Credit Suisse First Boston, acting through its Cayman Islands Branch, as Administrative agent
10.6(D)	Pledge Agreement, dated as of July 30, 2004, among Rockwood Specialties Group, Inc., as U.S. Borrower, the Subsidiaries of the U.S. Borrower named therein and Credit Suisse First Boston, acting through its Cayman Islands Branch, as Administrative agent
10.7(D)	Guarantee, dated as of July 30, 2004, among Rockwood Specialties International, Inc., Rockwood Specialties Group, Inc., as U.S. Borrower, the Subsidiaries of the U.S. Borrower named therein and Credit Suisse First Boston, acting through its Cayman Islands Branch, as Administrative agent
10.8(D)	Guarantee, dated as of July 30, 2004, among Rockwood Specialties Group, Inc., the Subsidiaries of Rockwood Specialties Limited named therein and Credit Suisse First Boston, acting through its Cayman Islands Branch, as Administrative agent
10.9(D)	Senior Subordinated Loan Agreement, dated as of July 30, 2004, among Rockwood Specialties Group, Inc., the lenders party thereto, Credit Suisse First Boston, acting through its Cayman Islands Branch, UBS Securities LLC and Goldman Sachs Credit Partners L.P., as Lead Arrangers, Credit Suisse First Boston, acting through its Cayman Islands Branch, as Administrative Agent, Goldman Sachs Credit Partners L.P., as Syndication Agent, and UBS AG, Stamford Branch, as Documentation Agent
10.10(D)	Guarantee, dated as of July 30, 2004, among the Subsidiaries of Rockwood Specialties Group, Inc. named therein and Credit Suisse First Boston, acting through its Cayman Islands Branch, UBS Securities LLC and Goldman Sachs Credit Partners L.P. and UBS AG, Stamford Branch, as Agents
10.11(A)	Deed of Tax Covenant dated September 25, 2000 between Rockwood Holdings, Inc. and Laporte plc
10.12(A)	Environmental Deed dated September 25, 2000 between Rockwood Holdings, Inc. and Laporte plc
10.13(A)	Form of Management Stockholder s Agreement, dated as of February 2, 2001, between Rockwood Holdings, Inc. and each Management Stockholder (as defined therein)
10.14(I)	Form of Management Stockholder s Agreement, dated as of November 30, 2004 between Rockwood Holdings, Inc. and each Management Stockholder (as defined therein)
10.15(I)	Form of Amended and Restated Management Stockholder s Agreement, dated as of October , 2004, between Rockwood Holdings, Inc. and each Management Stockholder (as defined therein)
10.16(A)	Form of Sale Participation Agreement, dated as of January 30, 2001, among Rockwood Holdings, Inc., each Management Stockholder party to the Management Stockholders Agreement, dated as of January 30, 2001, KKR Partners II L.P. and KKR 1996 Fund L.P.
10.17(I)	Form of Sale Participation Agreement, dated as of November 30, 2004, among KKR 1996 Fund L.P., KKR Partners II L.P., KKR Millennium Fund, L.P., KKR Partners III, L.P. and KKR European Fund, Limited Partnership and each Management Stockholder (as defined therein)
10.18(I)	Form of Amended and Restated Sale Participation Agreement, dated as of October , 2004, between Rockwood Holdings, Inc. and each Management Stockholder (as defined therein)

10.19(A)	Form of Pledge Agreement in favor of Rockwood Specialties, Inc. made by an executive officer in connection with 2001 management equity program

10.20(A)	Form of Promissory Note made by an executive officer in connection with 2001 management equity program
10.21(G)	Amended and Restated Management Stockholder s Agreement, dated as of September 24, 2004, between Rockwood Holdings, Inc. and Seifi Ghasemi
10.22(G)	Amended and Restated Sale Participation Agreement, dated as of September 24, 2004, among Seifi Ghasemi, KKR 1996 Fund L.P., KKR Partners II, L.P., KKR Millennium Fund, L.P., KKR Partners III, L.P. and KKR European Fund, Limited Partnership
10.23(G)	Time Stock Option Agreement, dated as of September 24, 2004, between Rockwood Holdings, Inc. and Seifi Ghasemi (included as Exhibit A to the Second Amendment to the Employment Agreement listed as Exhibit 10.38 herewith)
10.24(J)	Time/Performance Stock Option Agreement, dated as of September 24, 2004, between Rockwood Holdings, Inc. and Seifi Ghasemi
10.25(H)	Amended and Restated Management Stockholder s Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Robert J. Zatta
10.26(H)	Time/Performance Stock Option Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Robert J. Zatta
10.27(H)	Performance Stock Option Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Robert J. Zatta
10.28(H)	Amended and Restated Sale Participation Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Robert J. Zatta
10.29(I)	Amendment to Stock Option Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Robert J. Zatta
10.30(H)	Amended and Restated Management Stockholder s Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Thomas J. Riordan
10.31(H)	Time/Performance Stock Option Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Thomas J. Riordan
10.32(H)	Performance Stock Option Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Thomas J. Riordan
10.33(H)	Amended and Restated Sale Participation Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Thomas J. Riordan
10.34(I)	Amendment to Stock Option Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Thomas J. Riordan
10.35(A)	Employment Agreement dated as of September 28, 2001 between Rockwood Holdings, Inc. and Seifi Ghasemi
10.36(G)	First Amendment, dated as of August 9, 2004, to the Employment Agreement dated as of September 28, 2001 between Rockwood Holdings, Inc. and Seifi Ghasemi
10.37(G)	Second Amendment, dated as of September 24, 2004, to the Employment Agreement dated as of September 28, 2001 between Rockwood Holdings, Inc. and Seifi Ghasemi
10.38(A)	Employment Agreement dated as of March 21, 2001 between Rockwood Specialties, Inc. and Robert J. Zatta
10.39(H)	Amendment, dated as of October 19, 2004, to the Employment Agreement, dated as of March 21, 2001 between Rockwood Specialties, Inc. and Robert J. Zatta
10.40(A)	Employment Agreement dated as of October 14, 1994 and amended as of August 26, 1999 between Laporte Inc. and Thomas J. Riordan
10.41(A)	Profit-Sharing/401(K) Plan for Employees of Rockwood Specialties, Inc.
10.42(A)	The Rockwood Specialties, Inc. Money Purchase Pension Plan
10.43(A)	Supplementary Savings Plan of Laporte Inc.
10.44(A)	Rockwood Specialties, Inc. Deferred Compensation Plan
10.45(I)	Management Services Agreement dated as of July 29, 2004 between Kohlberg Kravis Roberts & Co. L.P., DLJ Merchant Banking Partners III, L.P. and Rockwood Holdings, Inc.
10.46(I)	Termination Agreement dated as of May 13, 2005 between Kohlberg Kravis Roberts & Co. L.P., DLJ Merchant Banking Partners III, L.P. and Rockwood Holdings, Inc.
10.47(I)	Restricted Stock Unit Award Agreement effective as of November 1, 2001 between Rockwood Holdings, Inc. and Seifi Ghasemi
10.48(I)	Form of 2001 Stock Option Agreement, dated as of February 2, 2001, between K-L Holdings, Inc. and an employee of the Company or a Subsidiary or Affiliate of the Company.
10.49(I)	Form of 2004 Stock Option Agreement between Rockwood Holdings, Inc. and an employee of the Company or a Subsidiary or Affiliate of the Company.
10.50(I)	2005 Amended and Restated Stock Purchase and Option Plan for Rockwood Holdings, Inc. and Subsidiaries
10.51(I)	Short-Term Incentive Plan for Rockwood Holdings, Inc. and Subsidiaries
10.52(I)	Form of Non-Employee Director Stock Option Agreement
21.1*	List of Subsidiaries
23.1*	Consent of Deloitte & Touche LLP
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31.2* Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

32.1* Section 1350 Certification of Chief Executive Officer. This certification accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 or any other provision of the Securities Exchange Act of 1934, as amended

32.2* Section 1350 Certification of Chief Financial Officer. This certification accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 or any other provision of the Securities Exchange Act of 1934, as amended

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* Filed herewith.

(A) Incorporated by reference to Rockwood Specialties Group, Inc. s Registration Statement on form S-4 (File No. 333-109686).

(B) Incorporated by reference to the Current Report on Form 8-K of Rockwood Specialties Group, Inc filed on May 4, 2004.

(C) Incorporated by reference to the Current Report on Form 8-K of Rockwood Specialties Group, Inc filed on November 12, 2004.

(D) Incorporated by reference to the Current Report on Form 8-K of Rockwood Specialties Group, Inc filed on August 4, 2004.

(E) Incorporated by reference to the Current Report on Form 8-K of Rockwood Specialties Group, Inc filed on October 12, 2004.

(F) Incorporated by reference to the Current Report on Form 8-K of Rockwood Specialties Group, Inc filed on December 14, 2004.

(G) Incorporated by reference to the Current Report on Form 8-K of Rockwood Specialties Group, Inc filed on September 30, 2004.

(H) Incorporated by reference to the Current Report on Form 8-K of Rockwood Specialties Group, Inc filed on October 19, 2004.

(I) Incorporated by reference to the Company s Registration Statement on Form S-1 (File No. 333-122764).

(J) Incorporated by reference to the Annual Report on Form 10-K of the Rockwood Specialties Group, Inc. filed on April 29, 2005.

(K) Incorporated by reference to the Company s Current Report on Form 8-K filed on December 15, 2005.

(L) Incorporated by reference to the Company s Current Report on Form 8-K filed on February 2, 2006.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

ROCKWOOD HOLDINGS, INC.
By: /s/ Seifi Ghasemi

Seifi Ghasemi
Chairman of the Board and Chief Executive Officer
Date: March 31, 2006

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

Name	Title	Date
/s/ SEIFI GHASEMI By: Seifi Ghasemi	Chairman and Chief Executive Officer and Director (Principal Executive Officer)	Date: March 31, 2006
/s/ ROBERT J. ZATTA By: Robert J. Zatta	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	Date: March 31, 2006
/s/ JAMES T. SULLIVAN By: James T. Sullivan	Corporate Controller (Principal Accounting Officer)	Date: March 31, 2006
/s/ BRIAN F. CARROLL By: Brian F. Carroll	Director	Date: March 31, 2006
/s/ SHELDON R. ERIKSON By: Sheldon R. Erikson	Director	Date: March 31, 2006
/s/ TODD A. FISHER By: Todd A. Fisher	Director	Date: March 31, 2006
/s/ PERRY GOLKIN By: Perry Golkin	Director	Date: March 31, 2006
/s/ DOUGLAS L. MAINE By: Douglas L. Maine	Director	Date: March 31, 2006
/s/ CYNTHIA A. NIEKAMP By: Cynthia A. Niekamp	Director	Date: March 31, 2006
/s/ SUSAN SCHNABEL By: Susan Schnabel	Director	Date: March 31, 2006
/s/ FREDRIK SJÖDIN By: Fredrik Sjödin	Director	Date: March 31, 2006

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