

Consolidated Financial Statements

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Cognis Consolidated Balance Sheet

Assets

	December 31, 2006		December 31, 2005		Notes
	€ millions	%	€ millions	%	
Non-current assets					
Intangible assets	286	10.8	285	11.2	(1)
Property, plant and equipment ¹⁾	754	28.6	797	31.2	(2)
Investments	2	0.1	2	0.1	(3)
Derivative financial instruments – non-current portion	5	0.2	3	0.1	(27)
Other non-current assets	19	0.7	23	0.9	(6)
Deferred income tax assets	252	9.5	285	11.2	(19)
Total non-current assets	1,318	49.9	1,395	54.7	
Current assets					
Inventories	495	18.8	477	18.7	(4)
Trade receivables	537	20.4	521	20.4	(5)
Income tax refunds receivable	8	0.3	7	0.3	(19)
Derivative financial instruments – current portion	8	0.3	4	0.1	(27)
Other current assets	41	1.5	40	1.6	(6)
Cash and cash equivalents	233	8.8	107	4.2	(7)
Total current assets	1,322	50.1	1,156	45.3	
Total assets	2,640	100.0	2,551	100.0	

¹⁾ 2005 figures published in 2006 restated to reflect IFRIC 4.

Equity and Liabilities

	December 31, 2006		December 31, 2005		Notes
	€ millions	%	€ millions	%	
Equity					
Equity attributable to the Group's equity holders ¹⁾	(233)	(8.8)	(207)	(8.1)	
Minority interests	113	4.3	59	2.3	
Total equity	(120)	(4.5)	(148)	(5.8)	(8)
Liabilities					
Non-current liabilities					
Provisions for pensions and similar obligations	444	16.8	464	18.2	(9)
Other provisions – non-current portion	41	1.6	56	2.2	(9)
Borrowings – non-current portion ¹⁾	1,575	59.6	1,573	61.8	(10)
Derivative financial instruments – non-current portion	4	0.1	9	0.3	
Other non-current liabilities	13	0.5	17	0.7	(12)
Deferred income tax liabilities	21	0.8	29	1.1	(19)
Total non-current liabilities	2,098	79.4	2,148	84.3	
Current liabilities					
Other provisions – current portion	141	5.3	112	4.4	(9)
Income tax provisions	7	0.3	17	0.7	(19)
Borrowings – current portion ¹⁾	129	4.9	65	2.5	(10)
Trade payables	333	12.6	290	11.4	(11)
Derivative financial instruments – current portion	3	0.1	9	0.3	
Other current liabilities	49	1.9	58	2.2	(12)
Total current liabilities	662	25.1	551	21.5	
Total liabilities	2,760	104.5	2,699	105.8	
Total equity and liabilities	2,640	100.0	2,551	100.0	

¹⁾ 2005 figures published in 2006 restated to reflect IFRIC 4.

Cognis Consolidated Income Statement

	2006		2005		Notes
	€ millions	%	€ millions	%	
Sales	3,372	100.0	3,176	100.0	
Cost of sales	(2,497)	(74.1)	(2,403)	(75.7)	
Gross profit	875	25.9	773	24.3	
Marketing, selling and distribution costs	(439)	(13.0)	(423)	(13.3)	
Research and development costs	(94)	(2.8)	(92)	(2.9)	(13)
Administrative expenses	(120)	(3.6)	(113)	(3.6)	
Other operating income	42	1.3	18	0.6	(14)
Other operating expenses	(23)	(0.7)	(63)	(1.9)	(15)
	241	7.1	100	3.2	
Impairment and amortization of goodwill	–	–	(9)	(0.3)	(1)
Restructuring costs	(35)	(1.0)	(34)	(1.1)	(16)
Operating profit (EBIT)	206	6.1	57	1.8	(17)
Interest income	7	0.2	3	0.1	
Interest expense	(172)	(5.1)	(152)	(4.8)	
Other financial items	1	–	(44)	(1.4)	
Net financial result	(164)	(4.9)	(193)	(6.1)	(18)
Profit/(loss) before tax	42	1.2	(136)	(4.3)	
Income taxes	(40)	(1.2)	–	–	(19)
Net profit/(loss) for the period	2	–	(136)	(4.3)	
Attributable to:					
Equity holders of the Group	(2)	(0.1)	(145)	(4.6)	
Minority interests	4	0.1	9	0.3	(20)
	2	–	(136)	(4.3)	

Cognis Consolidated Statement of Changes in Shareholder's Equity

€ millions	Attributable to Equity Holders of the Group					Minority Interests	Total Equity
	Capital Reserves	Accumulated Deficit	IAS 39 Reserve	Currency Translation Reserve	Total		
Balance at January 1, 2005 as previously reported	205	(171)	(8)	(145)	(119)	44	(75)
Change in accounting policies ¹⁾	–	(1)	–	–	(1)	–	(1)
Balance at January 1, 2005 as restated	205	(172)	(8)	(145)	(120)	44	(76)
Net profit/(loss) for the period	–	(145)	–	–	(145)	9	(136)
Translation differences	–	–	–	58	58	8	66
Cash flow hedges							
Fair value losses	–	–	(11)	–	(11)	–	(11)
Deferred taxes	–	–	–	–	–	–	–
Transfers from IAS 39 reserve to income statement	–	–	11	–	11	–	11
Net income/(expense) recognized directly in equity	–	–	–	58	58	8	66
Total recognized net income/(expense) for the period	–	(145)	–	58	(87)	17	(70)
Capital repayments and distributions	–	–	–	–	–	(2)	(2)
Balance at December 31, 2005 as restated	205	(317)	(8)	(87)	(207)	59	(148)
Net profit/(loss) for the period	–	(2)	–	–	(2)	4	2
Translation differences	–	–	–	(18)	(18)	(5)	(23)
Dilution result from the contribution and/or sale of parts of the Oleochemicals business	–	(16)	–	–	(16)	16	–
Cash flow hedges							
Fair value gains	–	–	12	–	12	–	12
Deferred taxes	–	–	(6)	–	(6)	–	(6)
Transfers from IAS 39 reserve to income statement	–	–	4	–	4	–	4
Net income/(expense) recognized directly in equity	–	(16)	10	(18)	(24)	11	(13)
Total recognized net income/(expense) for the period	–	(18)	10	(18)	(26)	15	(11)
Capital contribution	–	–	–	–	–	40	40
Capital repayments and distributions	–	–	–	–	–	(1)	(1)
Balance at December 31, 2006	205	(335)	2	(105)	(233)	113	(120)

¹⁾ Effect of IFRIC 4.

Cognis Consolidated Cash Flow Statement

	2006	2005	
	€ millions	€ millions	Notes
Operating profit (EBIT)	206	57	
Income taxes paid	(42)	(19)	
Depreciation/(write-ups) of fixed assets	159	246	
Net (gains)/losses from disposals of fixed assets and divestments	(3)	(1)	
Cash earnings	320	283	
Change in inventories	(36)	30	
Change in receivables and other assets	(32)	(4)	
Change in liabilities and other provisions	52	(37)	
Cash flows from operating activities	304	272	
Capital expenditure on intangible assets	(8)	(10)	
Capital expenditure on property, plant and equipment	(92)	(122)	
Acquisitions	(42)	–	(24)
Divestments and disposals of fixed assets	6	3	(25)
Cash flows from investing activities	(136)	(129)	
Capital contributions	40	–	
Capital repayments and distributions	(1)	(2)	
Pension payments net of service costs	(41)	(27)	(26)
Drawdown/(repayment) of borrowings	101	14	
Interest and dividends received	7	3	
Interest paid and other financial charges	(152)	(129)	
Cash flows from financing activities	(46)	(141)	
Net cash flows	122	2	
Foreign exchange effect	4	(1)	
Change in cash and cash equivalents	126	1	
Cash and cash equivalents at beginning of period	107	106	
Cash and cash equivalents at end of period	233	107	

Group Segment Reporting

The Cognis Group is a manufacturer of specialty chemicals. The structure of the segments presented below is based on the Group's management and internal reporting structure. Cognis measures its performance by Strategic Business Unit, the SBUs being Care Chemicals, Nutrition & Health, Functional Products, Process Chemicals and Oleochemicals.

- The Care Chemicals SBU is a leading global producer of specialty chemicals, surfactants and fatty alcohols for manufacturers of hair-care, skin-care and body-care products, as well as makers of household and industrial detergents and cleaners
- The Nutrition & Health SBU is a leading supplier of natural-source antioxidants (vitamin E and carotenoids in particular), sterols, botanicals and specialty lipids for dietary supplements. Other products supplied by the Nutrition & Health SBU include food-grade emulsifiers and pharmaceutical excipients
- The Functional Products SBU provides chemical products and customer-tailored solutions designed to enhance product performance and cost efficiency and used extensively in the polymers, coatings and inks, lubricants, agricultural and mining industries
- The Process Chemicals SBU offers specialized chemical products and process expertise to industrial customers, including leather, textile and fiber processors and manufacturers
- The Oleochemicals SBU produces a comprehensive range of chemical intermediates (such as fatty acids and glycerin) mainly from natural renewable raw materials, in particular natural oils and fats

As a result of the transfer of the global Oleochemicals and Plastics Technology businesses to our fully consolidated Malaysian joint venture in February 2006, Cognis' SBU reporting structure changed effective January 1, 2006, as follows:

- the Oleochemicals SBU includes the Plastics Technology business (previously included in the Process Chemicals SBU), the Ozone business (previously part of the Functional Products SBU), the results of fatty alcohol production in Malaysia (previously part of the Care Chemicals SBU) and the results of trading Cognis products in Malaysia (previously included in the results of the originating SBU's); and
- the Oleochemicals SBU excludes the Silicates business, which is now included in the Care Chemicals SBU.

Other Activities includes intra-group transfers of goods and services, as well as contract manufacturing and other secondary activities. Within intra-group transfers, Other Activities includes the results of internal deliveries from one Non-Oleochemicals Cognis Group company to another Non-Oleochemicals Cognis Group company. For deliveries within the sub-groups Cognis and Oleochemicals, the transfer prices are calculated based on standard manufacturing costs plus a surcharge rate for the transaction of internal deliveries and a mark-up ensuring arms-length transactions. Deliveries between the sub-groups, i.e. between Non-Oleochemicals companies and Oleochemicals companies, are settled by individual supply and distribution agreements.

To ensure comparability, the prior-year figures in this report have been restated to reflect the changes described above. The prior-year figures therefore differ from the published 2005 figures.

The segment revenues, expenses, assets and liabilities are either directly attributable to a segment or allocated to that segment based on economic principles; property, plant and equipment are allocated to segments by capacity utilization.

Effective January 1, 2006, Cognis' regional reporting structure has changed to the extent that Cognis Colombia was transferred from the North America region to the Central and South America region. To ensure comparability, the 2005 figures in this report have been restated to reflect this change. However, on the basis of numbers rounded to full million euros, only external sales by company jurisdiction have been impacted by the change.

Primary Segments (Segments by SBU)								
		Care Chemicals	Nutrition & Health	Functional Products	Process Chemicals	Oleo- chemicals	Other Activities	Group
Net total sales 2006	€m	1,383	317	844	258	710	91	–
Change from previous year	%	5.7	5.0	10.5	4.5	0.4	–11.7	–
2005 as restated	€m	1,309	302	764	247	707	103	–
Net external sales 2006	€m	1,356	316	841	258	553	48	3,372
Change from previous year ¹⁾	%	5.6	4.2	10.4	4.1	–0.7	117.5	6.2
Proportion of total Group sales	%	40.2	9.4	25.0	7.6	16.4	1.4	100.0
2005 as restated	€m	1,284	302	763	247	557	23	3,176
Proportion of total Group sales	%	40.4	9.5	24.0	7.8	17.6	0.7	100.0
2005 as reported previously	€m	1,262	303	792	359	436	24	3,176
Proportion of total Group sales	%	39.8	9.5	25.0	11.3	13.7	0.7	100.0
Operating profit (EBIT) 2006	€m	125	52	46	3	11	(31)	206
Change from previous year ¹⁾	%	15.6	42.1	42.2	–206.4	–114.1	–14.8	259.0
Return on sales ¹⁾	%	9.2	16.4	5.4	1.3	2.0	–63.9	6.1
2005 as restated	€m	108	36	32	(3)	(80)	(36)	57
Return on sales ¹⁾	%	8.4	12.0	4.2	–1.3	–14.3	–163.0	1.8
2005 as reported previously	€m	110	36	32	(15)	(75)	(31)	57
Return on sales ¹⁾	%	8.7	12.0	4.1	–4.1	–17.1	–137.6	1.8
Depreciation, amortization, impairment charges and reversals thereof 2006	€m	68	15	34	9	19	14	159
of which impairment losses and reversals thereof	€m	(1)	–	–	–	(2)	1	(2)
2005 as restated	€m	67	15	37	10	95	22	246
of which impairment losses and reversals thereof	€m	3	–	–	–	54	4	61
2005 as reported previously	€m	65	15	41	32	75	18	246
of which impairment losses and reversals thereof	€m	3	–	–	13	41	4	61
Capital expenditure²⁾ 2006	€m	44	9	18	9	20	–	100
2005 as restated	€m	59	18	26	5	24	–	132
2005 as reported previously	€m	66	18	26	9	13	–	132
Net operating assets employed								
Operating assets	€m	915	257	502	176	346	76	2,272
Operating liabilities	€m	285	57	152	76	99	44	713
Net operating assets employed	€m	630	200	350	100	247	32	1,559
Operating assets 2005 as restated ³⁾	€m	921	249	493	161	385	74	2,283
Operating liabilities 2005 as restated ³⁾	€m	276	53	145	59	113	26	672
Net operating assets employed 2005 as restated ³⁾	€m	645	196	348	102	272	48	1,611
Operating assets 2005 as reported previously ³⁾	€m	932	249	513	248	267	74	2,283
Operating liabilities 2005 as reported previously ³⁾	€m	268	53	149	85	91	26	672
Net operating assets employed 2005 as reported previously ³⁾	€m	664	196	364	163	176	48	1,611
Research and development costs 2006⁴⁾	€m	45	9	22	9	2	7	94
As a percentage of sales ¹⁾	%	3.3	2.8	2.6	3.7	0.3	13.9	2.8
2005 as restated ⁴⁾	€m	37	7	19	8	18	3	92
As a percentage of sales ¹⁾	%	2.9	2.3	2.5	3.2	3.2	12.9	2.9
2005 as reported previously ⁴⁾	€m	35	7	19	10	14	7	92
As a percentage of sales ¹⁾	%	2.8	2.3	2.4	2.7	3.2	30.8	2.9

¹⁾ Percentages calculated on the basis of the segment figures in € thousands.²⁾ Excluding investments in financial assets and acquisitions.³⁾ Restated to reflect IFRIC 4.⁴⁾ Including the amortization of step-up on patents and other intangible assets (see also Note 13).

Secondary Segments (Segments by geographical region)

		Germany	Rest of Europe	North America ³⁾	Central and South America ⁴⁾	Asia-Pacific	Africa	Group
Net external sales by company jurisdiction 2006	€m	1,034	896	798	163	478	3	3,372
Change from previous year ¹⁾	%	4.7	6.9	5.7	7.3	8.7	-5.3	6.2
Proportion of total Group sales ¹⁾	%	30.6	26.6	23.7	4.8	14.2	0.1	100.0
2005 restated	€m	988	839	755	152	439	3	3,176
Proportion of total Group sales	%	31.1	26.4	23.8	4.8	13.8	0.1	100.0
2005 as reported previously	€m	988	839	762	145	439	3	3,176
Proportion of total Group sales ¹⁾	%	31.1	26.4	24.0	4.6	13.8	0.1	100.0
Net external sales by destination 2006	€m	516	1,251	793	232	542	38	3,372
Change from previous year ¹⁾	%	0.9	9.2	6.1	13.3	2.5	0.3	6.2
Proportion of total Group sales ¹⁾	%	15.3	37.1	23.5	6.9	16.1	1.1	100.0
2005	€m	511	1,147	747	205	529	37	3,176
Proportion of total Group sales ¹⁾	%	16.1	36.1	23.5	6.5	16.6	1.2	100.0
By company jurisdiction:								
Capital expenditure²⁾								
2006	€m	33	17	27	2	21	-	100
2005	€m	55	19	38	3	17	-	132
Operating assets employed								
2006	€m	583	822	441	80	345	1	2,272
2005 ⁵⁾	€m	623	764	478	89	328	1	2,283

¹⁾ Percentages calculated on the basis of the segment figures in € thousands.

²⁾ Excluding investments in financial assets and acquisitions.

³⁾ Including Mexico (2005 as reported previously: Mexico and Colombia).

⁴⁾ Excluding Mexico (2005 as reported previously: Mexico and Colombia).

⁵⁾ Restated to reflect IFRIC 4.

Segment Information – Reconciliation with Balance Sheet Figures

The reconciliation of the allocated net operating assets to consolidated assets and liabilities as of December 31, 2006 and 2005, is presented in the following table:

€ millions	December 31, 2006			December 31, 2005		
	Segment operating assets/liabilities	Non-operating portion/ Consolidation	Balance sheet figures	Segment operating assets/liabilities	Non-operating portion/ Consolidation	Balance sheet figures
Intangible assets	286	–	286	285	–	285
Property, plant and equipment	754	–	754	797	–	797
Investments	–	2	2	–	2	2
Deferred income tax assets	–	252	252	–	285	285
Inventories	495	–	495	477	–	477
Trade receivables from third parties	537	–	537	521	–	521
Trade receivables from affiliated companies	159	(159)	–	161	(161)	–
Income tax refunds receivable	–	8	8	–	7	7
Derivative financial instruments	–	13	13	–	7	7
Other assets	41	19	60	42	21	63
Cash and cash equivalents	–	233	233	–	107	107
Total assets	2,272	368	2,640	2,283	268	2,551
Trade payables to third parties	333	–	333	290	–	290
Trade payables to affiliated companies	159	(159)	–	161	(161)	–
Other provisions and liabilities	221	23	244	221	22	243
Derivative financial instruments	–	7	7	–	18	18
Provisions for pensions and similar obligations	–	444	444	–	464	464
Income tax provisions	–	7	7	–	17	17
Deferred income tax liabilities	–	21	21	–	29	29
Borrowings	–	1,704	1,704	–	1,638	1,638
Total provisions and liabilities	713	2,047	2,760	672	2,027	2,699
Net assets/Equity and minority interests	1,559	(1,679)	(120)	1,611	(1,759)	(148)

Notes to the Consolidated Financial Statements

Basis of Presentation

“Cognis”, “Cognis Group” and “the Group” refer to Cognis GmbH and direct and indirect subsidiaries as consolidated in these financial statements. The consolidated annual financial statements of the Cognis Group have been prepared in accordance with International Financial Reporting Standards as effective December 31, 2006, including those adopted by the European Union.

The financial statements are presented in euros rounded to the nearest million.

Certain reclassifications have been made to the financial statement presentation of prior periods to conform such presentation to the current period presentation.

On March 31, 2007, the Management Board of Cognis GmbH has authorized the financial statements and has agreed to distribute the financial statements to the shareholders.

Scope of Consolidation

Cognis GmbH is a wholly-owned subsidiary of Cognis Holding GmbH, which in turn is a wholly-owned subsidiary of Cognis Holding Luxembourg S.à.r.l. A total of 61 (2005: 57) legal entities are included in the 2006 consolidated financial statements. Their regional distribution is as follows:

	December 31, 2006	December 31, 2005
North West Europe, Africa	23	22
Southern Europe	8	7
North America ¹⁾	6	6
Central and South America ²⁾	5	4
Asia-Pacific	19	18
Total	61	57

¹⁾ Including Mexico (2005: including Mexico and Colombia).

²⁾ Excluding Mexico (2005: excluding Mexico and Colombia).

In 2006, the Group acquired Napro Pharma AS, Norway. Furthermore, the acquisition of the Cosmetic Rheologies group, UK, in 2006 accounts for one additional company each in North Europe, Southern Europe and North America.

Also, two smaller companies were incorporated and two were liquidated.

Effects of acquisitions and divestments are further explained in Note 24 “Acquisitions” and Note 25 “Divestments and disposals of fixed assets”.

Cognis holds 50% of the share capital of its Malaysian joint venture, which is fully consolidated as Cognis exercises control due to management rights granted in the joint venture agreement.

A list of the principal subsidiary companies is provided in Note 33 “Principal subsidiary companies”.

Accounting Policies

Basis of consolidation

Entities which Cognis GmbH either directly or indirectly controls by holding more than half of the voting rights or otherwise are included in the consolidated Cognis Group financial statements, with the exception of entities that are individually and collectively immaterial. These exceptions are classified as investments in affiliated companies.

Entities are consolidated from the date the Group assumes effective control and are removed from the consolidation when control ceases.

Acquisitions of controlled entities are accounted for using the purchase method, according to which the acquisition cost is allocated at the acquisition date to the fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree, with the remainder being allocated to goodwill.

All balances, income, expenses, gains and losses resulting from transactions between Group companies are eliminated.

Increases in minority interests and resulting dilution gains or losses are recognized directly in equity.

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Joint ventures are generally accounted for using the proportionate consolidation method.

Unrealized gains or losses arising from transactions with joint ventures are eliminated to the extent of the Group's share in the joint venture.

The use of proportionate consolidation is discontinued from the date on which the group ceases to have joint control over a joint venture.

Foreign currency

Transactions in foreign currencies are translated to euros at the foreign exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to euros at the foreign exchange rates prevailing at the balance sheet date. The resulting foreign exchange gains and losses are generally recognized in income.

The Group's foreign operations are financially, economically and organizationally independent of Cognis GmbH. As a result, the assets and liabilities, including goodwill and fair value adjustments arising on consolidation, of the Group's foreign operations are translated from these operations' measurement currencies (normally their local currencies) to euros at the foreign exchange rates prevailing at the balance sheet date. The revenues and expenses of these foreign operations are translated to euro at rates approximating the foreign exchange rates in effect at the dates of the transactions. The foreign exchange differences arising on translation are recognized directly in equity. If a consolidated foreign entity is divested, the respective accumulated translation differences are transferred to profit or loss.

The following exchange rates have been used for currency translation purposes:

		2006	2005	2006	2005
€ 1.00 equals	ISO code	Average rate		Closing rate	
British pounds	GBP	0.6817	0.6838	0.6715	0.6853
Japanese yen	JPY	146.0114	136.8492	156.9300	138.9000
US dollars	USD	1.2556	1.2441	1.3170	1.1797
Malaysian ringgits	MYR	4.6045	4.7119	4.6490	4.4584

Effective January 1, 2006, Cognis Kimya Sanayi ve Ticaret A.S., Turkey, is no longer considered to be operating in an hyperinflationary environment and uses Turkish lira as its measurement currency.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree at the date of acquisition. As a result of the issuance of IFRS 3, goodwill is not longer amortized effective 2005, but instead evaluated at least annually using an impairment test approach as required by IAS 36. As a result, goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units. Each of our Strategic Business Units represents a cash-generating unit. Any gain or loss arising from the disposal of a subsidiary takes the remaining carrying value of associated goodwill into account.

Other intangible assets

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if, among other criteria, the product or process is technically and commercially feasible and the costs can be reliably measured. Where and to the extent that these criteria are not satisfied, such expenditure is recognized in the income statement as an expense.

Capitalized development expenditures and other intangible assets are valued at cost less accumulated amortization and impairment losses. The acquisition cost of an intangible asset includes the purchase price plus all directly attributable costs incurred to prepare the asset for its intended use. Discounts and rebates are deducted in calculating the acquisition cost. Costs of internally generated intangible assets comprise the cost of materials, and labor and overhead costs that are directly attributable to preparing the asset for its intended use. Interest charges on borrowings are not included in the cost of assets.

Emission allowances (emission rights), granted annually by European governments to large carbon dioxide emitters, are recognized as intangible assets in accordance with IAS 38 “Intangible Assets” and IAS 20 “Government Grants” and valued at cost less amortization based on usage (“unit-of-pollution” basis). Emission rights, issued free of charge, are recognized at the nominal value of the emission rights (net presentation). The emission rights are derecognized on disposal when their useful life expires, which is assumed when the emission rights must be delivered to the government for the prior-year emission of carbon dioxide. If, at the balance sheet date, the obligation to deliver emission rights for the current year exceeds the amount of emission rights recognized as intangible assets, the excess amount is provided for in sundry provisions. The provision is measured based on the market value of the required emission rights at the balance sheet date.

Other intangible assets are amortized on a straight-line basis over their respective useful lives. The amortization of intangible assets (apart from goodwill) is allocated to the individual lines of the income statement based on use of the assets. The expected useful lives of intangible assets are as follows:

	Years
Patents and licenses	8 – 20
Capitalized product development costs	8
Capitalized process development costs	5
Computer software	3 – 5

Other than goodwill, no intangible assets have been determined to have an indefinite useful life.

Property, plant and equipment

Property, plant and equipment are valued at cost less accumulated depreciation and impairment losses.

The cost of property, plant and equipment includes the purchase price and all directly attributable costs incurred in order to prepare the assets for their intended use. Rebates, allowances and discounts are deducted from the purchase price. The cost of assets manufactured includes all costs directly attributable to the manufacturing process and an appropriate proportion of production overheads and depreciation. Interest charges on borrowings and repair and maintenance costs are not included in the cost of assets manufactured.

Property (except land and land rights), plant and equipment are depreciated on a straight-line basis over their anticipated useful lives. The anticipated useful lives are as follows:

	Years
Office buildings	40
Research, factory, workshops, storage and staff buildings	25 – 33
Production facilities	20 – 25
Machinery and distribution systems	7 – 10
Office equipment	10
Vehicles	5
Factory and research equipment	5

The cost and accumulated depreciation of fully depreciated property, plant and equipment are included in the balance sheet until such assets are classified as held for sale, disposed of or no longer used. Gains and losses arising from asset disposals, representing the difference between disposal proceeds and remaining book value, are recognized in the income statement.

Impairment losses and reversals of impairment losses

Intangible assets (including goodwill) and property, plant and equipment are reviewed each year for indications of impairment. Where such indications exist, the asset's carrying value is compared to its recoverable amount, the latter being defined as the greater of the asset's fair value less cost to sell and its value in use (the present value of estimated future cash flows generated by its use and eventual disposal). If the carrying value exceeds the recoverable amount, the asset is then written-down to the recoverable amount. For the impairment test, the assets are aggregated at the lowest level at which separate cash flows can be determined (cash-generating unit). The Strategic Business Units (reportable segments) have been defined as cash-generating unit by Cognis' management.

Impairment losses are reversed when the reasons for the recognition of the impairment loss no longer exist. The impairment loss, however, is reversed only to the extent that the carrying value of the asset does not exceed the carrying value had no impairment loss been recognized. Impairment losses related to goodwill are not reversed.

Leases

Leases in which substantially all the risks and rewards of ownership are assumed by the Group are classified as finance leases. In this case, at the inception of the lease, the leased item is recorded as an asset at the lower of the present value of the minimum lease payments and its fair value. A finance lease liability is recognized in the same amount.

If title over the asset is not expected to pass to the Group upon expiry of the lease, the asset is amortized on a straight-line basis over the shorter of the useful life of the asset and the lease term. Otherwise, the leased asset is amortized on a straight-line basis over its anticipated useful life.

Assets leased under an operating lease are not recognized on the Group's balance sheet.

IFRIC 4 "Determining whether an arrangement contains a lease", application of which is mandatory for annual periods beginning on or after January 1, 2006, has been adopted by the Group in its 2006 financial statements. The associated 2005 figures have been duly restated.

IFRIC 4 requires the analysis of certain supply, maintenance, service and other long-term purchasing or selling contracts in order to identify embedded leases contained in these arrangements and the classification of such embedded leases as operating or finance leases. Embedded leases, in which substantially all the risks and rewards of ownership are assumed by the Group are classified as finance leases as required by IAS 17.

For a detailed description of the financial effects of this change in accounting policy, please refer to Note 2 "Property, plant and equipment".

Investments and other non-derivative financial assets

Management determines the appropriate classifications of its investments at the time of purchase and re-evaluates the classifications on a regular basis. At the time of acquisition, the Group distinguishes between financial assets that are carried at fair value, held to maturity, available for sale, and loans and receivables.

The Cognis Group intends to hold its equity investments for an indefinite period of time; accordingly, they have been classified as available-for-sale investments in accordance with IAS 39. If reliably ascertainable, these financial assets would be recognized at their fair value (if available, their quoted market value) and changes in their fair value recognized in equity. However, since their fair value can not be reliably determined as these financial assets have no quoted market value and cannot be determined otherwise, they are recorded at cost, including transaction costs, less impairment losses (as described below).

During 2006, Cognis held no investments classified as held to maturity or loans originated by the Group.

Financial assets are recognized when Cognis becomes a party to the contractual provisions of the asset. They are derecognized upon expiration of the Group's contractual rights to the cash flows from the assets or if the financial asset is transferred to another party and the Group retains neither control nor substantially all risks and rewards of the asset.

Investments and other financial assets are reviewed at each balance sheet date for indications that they may be impaired. If any such indications exist, the asset's carrying value is compared, and, if necessary, written down to its estimated recoverable amount, defined as the present value of expected future cash flows.

Impairment loss reversals are recognized when the reasons for the recognized impairment loss no longer exist. The impairment loss, however, is reversed only to the extent that the carrying value of the asset does not exceed the carrying value had no impairment loss been recognized.

Inventories

Inventories are stated at the lower of purchase or manufacturing cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is determined by using the first-in, first-out (FIFO) and weighted average cost methods. Manufacturing cost includes raw materials, direct labor, other direct costs and related production overheads (based on normal capacity utilization), but excludes borrowing costs.

Trade accounts receivable and other receivables

Trade accounts receivable and other receivables are stated at their nominal value less impairment losses. Receivables denominated in foreign currencies are initially valued using the exchange rate in effect on the transaction date, and then revalued using the exchange rate in effect on the balance sheet date, regardless of any foreign exchange hedging with respect to the receivables.

Specific provisions are recorded against individual accounts receivable when there are objective indications that the amount receivable may not be fully collectible. In addition, allowances for doubtful accounts receivable are recorded based on Cognis' history of experienced credit risk.

Other receivables are stated at their nominal value less impairment losses, except deferred compensation trust funds (that fund employees' deferred compensation plans in the USA), which are stated at fair value.

The carrying values of current financial assets approximate their fair values.

Derivative financial instruments

The Group uses derivative financial instruments primarily to hedge exposure to foreign exchange and interest risks. Derivative financial instruments are recognized initially at cost. Subsequent to initial recognition, they are recognized at fair value. The fair value of interest instruments is based on the present value of the estimated future cash flows resulting from said instruments, as confirmed with our counterparties (exclusively banks). The fair value of forward foreign exchange contracts is determined using forward exchange rates as of the balance sheet date.

The method by which gains and losses resulting from changes in the fair value of derivatives are accounted for depends on the purpose for which the instruments were acquired. Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows attributable to a particular risk associated with a recognized asset or liability (such as future interest payments on variable-rate debt) or a highly probable forecasted transaction, the portion of any gain or loss on the derivative financial instrument representing an effective hedge is recognized directly in equity. The cumulative gain or loss is removed from equity and recognized in income concurrently with the hedged transaction. To the extent that the hedge is ineffective or where a derivative is not designated as a cash flow hedge, changes in fair value are recognized immediately in financial result.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is discontinued prospectively.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, bank demand deposits and other short-term highly liquid investments. Cash and cash equivalents denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date.

Paid-in capital and reserves

Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Provisions for pensions and similar obligations

For defined benefit plans, pension costs are assessed using the projected unit credit method in accordance with IAS 19. The cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of the participating employees, taking into consideration the expected future development of salaries and benefits. Net pension obligations are calculated as the present value of employee benefits, less the fair value of plan assets less unrecognized actuarial losses and plus unrecognized past service gains. Valuations of these obligations are carried out by independent actuaries.

The Group's contributions to defined contribution pension plans are recognized in income in the period to which the contributions relate.

Some Group companies provide post-retirement healthcare benefits to their retirees. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans.

Other provisions

Other provisions are accrued where a legal or constructive obligation with respect to third parties currently exists as a result of a past event, where it is probable that this will lead to an outflow of resources and where a reliable estimate of the amount of the liability can be made. The amount recognized corresponds to the best estimate of the expenditure required to settle the obligation at the balance sheet date. However, long-term provisions are recognized at their present value when the effect of the time value of money is material.

Provisions for onerous contracts are recognized when the expected benefits from a contract are less than the unavoidable costs associated with fulfillment of the contract obligations.

Contingent liabilities are disclosed unless recognized as provisions or the possibility of an outflow of resources or economic benefits is remote.

Borrowings and other liabilities

Interest-bearing borrowings are recognized when the Group becomes a party to the contractual provisions of the liability. They are measured initially at cost, less attributable financing costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the term of the borrowings on an effective interest basis. Borrowings are derecognized if the Group's obligations under the contract expire or are discharged or canceled.

Finance lease obligations are initially recognized at the lesser of the fair value of the leased item and the present value of the minimum lease payments. Each lease payment is then allocated between repayment of the finance lease obligation and finance charges, so as to achieve a constant rate of interest on the outstanding balance of the lease obligation.

Other liabilities are carried at amortized cost. Derivative financial instruments that represent liabilities are recorded at fair value as described in the section "Derivative financial instruments".

Liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the balance sheet date.

The carrying values of current liabilities approximate their fair values.

Deferred taxes

Deferred taxes are recognized using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and on tax loss carry-forwards. Deferred tax assets and liabilities are recorded at the tax rates expected to be in effect when the underlying temporary differences reverse. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be applied.

Changes in deferred tax balances arising from temporary differences between the carrying value and tax bases of cash flow hedging instruments are taken to equity, specifically the IAS 39 reserve.

Deferred tax assets and liabilities are netted against each other provided there is a legally enforceable right to set-off current tax assets and liabilities and the balances relate to the same tax authority.

Recognition of revenues and costs

Revenue from the sale of products, merchandise and services is recognized when the item or service has been delivered or rendered, if the risks and rewards of ownership have been transferred to the purchaser, and the consideration amount can be measured reliably. Furthermore, revenue is recognized provided that neither continuing managerial involvement, similar to ownership, nor effective control over the goods sold is present, and provided that economic benefits of the transaction flow to the Group. Sales rebates, discounts and amounts levied for third parties, particularly sales taxes, are deducted from sale revenues.

Interest income and expenses are recognized on a time proportion basis using the effective interest method.

Dividend income is recognized once the right to receive payment is established.

Assumptions and estimates in the consolidated financial statements

Estimates and assumptions have been made in arriving at the recognition and measurement of certain items in the consolidated financial statements. The ensuing actual amounts may differ from these estimates and assumptions. These estimates relate, among others, to goodwill and intangible assets, investments, impaired assets, inventory valuation, doubtful accounts, deferred tax assets, pensions and other post-employment benefits, restructuring of operations, environmental costs, and litigation and contingencies.

Newly announced International Financial Reporting Standards

Several new standards, amendments to standards and interpretations which are not yet effective for the financial year ended December 31, 2006, have not been applied in preparing the Group's consolidated financial statements.

In August 2005, the IASB issued IFRS 7 "Financial Instruments Disclosures", which is applicable effective January 1, 2007, and which requires extensive disclosures about the significance of financial instruments for an entity's financial position and performance and qualitative and quantitative disclosures on the nature and extent of risks. An early adoption of the standard would not have any material effects on Cognis' financial statements.

In November 2005, the IFRIC issued IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies", applicable for fiscal years beginning on or after March 1, 2006. As none of Cognis' subsidiaries is located in a hyperinflationary economy, this interpretation is not applicable and has no impact on the financial statements of Cognis.

In January 2006, the IFRIC issued IFRIC 8 "Scope of IFRS 2 Share-based Payment", which addresses the accounting for share-based payment transactions in which some or all goods or services received cannot be specifically identified. IFRIC 8 is applicable for fiscal years beginning on or after May 1, 2006, with retrospective application required. The interpretation is not expected to have a material impact on the Group's consolidated financial statements.

In March 2006, the IFRIC issued IFRIC 9 “Reassessment of Embedded Derivatives”, which requires that a reassessment of whether embedded derivatives should be separated from the underlying host contract be made only if there are changes to the contract. IFRIC 9 is applicable for fiscal years beginning on or after June 1, 2006. The interpretation is not expected to have a material impact on the Group’s consolidated financial statements.

In July 2006, the IFRIC issued IFRIC 10 “Interim Financial Reporting and Impairment”, which prohibits the reversal of an impairment loss recognized in a previous interim period with respect to goodwill, an investment in an equity instrument or a financial asset carried at cost. Application of IFRIC 10 is mandatory for fiscal years beginning on or after November 1, 2006. The interpretation is not expected to have a material impact on the consolidated financial statements of the Group.

In November 2006, the IASB issued IFRS 8 “Operating Segments”, which requires identification of operating segments based on internal reports regularly reviewed by the entity’s chief operating decision maker in order to allocate resources to the segment and assess its performance. IFRS 8 is effective for fiscal years beginning on or after January 1, 2009. The Group is still in process of identifying the potential effects of the standard.

In November 2006, the IFRIC issued IFRIC 11 “IFRS 2: Group and Treasury Share Transactions”, which addresses how to apply IFRS 2 to share-based payment arrangements involving an entity’s own equity instruments or equity instruments of another entity in the same group. IFRIC 11 is applicable for fiscal years beginning on or after March 1, 2007. The interpretation is not expected to have a material impact on the Group’s consolidated financial statements.

Also in November 2006, the IFRIC issued IFRIC 12 “Service Concession Arrangements”, which addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements. IFRIC 12 is effective for fiscal years beginning on or after January 1, 2008. Due to the nature of Cognis’ business activities, this interpretation is not expected to have any impact on the consolidated financial statements of the Group.

Notes to the Consolidated Balance Sheet

(1) Intangible assets

The development of intangible assets is shown in the following table:

€ millions					
	Goodwill	Patents, licenses, trademarks and other intangible assets	Capitalized development expenditures	Prepayments and assets in progress	Total
Cost 2005					
At January 1, 2005	98	382	11	10	501
Additions	-	1	1	8	10
Disposals	-	-	(1)	-	(1)
Reclassifications	-	6	6	(12)	-
Translation differences	14	-	-	-	14
At December 31, 2005	112	389	17	6	524
Accumulated amortization					
At January 1, 2005	-	151	1	-	152
Amortization	-	51	1	-	52
Impairment losses	9	24	3	-	36
Disposals	-	-	(1)	-	(1)
Translation differences	-	-	-	-	-
At December 31, 2005	9	226	4	-	239
Net book value					
At December 31, 2005	103	163	13	6	285
Cost 2006					
At January 1, 2006	112	389	17	6	524
Changes in the Group	46	-	-	-	46
Additions	-	1	6	1	8
Disposals	-	(4)	(2)	-	(6)
Reclassifications	-	2	-	(2)	-
Translation differences	(3)	(1)	-	-	(4)
At December 31, 2006	155	387	21	5	568
Accumulated amortization					
At January 1, 2006	9	226	4	-	239
Amortization	-	46	3	-	49
Impairment losses	-	-	-	1	1
Disposals	-	(4)	(2)	-	(6)
Translation differences	(1)	-	-	-	(1)
At December 31, 2006	8	268	5	1	282
Net book value					
At December 31, 2006	147	119	16	4	286

In 2006, the item "Changes in the Group" with respect to goodwill substantially reflects the acquisitions of Napro Pharma AS, Norway, and the Cosmetic Rheologies group, UK. Furthermore, Cognis has accrued an expected additional purchase price for the acquisition of the Group. For further details with regard to these acquisitions, please refer to Note 24 "Acquisitions".

€6 million (2005: €7 million) of the Group's €64 million (2005: €69 million) research and development expenditure (excluding amortization of development costs previously capitalized and amortization of patents) was capitalized.

Amortization of intangible assets other than goodwill is included mainly under the headings "Research and development costs" and "Other operating expense" in the income statement.

Impairment

Goodwill is allocated to the Group's cash-generating units identified according to Strategic Business Unit as it follows:

€ millions	December 31, 2006	December 31, 2005
Care Chemicals	67	48
Nutrition & Health	25	5
Functional Products	55	39
Process Chemicals	-	11
Oleochemicals	-	-
Other Activities	-	-
Group	147	103

In accordance with IFRS 3 concerning the transition to an impairment-only approach for goodwill, the gross book value and accumulated amortization and impairment of goodwill as of January 1, 2005, were netted and have been presented as the opening gross book value of goodwill. In 2006, no impairment losses (2005: €9 million) on goodwill were recognized. Impairment losses on goodwill are recognized under "Impairment and amortization of goodwill" in the income statement.

Impairment losses of €1 million (2005: €27 million) were recognized in 2006 on other intangible assets. This impairment loss was a result of a discontinued IT-project and was shown in "Other operating expenses". In 2005, these impairment losses resulted from continued weaknesses in the markets served by the Oleochemicals and Plastics Technology businesses.

The recoverable amount of goodwill and intangible assets in each segment was determined in November 2006 based on projected 2007 operating profits excluding depreciation, amortization, restructuring charges and exceptional items. The projections reflect the assumptions and judgment of Cognis' management with respect to selling prices, production and sales volumes, costs and market conditions for the year 2007. To arrive at the recoverable amounts, pre-tax capital costs of approximately 12.7% were applied to the projections for each cash generating unit.

While Cognis' management believes that the projected operating performance is reasonable and achievable, additional impairment charges (write-downs) or reversals of previous impairment charges may be required if actual developments differ from those assumed. Such additional impairment charges would reduce earnings.

Had projected operating profits excluding depreciation, amortization and restructuring charges and exceptional items been 25% lower, an additional impairment charge of €5 million would have been required on other intangible and tangible assets. Had the cost of capital been four percentage points higher than assumed, impairment charges on other intangible and tangible assets would have been €4 million.

There were no reversals of impairment losses on intangible assets in 2006 or 2005.

(2) Property, plant and equipment

The development of property, plant and equipment is shown in the following table:

€ millions								
	Land, land rights and buildings	thereof finance leases	Technical facilities, plant and machinery	thereof finance leases	Factory and office equipment	thereof finance leases	Prepayments and assets under construction	Total
Cost 2005								
At January 1, 2005 (as reported)	543	22	1,750	22	174	-	65	2,532
Effect of IFRIC 4	-	-	8	8	-	-	-	8
At January 1, 2005 (restated)	543	22	1,758	30	174	-	65	2,540
Additions	7	-	49	-	10	3	56	122
Additions due to IFRIC 4	-	-	8	8	-	-	-	8
Disposals	(3)	-	(26)	-	(13)	-	-	(42)
Reclassifications	10	-	63	-	4	-	(77)	-
Translation differences	39	-	119	-	9	-	4	171
At December 31, 2005	596	22	1,971	38	184	3	48	2,799
Accumulated depreciation								
At January 1, 2005 (as reported)	255	8	1,356	13	145	-	1	1,757
Effect of IFRIC 4	-	-	3	3	-	-	-	3
At January 1, 2005 (restated)	255	8	1,359	16	145	-	1	1,760
Depreciation	20	1	100	1	12	1	1	133
Impairment losses	19	-	6	-	-	-	-	25
Disposals	(3)	-	(25)	-	(11)	-	-	(39)
Translation differences	21	-	95	-	8	-	(1)	123
At December 31, 2005	312	9	1,535	17	154	1	1	2,002
Net book value								
At December 31, 2005	284	13	436	21	30	2	47	797
Cost 2006								
At January 1, 2006	596	22	1,971	38	184	3	48	2,799
Changes in the Group	2	-	4	2	-	-	-	6
Additions	4	-	23	-	5	-	60	92
Disposals	(3)	-	(39)	-	(16)	-	-	(58)
Reclassifications	6	-	50	-	2	-	(58)	-
Translation differences	(28)	-	(78)	-	(7)	-	(3)	(116)
At December 31, 2006	577	22	1,931	40	168	3	47	2,723
Accumulated depreciation								
At January 1, 2006	312	9	1,535	17	154	1	1	2,002
Depreciation	19	-	82	2	11	1	-	112
Impairment losses	-	-	1	-	-	-	-	1
Write-ups	(3)	-	(1)	-	-	-	-	(4)
Disposals	(3)	-	(38)	-	(15)	-	-	(56)
Reclassifications	-	-	-	-	1	-	(1)	-
Translation differences	(16)	-	(64)	-	(6)	-	-	(86)
At December 31, 2006	309	9	1,515	19	145	2	-	1,969
Net book value								
At December 31, 2006	268	13	416	21	23	1	47	754

Finance lease agreements

In 2005, Cognis entered into a finance lease agreement for computer equipment with a lease term of three years. Finance leases for buildings and factory equipment comprise leases to 2016 with respect to buildings and leases to 2007 with respect to technical facilities. These leases cannot be terminated before maturity. The lease on the technical facilities includes a purchase option exercisable at contract maturity.

Impairment losses and reversals of impairment losses

In 2006, impairment losses amounting to €1 million were recognized on property, plant and equipment. This impairment was related to the removal of inactive assets in a company in the USA and is shown in "Other operating expenses". In 2005, impairment losses of €25 million on tangible assets were recognized in other operating expenses and resulted from a reduced value in use with respect to the Oleochemicals and Plastics Technology businesses.

The value in use of tangible assets in each segment was estimated by Cognis management using methods similar to those used with respect to goodwill. The methods used and results are described in Note 1 "Intangible assets".

For the Care Chemicals SBU an impairment loss of €2 million has been reversed due to the continuing positive development of the business. The reversal of this impairment has been recognized in "Other operating income". Also, in the Oleochemicals SBU an impairment loss has been reversed, resulting in other operating income of €2 million. This reversal is due to better than expected business prospects, supported by a purchase price adjustment for the contribution of the Oleochemicals business to the joint venture with Golden Hope Plantations Berhad ("Golden Hope").

There were no reversals of impairment losses in 2005.

Change in accounting policy

Due to the adoption of IFRIC 4, embedded leases classified as a finance lease have been identified and recorded in the consolidated financial statements of the Group. As such, 2005 opening figures have been restated to reflect €5 million more property, plant and equipment, €6 million more lease liabilities and €1 million less equity. The 2005 closing figures have been restated to reflect a total of €13 million more property, plant and equipment and €14 million more lease liabilities, with only minor effects on EBIT and net financial result.

(3) Investments in affiliates and other investments

The development of investments in affiliates and other investments is shown in the following table:

€ millions			
	Investments in affiliates	Other investments	Total
Cost 2005			
At January 1, 2005	3	1	4
Additions	–	1	1
Translation differences	–	–	–
At December 31, 2005	3	2	5
Accumulated amortization			
At January 1, 2005	3	–	3
Translation differences	–	–	–
At December 31, 2005	3	–	3
Net book value			
At December 31, 2005	–	2	2
Cost 2006			
At January 1, 2006	3	2	5
Translation differences	–	–	–
At December 31, 2006	3	2	5
Accumulated amortization			
At January 1, 2006	3	–	3
Translation differences	–	–	–
At December 31, 2006	3	–	3
Net book value			
At December 31, 2006	–	2	2

Additions to other investments in 2005 relate to a minority interest investment in a venture in China. There were no impairment losses or reversals thereof relating to investments in affiliates and other investments in 2006 or 2005.

(4) Inventories

Inventories are comprised as follows:

€ millions	December 31, 2006	December 31, 2005
Raw materials and supplies	161	161
Work in process	105	97
Finished goods and merchandise	227	217
Payments on account	2	2
Total	495	477

Valuation allowances amounting to €10 million have been recorded as of December 31, 2006 (2005: €9 million).

Additions to valuation allowances include impairment losses of €1 million recognized on inventories considered as exceptional items as further explained in Note 17 "Operating profit (EBIT) – exceptional items".

(5) Trade receivables

Trade receivables amounting to €537 million as of December 31, 2006 are due within one year (2005: €521 million).

Valuation allowances amounting to €16 million have been recorded as of December 31, 2006 (2005: €12 million). Additions to the valuation allowances for doubtful accounts receivable were €5 million (2005: €2 million).

(6) Other assets

Other assets are comprised as follows:

€ millions	December 31, 2006	December 31, 2005
Other tax refunds receivable	20	16
Deferred compensation trust fund assets	7	10
Prepaid expenses	5	6
Accounts receivable from employees	4	2
Insurance receivables/deposits	3	8
Prepayments made	3	3
Accounts receivable from suppliers	3	2
Deposits	3	2
Other assets	12	14
Total	60	63
of which current	41	40
of which non-current	19	23

Other assets include reimbursement claims related to certain environmental costs of €3 million (2005: €3 million).

Assets which are not due within one year relate primarily to portions of deferred compensation trust fund assets, accounts receivable from insurance companies, securities held on deposit and other assets.

(7) Cash and cash equivalents

As of December 31, 2006, cash and cash equivalents of €155 million (2005: €63 million) secure Senior Loans.

Cash and cash equivalents at the end of the period include liquid funds of €8 million (2005: €12 million) held by subsidiaries in China which are not freely remissible to the holding company because of currency exchange restrictions. This cash will almost entirely be used for capital expenditure in this country.

(8) Equity

Share capital and capital reserves

The share capital of Cognis GmbH, Monheim, Germany, is €25 thousand.

Capital reserves comprise amounts of a permanent nature contributed to the company's equity by the shareholders and others from external sources in addition to the share capital. For example, share premiums are shown under this heading as they represent neither paid-in capital nor revenue reserves. The Company's capital reserves comprise €205 million as a result of the following transactions:

- Cognis Holding Luxembourg S.à.r.l., the Company's former shareholder, contributed €150 million to the Company's capital reserve in 2001
- In 2003, Cognis Holding Luxembourg S.à.r.l. transferred its shareholder loan receivable from a Cognis Group company, together with all associated rights, responsibilities and accrued interest receivable, to Cognis GmbH. This transfer resulted in an increase of €375 million in the capital reserves of Cognis GmbH
- In May 2004, Cognis GmbH made a distribution out of capital reserves to Cognis Holding Luxembourg S.à.r.l. in the amount of €320 million

In January 2005, Cognis Holding Luxembourg S.à.r.l. contributed its shares in Cognis GmbH to the new shareholder Cognis Holding GmbH & Co. KG, Germany, which has been subsequently incorporated and renamed Cognis Holding GmbH.

IAS 39 Reserve

The IAS 39 reserve comprises the effective portion of the cumulative change in the fair value of cash flow hedging instruments after deferred taxes.

Currency Translation Reserve

The currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Minority interests

On February 17, 2006, Cognis sold its global Oleochemicals business, specifically fatty acids, glycerin, oilfield chemicals, azelaic acid and pelargonic acid, as well as its Plastics Technology business to Cognis' existing, fully consolidated, 50:50 Malaysian joint venture Cognis Oleochemicals (M) Sdn. Bhd. ("COM"). The purchase price amounted to €122 million. Of this purchase price, €40 million was contributed to COM. In return, Golden Hope made a cash capital contribution to COM of €40 million. The remaining purchase price was paid in cash. Subsequent to the transaction, COM remains a 50:50 joint venture of Cognis and Golden Hope, and, since Cognis retains management control, remains fully consolidated in Cognis' accounts. The transaction impacts Cognis' financial statements by an increase of €40 million in both Cognis' consolidated minority's share of equity, representing the cash contribution of Golden Hope in Cognis' consolidated business, and by a dilution result of €16 million which is recognized directly in equity.

Events after the balance sheet date

In February 2007, COM paid an additional purchase price of €8 million due to a settlement agreement and the achievement of certain targets as agreed in the share purchase agreement.

(9) Provisions for pensions and similar obligations and other provisions

In 2006 provisions developed as follows:

€ millions	January 1, 2006							December 31,	
		Changes in the Group	Utilized	Released	Added	Translation differences	Other movements	2006 Total	2005 Total
Provisions for pensions and similar obligations	464	–	(41)	(18)	46	(9)	2	444	464
Provisions for income taxes	17	1	(14)	(3)	6	–	–	7	17
Sundry provisions	168	6	(129)	(14)	155	(3)	(1)	182	168
Total	649	7	(184)	(35)	207	(12)	1	633	649

Provisions for pensions and similar obligations

Cognis offers employees various retirement benefit plans governed by local statutory, financial and tax regulations. Accordingly, the Group operates various defined benefit and defined contribution plans throughout the world, and also post-retirement healthcare plans primarily in the USA. Annual valuations of the Group's defined benefit plans are undertaken by independent actuaries.

Provisions relating to the defined benefit plans have been calculated using the projected unit credit method, which takes into account the expected future development of wages, salaries and retirement benefits. Cumulative gains and losses are recognized only if they exceed 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets. The excess amount is amortized in the income statement over the average remaining service life of employees participating in the plan.

Composition of provisions for pensions and similar obligations

€ millions	December 31, 2006			
	Germany	USA	Rest of world	Total
Present value of unfunded defined benefit obligations	422	80	8	510
Present value of funded defined benefit obligations	1	224	101	326
Fair value of plan assets	(1)	(195)	(85)	(281)
	422	109	24	555
Unrecognized actuarial (losses)/gains	(69)	(54)	(5)	(128)
Unrecognized past service (costs)/gains	–	17	–	17
Provisions for pensions and similar obligations	353	72	19	444

€ millions	December 31, 2005			
	Germany	USA	Rest of world	Total
Present value of unfunded defined benefit obligations	430	95	8	533
Present value of funded defined benefit obligations	1	252	99	352
Fair value of plan assets	(1)	(199)	(77)	(277)
	430	148	30	608
Unrecognized actuarial (losses)/gains	(78)	(77)	(9)	(164)
Unrecognized past service (costs)/gains	–	20	–	20
Provisions for pensions and similar obligations	352	91	21	464

Movement in the liability for defined benefit obligations

The development of the liability for defined benefit obligations is shown in the following table:

€ millions	2006	2005
Liability for defined benefit obligations as of January 1	885	751
Benefits paid by the plan	(45)	(44)
Current service cost	18	17
Interest expense	41	40
Plan amendments	(17)	12
Actuarial (gains)/losses	(8)	61
Foreign exchange differences	(38)	48
Liability for defined benefit obligations as of December 31	836	885

Movement in plan assets

The development of plan assets is shown in the following table:

€ millions	2006	2005
Fair value of plan assets as of January 1	277	221
Contributions paid into the plan	13	14
Benefits paid by the plan	(17)	(15)
Expected return on plan assets	21	19
Actuarial (losses)/gains	11	8
Foreign exchange differences	(24)	30
Fair value of plan assets as of December 31	281	277
Actual return on plan assets	31	27

Plan assets in 2006 consist of the following:

%	2006
Equity securities	66.4
Debt securities	24.0
Real estate	-
Other	9.6
Total	100.0

Expense recognized in profit or loss

2006 costs of defined benefit pensions and similar obligations are comprised as follows:

€ millions	2006	2005
Current service cost	18	17
Other costs for obligations similar to pensions	(18)	(2)
Pension costs included in EBITDA	–	15
Interest expense	41	40
Expected return on plan assets	(21)	(19)
Actuarial losses	8	3
Net pension costs included in net financial result	28	24
Total cost of pensions and similar obligations	28	39

Pension costs of nil (2005: €15 million) are included in EBITDA. These pension costs include a €12 million one-time past service gain resulting from changes made to German pension plans, as well as a €4 million one-time gain resulting from the curtailment of certain future retirement benefits in the USA and other recurring past service gains mainly in the USA of €2 million.

The interest expense is the interest component of pensions and similar obligations. The interest expense minus the expected return on plan assets plus the related financial actuarial gains and losses are recognized in net financial result (see Note 18 "Net financial result"). €8 million of actuarial losses, primarily resulting from the decrease in the discount rate in prior years, were included in net financing costs on this basis (2005: €3 million).

Expenses for defined contribution plans were €16 million in 2006 (2005: €18 million).

Actuarial assumptions

The following actuarial assumptions have been used in valuing obligations from defined benefit pension plans in Germany and the USA, and in estimating the future development of plan assets in the USA:

%	2006	2005	2006	2005
	Germany		USA	
Discount rate	4.6	4.5	5.75	5.5
Future salary increase (in USA, including benefit increase)	2.5	2.5	4.5	4.5
Future benefits increase	1.0 – 1.5	1.0 – 1.5	–	–
Medical cost trend	–	–	10.0	10.0
Expected return on plan assets	–	–	8.5	8.5
Actual return on plan assets	–	–	11.4	8.6

In other countries, future expectations are based on local conditions.

The discount rates used in calculating the present value of the defined benefit obligation approximate rates of return on high quality corporate bonds in the respective countries.

Assumptions regarding future mortality are based on published statistics and mortality tables appropriate to each country. For instance, the average life expectancy of an individual retiring in Germany at age 65 is 19 for males, and 23 for females.

70% of plan assets are held in the USA. The overall expected long-term rate of return on plan assets in the USA is 8.5%. The expected long-term rate of return in all countries is based on the sum of the returns on individual asset categories. The expected asset return on individual asset categories is calculated using market yields at the balance sheet date. The equity risk premium above the relevant risk free government bonds is approximately 3%.

Assumed healthcare cost trend rates have a material impact on the amounts recognized in the income statement. A change of one percentage point in assumed healthcare cost trend rates would have the following effects:

€ millions	2006	
	Valuation trend +1%	Valuation trend -1%
Effect on total service and interest cost	1	-
Effect on defined benefit obligation	7	(6)

History of experienced gains and losses

€ millions	As of December 31,	2006	2005	2004	2003	2002
Present value of defined benefit obligations		836	885	751	713	695
Fair value of plan assets		(281)	(277)	(221)	(222)	(178)
Funded status		555	608	530	491	517

The overall actual return on plan assets was approximately 4% higher than the expected return for the Group in total. The experience loss on defined benefit obligations indicates a 1% decrease in the defined benefit obligation if the actuarial assumptions applied had equaled the actual assumptions adopted.

The Group expects to pay around €35 million in direct pension payments and contributions to plan assets in 2007.

Sundry provisions

Sundry provisions developed as follows:

€ millions	January 1, 2006							December 31, 2006 2005	
		Changes in the Group	Utilized	Released	Added	Translation differences	Other movements	Total	Total
Employee bonuses	33	–	(31)	(2)	43	(1)	–	42	33
Restructuring costs	36	–	(24)	(1)	24	(1)	(1)	33	36
Commissions and bonuses	19	–	(17)	(2)	19	–	–	19	19
Environmental protection measures	13	–	(2)	(3)	4	(1)	–	11	13
Employment anniversary bonuses	9	–	–	–	1	–	–	10	9
Employee vacation claims	8	–	(6)	–	6	–	–	8	8
Provisions for other taxes	3	–	–	–	–	–	–	3	3
Litigation risks	2	–	(1)	–	1	–	–	2	2
Other	45	6	(48)	(6)	57	–	–	54	45
Total	168	6	(129)	(14)	155	(3)	(1)	182	168

As of December 31, 2006, sundry provisions totaling €41 million were due after more than one year (2005: €56 million).

For sundry provisions, the effect of the unwinding of the discount of long-term provisions was not material.

(10) Borrowings

Borrowings comprise the interest-bearing obligations of the Cognis Group outstanding at December 31, 2006. The Group's borrowings are comprised as follows:

€ millions									Outstanding as of December 31	
Maturity of borrowings	Accrued Interest	Principal repayable within years						Total Principal	2006	2005
		< 1	1 to 2	2 to 3	3 to 4	4 to 5	> 5			
Senior Loans	3	82	78	86	107	45	500	898	901	911
Second Lien Loans	2	–	–	–	–	–	157	157	159	170
Second Lien Notes	3	–	–	–	–	–	235	235	238	237
Senior Notes	4	–	–	–	–	–	345	345	349	349
Other loans and bank overdrafts	–	42	5	1	–	46	1	95	95	22
Finance lease liabilities ¹⁾	–	7	2	2	2	3	17	33	33	36
Total nominal borrowings	12	131	85	89	109	94	1,255	1,763	1,775	1,725
Less: Deferred financing fees	–	(14)	(13)	(12)	(11)	(9)	(12)	(71)	(71)	(87)
Total borrowings	12	117	72	77	98	85	1,243	1,692	1,704	1,638

¹⁾ 2005 figures published in 2006 restated to reflect IFRIC 4.

Senior Loans

The key characteristics of Cognis' senior syndicated bank loans are as follows:

Senior Loan Facility	A	B	C	D	Total Senior Loans
Outstanding principal in million					
EUR tranche	€193	€95	€118	€150	€556
USD tranche	USD 53	USD 228	USD 150	–	USD 431
JPY tranche	JPY 2,274	–	–	–	JPY 2,274
Total euro equivalent	€248	€268	€232	€150	€898
Repayment	Increasing semi-annual instalments each June 15 and December 15, until final payment on March 31, 2011	March 31, 2012	March 31, 2013	Equal semi-annual instalments each June 15 and December 15 from June 15, 2007 until final payment on March 31, 2011	
Nominal interest rate as at December 31, 2006					
On EUR tranche	5.78%	6.53%	7.03%	5.78%/5.81%	6.18%
On USD tranche	7.35%	8.10%	8.60%	–	8.19%
On JPY tranche	2.63%	–	–	–	2.63%
Average on total	5.85%	7.55%	7.80%	5.79%	6.85%

Non-euro principal amounts have been translated to euro using foreign exchange rates in effect on the balance sheet date. In addition to the scheduled repayments described in the table above, Cognis is obliged to make an annual repayment, allocated proportionately to Facilities A, B and C, determined broadly as a proportion of the prior year's net cash flow. In 2006, no such repayment was required.

The Senior Loans bear interest at variable rates, specifically Euribor for loans denominated in euros, USD-Libor for loans denominated in US dollars and JPY-Libor for loans denominated in Japanese yen. Each Senior Loan Facility bears interest at the variable rate plus a margin, determined broadly by the ratio of the Group's net indebtedness to its operating result excluding depreciation, amortization, restructuring charges and exceptional items.

The availability of Senior Loan financing to Cognis is conditional upon Cognis meeting certain financial covenants. Specifically, Cognis must satisfy certain information covenants and the following financial covenants as defined in the Senior Facilities Agreement:

- The ratio of net financial indebtedness to operating results excluding depreciation, amortization, restructuring charges and exceptional items must not exceed specified levels;
- The ratio of operating results excluding depreciation, amortization, restructuring charges and exceptional items to net interest cost excluding net interest on pension provisions and the amortization of deferred financing fees must exceed specified levels;

- The ratio of operating cash flow and investing cash flow, excluding restructuring expenditure, to interest payments and scheduled repayments on financial indebtedness must exceed specified levels; and,
- Capital expenditure, excluding expenditure relating to restructuring activities as defined in the Senior Facilities Agreement, must not exceed specified levels.

The covenants are measured and reported to the Senior Loan lenders on a quarterly basis. A breach of any of the financial covenants constitutes an event of default, with the implications described below.

Second Lien Loans and Notes

In May 2004, Cognis Deutschland GmbH & Co. KG, a subsidiary of Cognis GmbH, borrowed USD 125 million and €62 million in Second Lien Loans and issued €235 million of Second Lien Notes. Both the loans and the notes are payable on November 15, 2013, but Cognis may repay the loans and notes earlier (at a premium until May 15, 2007, and at no premium thereafter).

The USD loans bear interest of 6-month USD-Libor plus 4.75%, and the euro loans and euro notes bear interest of 6-month Euribor plus 4.75%. Interest is payable semi-annually on May 15 and November 15. On December 31, 2006, the USD loans bore interest of 10.14%, the euro loans 8.49% and the euro notes 8.48%, for an overall average interest rate of 8.88%. Including the amortization of financing fees, the Second Lien Loans and Notes bear an effective interest rate of 9.29%.

The Second Lien Notes are listed on the Luxembourg Stock Exchange.

Senior Notes

In May 2004, Cognis GmbH issued €345 million Senior Notes. These Notes are payable May 15, 2014, but Cognis may repay the notes earlier (at a premium until May 15, 2012, and at no premium thereafter).

The Senior Notes bear interest of 9.50%, payable semi-annually on May 15 and November 15. Including the amortization of financing fees, the Senior Notes bore effective interest of 9.86%.

The Senior Notes are also listed on Luxembourg Stock Exchange.

Security given

Cognis' obligations under the Senior Loans are:

- 1) Guaranteed (to the extent permitted by thin capitalization and other relevant laws in various jurisdictions) by Cognis GmbH and all of its current and future material subsidiaries;
- 2) Secured (again to the extent permitted by thin capitalization and other relevant laws in various jurisdictions) by first-priority security over the assets of all current and future material subsidiaries; and,
- 3) Secured by first-priority pledges over equity interests in current and future material companies, as well as in Cognis Deutschland GmbH & Co. KG ("Cognis KG", a limited partnership and material subsidiary which is Cognis' major German operating entity), its general partner (Cognis Verwaltungs-GmbH), and its second limited partner besides Cognis GmbH (Cognis Limited Partner GmbH).

The following assets as of December 31, 2006, secure the Senior Loans:

€ millions	December 31, 2006	Percentage of consolidated assets
Intangible assets excluding goodwill	130	93.1%
Property, plant and equipment	557	74.1%
Inventories	353	71.3%
Accounts receivable	381	71.0%
Cash	155	66.4%
Other current assets	59	73.1%
Total	1,635	73.1%

The Second Lien Loans and Second Lien Notes (together constituting the Second Lien debt) rank equally and benefit from the same security and guarantee. The security is subordinate to the Senior Loans' security. The Second Lien debt is guaranteed by Cognis GmbH, whose obligations under that guarantee are contractually subordinated to the obligations of Cognis GmbH under the Senior Notes. The obligations under the Second Lien debt are secured by a second-priority pledge from Cognis GmbH of its interest in Cognis KG, the shares of Cognis Verwaltungs-GmbH and the shares of Cognis Limited Partner GmbH and second-priority security over substantially all the assets of Cognis KG.

The Senior Notes are senior secured obligations of Cognis GmbH and are guaranteed by Cognis KG whose obligations under that guarantee are contractually subordinated in right of payment to the obligations of Cognis KG under the Senior Loans and the Second Lien Notes and Loans. Further, the Senior Notes are secured by a third-priority pledge from Cognis GmbH of its interest in Cognis KG, the shares of Cognis Verwaltungs-GmbH and the shares of Cognis Limited Partner GmbH and third-priority security over the assets of Cognis KG.

Events of default

The breach of any term of the loan agreements and notes indentures governing the Senior Loans, Second Lien Loans, Second Lien Notes and Senior Notes constitutes (after, in some cases, materiality thresholds and grace periods) an event of default under those agreements, and a breach of the financial covenants under the Senior Facilities Agreement likewise constitutes an event of default. Subject to certain limitations, the relevant loans, undrawn facilities and notes may be canceled and the outstanding amounts declared immediately due and payable when an event of default occurs and is not cured. In such cases, all of the Senior Loans, Second Lien Loans, Second Lien Notes and Senior Notes could, at the discretion of the lenders and noteholders, be canceled and become immediately due and payable through cross default and cross acceleration provisions in the loan agreements and notes indentures.

Fair value

The fair values of Cognis' Senior Loans, Second Lien Loans and Notes and Senior Notes as of December 31, 2006, were determined using the median of bid and ask prices in the markets in which Cognis' borrowings are traded. The price of a complete facility has been calculated as the weighted average, by euro equivalent outstanding, of the available prices of individual currency tranches. For each 100 euro equivalent outstanding the fair value so calculated and excluding accrued interest of Senior Loans was €101, of Second Lien Loans and Notes €103 and of Senior Notes €109.

Finance leases

The timing of our future finance lease payments is as follows:

€ millions	December 31, 2006	December 31, 2005 ¹⁾
Due up to 1 year	8	6
Due between 1 and 5 years	13	19
Due later than 5 years	19	19
Total minimum lease payments	40	44
Less: Interest component	(7)	(8)
Present value of finance lease liabilities	33	36

¹⁾ 2005 figures published in 2006 restated to reflect IFRIC 4.

The interest rates implicit in the finance lease liabilities range from 3 to 8 percent (2005: 3 to 8 percent).

Available debt facilities

As of December 31, 2006, Cognis had in place a long-term committed revolving credit facility in the amount of €250 million. This revolving credit facility was not drawn as per December 31, 2006, but €46 million was reserved for stand-by letter of credits and ancillary facilities.

Interest rate sensitivity

The effect of changes in interest rates from the rates in effect at December 31, 2006, on interest payments and settlements on interest derivative financial instruments is shown in the following table. The table is calculated assuming that the changed interest rates were effective for the whole of fiscal year 2006.

€ millions	Euribor	USD-Libor
Annualized effect of changes in interest rate on cash flows		
Incremental inflows/(outflows)		
2% decrease in interest rate		
Effect on interest payments on outstanding loans and notes	17	9
Effect on payments on interest financial derivative instruments	(15)	(2)
Net effect	2	7
1% decrease in interest rate		
Effect on interest payments on outstanding loans and notes	8	4
Effect on payments on interest financial derivative instruments	(7)	(1)
Net effect	1	3
1% increase in interest rate		
Effect on interest payments on outstanding loans and notes	(8)	(4)
Effect on payments on interest financial derivative instruments	6	2
Net effect	(2)	(2)
2% increase in interest rate		
Effect on interest payments on outstanding loans and notes	(17)	(9)
Effect on payments on interest financial derivative instruments	11	4
Net effect	(6)	(5)

Changes in JPY-Libor do not significantly affect interest payments due to the relatively smaller JPY-denominated principal outstanding, and do not significantly affect settlements on interest derivative financial instruments due to the smaller notional value of JPY-Libor indexed instruments.

(11) Trade payables

Trade payables are due to third parties and are all due within one year from the balance sheet date.

(12) Other liabilities

Other liabilities are comprised as follows:

€ millions	December 31, 2006	December 31, 2005
Other taxes payable	7	8
Liabilities with respect to social security	7	10
Sundry liabilities including deferred income	48	57
Total	62	75
of which current	49	58
of which non-current	13	17

Sundry liabilities are composed as follows:

€ millions	December 31, 2006	December 31, 2005
Liabilities to employees	19	21
Taxes and social security payments for employees	15	17
Commission payments payable	2	2
Payable to customers	2	1
Customer prepayments	1	1
Other	9	15
Total	48	57

Liabilities to employees largely comprise liabilities from the pre-retirement part-time employment plan and deferred compensation. In 2006, this figure included €6 million (2005: €6 million) of liabilities with a remaining term of up to one year.

Notes to the Consolidated Income Statement

Restructuring costs, research and development costs and amortization of goodwill as well as impairment losses on goodwill have been disclosed separately owing to their significance and in order to more fully disclose the financial performance of the Cognis Group.

(13) Research and development costs

Research and development costs include amortization of patents, capitalized development costs and other intangible assets of €36 million (2005: €37 million). As a result of an internal transfer of certain patents and other intellectual property to Cognis' intellectual property company, the amortization of transferred patents was shown as research and development costs.

(14) Other operating income

€ millions	2006	2005
Release of provisions for pensions and similar obligations	18	–
Release of other provisions	10	3
Write-ups to fixed assets	4	–
Gains from disposal and divestments	3	3
Sundry	7	12
Total	42	18

For a description of the release of pension provisions, please refer to Note (9) "Provisions for pensions and similar obligations".

(15) Other operating expenses

€ millions	2006	2005
Expenses for the implementation of SAP system	7	4
Impairment losses	2	52
Losses from disposal of fixed assets and divestments	1	1
Sundry	13	6
Total	23	63

(16) Restructuring costs

Restructuring costs relate to early retirement plans, employee severance, plant or business closures and fundamental changes in nature and focus of the business activities that are either incurred or approved and announced.

Restructuring costs are comprised as follows:

€ millions	2006	2005
Employee severance, early retirement and pre-retirement programs	16	27
Costs related to the carve-out of the Oleochemicals business (non-personnel related)	5	5
Release of restructuring provisions	(1)	(1)
Other restructuring costs	15	3
Total	35	34

In 2006, other restructuring costs are mainly advisory costs related to the realignment of the information technology (IT) structure (€7 million), the reorganization of the US business (€4 million) and the reorganization of the global purchase process (€2 million).

Between the balance sheet date and the approval date, Cognis has started to implement or announced further restructuring plans with respect to process and cost optimization programs. The expected costs of these restructuring measures are between €8 million and €10 million.

(17) Operating profit (EBIT) – exceptional items

Exceptional items represent income, gains, expenses and losses which are material and which, in the judgment of Cognis' management, are not indicative of Cognis' underlying operating performance. Exceptional items include material gains and losses realized on the disposals of fixed assets, investments or businesses, restructuring charges, the costs of establishing our own organization and corporate infrastructure subsequent to our separation from Henkel KGaA and the effects on operating earnings of events which are unusual and infrequent.

€ millions	2006	2005
Restructuring charges	(35)	(34)
Amortization of capitalized separation expenses	(6)	(4)
Other separation expenses	(3)	(11)
Impairment losses on intangible and tangible assets	(2)	(61)
Costs relating to the labor action in USA	(1)	(8)
Sundry exceptional expenses	(7)	(4)
Release of provisions for pensions and post-retirement healthcare obligations	16	–
Write-ups on intangible and tangible assets	4	–
Gains on disposals and divestments	3	2
Release of sundry provisions	–	2
Total	(31)	(118)

For a description of the release of pension provisions please refer to Note (9) "Provisions for pensions and similar obligations".

In 2006, sundry exceptional expenses related mainly to advisory costs for the strategic review project.

(18) Net financial result

€ millions	2006	2005
Interest expense		
Nominal interest expense on:		
Senior Loans	(58)	(47)
Second Lien Loans and Notes	(32)	(29)
Senior Notes	(33)	(33)
Amortization of financing fees	(15)	(16)
Finance leases	(1)	(1)
Other financial debt	(3)	–
Pension provisions	(28)	(24)
Other interest expense	(2)	(2)
Total interest expense	(172)	(152)
Interest income	7	3
Net interest expense	(165)	(149)
Income from investments	2	–
Foreign exchange gains/(losses)	8	(27)
Gains/(losses) on interest derivatives:		
Cash flow hedges: transfer from IAS 39 equity reserve	(4)	(11)
Cash flow hedges: amortization of option premiums paid	–	(1)
Ineffective portions of derivatives otherwise qualifying as cash flow hedges and derivatives not qualifying as cash flow hedges	1	(2)
Gains/(losses) on foreign currency derivatives not qualifying as cash flow hedges	(3)	(1)
Banking fees	(3)	(2)
Other financial items	1	(44)
Net financial result	(164)	(193)

(19) Income taxes

€ millions	2006	2005
Current taxes	(29)	(26)
Deferred taxes	(11)	26
Income tax benefit/(expense)	(40)	–

In 2006, current taxes include income tax expense for prior years of €3 million. Deferred tax expense includes effects from temporary differences including changes in the tax loss carry-forwards (€9 million), changes in tax rates (€1 million) and other adjustments (€1 million).

Deferred tax balances result from balance sheet items and loss carry-forwards as follows:

€ millions	As of December 31	2006	2005	2006	2005
		Deferred tax assets		Deferred tax liabilities	
Patents/Licenses		73	82	7	11
Goodwill		32	35	1	–
Property, plant and equipment		2	6	44	45
Inventories		11	11	1	1
Other receivables and other current assets		4	8	4	2
Provisions		69	76	2	1
Liabilities		10	13	14	13
Loss carry-forwards		103	98	–	–
		304	329	73	73
Offset		(52)	(44)	(52)	(44)
Balance sheet figures		252	285	21	29

The deferred tax balances with respect to provisions relate mainly to pension and similar obligations.

Deferred tax assets are recognized to the extent they are expected to be realized. Although losses arose in the current year, deferred tax assets resulting from tax loss carry-forwards are expected to be realized within three and fifteen years from the balance sheet date based on management business plans which project sufficient profit for future periods. Deferred tax assets relate primarily to Cognis' subsidiaries in Germany and the USA. The rate at which these deferred tax assets can be realized depends upon the results of our efforts and investments to improve the performance of our business in the USA, and also upon a reduction in interest expense over the medium term. The measures initiated to improve Cognis' profitability in the USA have shown first success and will be enforced further. Deferred tax liabilities on undistributed profits of foreign subsidiaries have not been recognized as the related temporary differences will probably not reverse in the foreseeable future.

The expiry dates of unused tax loss carry-forwards are indicated in the following table:

€ millions	December 31, 2006	December 31, 2005
Expiry		
Between 1 and 3 years	3	5
After 3 years	227	215
Indefinite carry-forward	282	239
Total	512	459
of which not recognized	178	151

In 2006, deferred tax assets have not been recognized with respect to loss carry-forwards of €107 million (2005: €96 million), while valuation allowances of €71 million (2005: €55 million) have been recognized on previously recognized tax loss carry-forwards since there is insufficient evidence that these losses can be utilized.

€1 million (2005: €2 million) of tax losses for which no deferred tax assets have been recognized expire between one and three years, €174 million (2005: €157 million) expire after three years and €3 million (2005: €13 million) have an indefinite carry-forward period.

Beginning in 2004, German tax law restricts offsetting taxable income against existing tax loss carry-forwards to an amount of €1 million plus 60% of taxable income above €1 million. Tax loss carry-forwards in Germany included in the table above amount to €259 million for corporate income tax and €83 million for trade tax.

The reconciliation of the expected with the effective tax charge and rate is shown in the following:

€ millions	2006	2005
Profit/(loss) before tax	42	(136)
Tax rate on income of Cognis GmbH	39.3%	39.3%
Estimated tax benefit/(expense)	(17)	53
Effect of different tax rates in other countries	7	6
Tax effect on non-taxable income	6	11
Tax effect on non-deductible expenses	(4)	(5)
Current taxes of prior year	3	(1)
Other tax (expense)/income	(35)	(64)
Income taxes	(40)	-
Effective tax rate	95%	0%

The tax rate of 39.3% for 2006 (2005: 39.3%) is based on the German corporate income tax of 25% plus a solidarity surcharge of 5.5% and an average trade tax rate of 12.9% (2005: 12.9%). Other tax expense/benefit in 2006 consists primarily of the non-recognition of and valuation allowances of €22 million (2005: 59 million) on the deferred tax assets in the US companies and the non-deductible interest component with respect to local taxes amounting to €7 million.

(20) Minority interests

Minority interests represent the share of profits and losses attributable to minority shareholders, most of whom hold shares in subsidiaries in Asia.

For a description of the capital contribution of Cognis' minority shareholders please refer to Note 8 "Equity".

(21) Cost of materials

€ millions	2006	2005
Cost of raw materials, supplies and merchandise	1,906	1,764
Cost of external services	117	111
Total	2,023	1,875

(22) Payroll costs

€ millions	2006	2005
Wages and salaries	377	368
Social security contributions and employee benefits	79	77
Pension costs	20	17
Total	476	462

Social security contributions and employee benefits include the costs of defined contribution pension plans. Pension costs exclude items recognized in net financial result, specifically interest expense and financial actuarial losses.

(23) Employee numbers

The average number of employees (excluding trainees, apprentices and interns) was as follows:

	2006	2005
Production	4,222	4,331
Research & Development	733	718
Sales & Marketing	920	937
Supply Chain/Purchasing	761	743
Administration	1,094	1,209
Total	7,730	7,938

The average number of employees for 2005 excludes inactive employees involved in a labor dispute in the USA.

Notes to the Consolidated Cash Flow Statement

(24) Acquisitions

In February 2006, the Oleochemicals, Plastics Technology and Ozone businesses were transferred to Cognis Oleochemicals (M) Sdn. Bhd. For further details, please refer to the section "Group Segment Reporting".

In March 2006, the acquisition of 100% of the shares in the Cosmetic Rheologies group, UK, for €12 million was completed. This strategic acquisition is expected to provide the Cognis Group with extensive knowledge of specialty polymers. Between the acquisition date and December 31, 2006, the acquired group contributed net external sales of €3 million. The effect of this acquisition on the Cognis Group's EBIT and net profit was not material.

In June 2006, 100% of the shares in Napro Pharma AS, a Norwegian company manufacturing high-quality omega-3 fish oils for the nutrition industry, were acquired for €35 million. This acquisition is expected to enhance Cognis' current Dietary Supplement and Functional Food businesses as well as the Nutrition & Health segment. Between the acquisition date and December 31, 2006, Napro Pharma contributed net external sales of €6 million, EBIT of €2 million and net profit of €2 million.

Both acquisitions, focusing on the wellness trend, are expected to contribute to an increase in the Group's sales and net profit, resulting in the recognition of goodwill.

As of the acquisition dates, these acquisitions had the following effects on the consolidated balance sheet:

€ millions	2006
Intangible assets (other than goodwill)	-
Property, plant and equipment	6
Inventories	2
Accounts receivable and other receivables	5
Liabilities	(2)
Provisions	(7)
Borrowings	(5)
Net identifiable assets and liabilities	(1)
Goodwill on acquisition	43
Consideration paid, net of cash acquired	42

The amounts recognized at the acquisition date immediately before the combinations do not differ materially from the above values, apart from provisions amounting to €6 million which have been recognized for purchase price contingencies (earn-outs) considered as probable.

Had these acquisitions been effected as of the beginning of 2006, net external sales of the Cognis Group would have been €3,379 million and net profit €3 million.

(25) Divestments and disposals of fixed assets

In April 2006, the investment in Desbas Deri Sebest, Turkey, was sold. The contribution of this investment, which was not consolidated in the Group's financial statements and which was measured at cost, to total assets and liabilities and consolidated profit and loss was not material. The gain on this disposal amounted to €2 million. Cash flows from "Divestments and disposals of fixed assets" relate mainly to the divestment of this investment and the disposal of fixed assets, in particular from a sale of a site in the USA.

In 2005, cash flows from "Divestments and disposals of fixed assets" related to disposals of fixed assets and a purchase price adjustment paid to Henkel KGaA. There were no divestments in 2005.

(26) Pension payments net of service costs

Pension payments net of service costs include, in the case of unfunded plans, payments made to beneficiaries and, in the case of funded plans, contributions made to plan assets, net of current service costs, actuarial losses, and other pension costs included in EBIT.

Cash payments with respect to pensions in 2006 comprised payments to beneficiaries of €28 million (2005: €28 million) and €13 million (2005: €14 million) in contributions to pension funds, mainly in the USA, UK, Ireland and Canada. Included in these contributions to pension funds is €8 million (2005: €8 million) with respect to plans in the USA.

Supplementary Information

(27) Derivatives and other financial instruments

Management of financial risk

The Cognis Group is exposed to various financial risks, particularly those arising from changes in foreign exchange rates and interest rates. Cognis' corporate treasury department uses derivative financial instruments in order to control exposure to such risks.

Foreign currency risks

Cognis is exposed to two types of foreign currency risk. First, Cognis' constituent companies are exposed to "transaction risk" when they conduct business transactions in currencies other than their functional currencies (generally their local currencies). Second, the Cognis Group is exposed to "translation risk" as a result of its investments in operations in non-euro jurisdictions. The main foreign currency risks are with respect to the US dollar, British pound, Japanese yen and Malaysian ringgit.

Transaction risks are hedged using two distinct approaches, and in both cases by means of external forward exchange contracts, foreign currency options and other foreign currency derivative financial instruments.

First, significant expected operating transaction exposures are hedged using foreign currency derivatives, which are then designated cash flow hedges. In 2006, Cognis hedged expected 2007 US dollar operating transaction exposures using foreign currency derivative instruments. Unrealized losses on such hedging instruments were not material in 2006 and therefore did not materially affect equity. In 2005, unrealized losses of €8 million of such foreign currency derivatives were included in the IAS 39 equity reserve. Cumulative gains transferred from the IAS 39 reserve to operating profit were nil in 2006 and 2005. No deferred tax effects were recognized in equity with respect to these cash flow hedges (2005: €3 million positive).

Second, accounts receivable and accounts payable denominated in foreign currencies are hedged using foreign currency derivatives on a net basis by currency. Intercompany loans and account balances denominated in foreign currencies are hedged on an individual basis when cash relating either to interest or principal repayments is expected to flow with a reasonable degree of certainty in the foreseeable future. Net losses on such foreign currency derivatives, which do not qualify as cash flow hedges, were €3 million in 2006 (2005: €3 million).

Translation risks are not hedged. However, the currency composition of Cognis' borrowings has been structured so that Cognis' debt service requirements by currency are proportional to Cognis' expected operating cash flows by currency. In this way, Cognis reduces the risk that change in foreign exchange rates may affect Cognis' ability to meet its debt service obligations. To this end, Cognis synthetically adjusted the currency composition of its borrowings using cross-currency swaps: USD 53 million of amortizing Senior Loan Facility A outstanding as of December 31, 2006, was effectively converted through June 2008 to €44 million in terms of principal repayments, expected interest payments and the reference interest rate (which was converted from USD-Libor to Euribor). The amount of USD loans so converted to euro decreases semi-annually to match the semi-annual amortization of Facility A. Losses of €5 million (2005: gains of €2 million) were recognized on cross-currency swaps in 2006.

As of December 31, 2006, foreign exchange derivative financial instruments were substantially comprised of the following:

Mio €	EUR to receive		EUR to pay	
Currency	Nominal contract amount	Average contractual FX rate	Nominal contract amount	Average contractual FX rate
Norwegian crown	29	8.16	n.a.	n.a.
US dollar	14	1.32	(60)	1.31
British pound	6	0.67	(3)	0.67
Japanese yen	4	155.28	(2)	156.15
Australian dollar	2	1.67	n.a.	n.a.

Mio USD	USD to receive		USD to pay	
Currency	Nominal contract amount	Average contractual FX rate	Nominal contract amount	Average contractual FX rate
Malaysian ringgit	72	3.60	n.a.	n.a.
Australian dollar	6	0.78	n.a.	n.a.
Thai bath	2	35.90	n.a.	n.a.
Hong Kong dollar	1	7.75	n.a.	n.a.

Interest rate risks

We use interest rate hedging instrument to hedge against adverse cash flow effects resulting from changes in interest rates, specifically Euribor, USD-Libor and JPY-Libor.

Interest on our borrowings under the Senior Facilities Agreement, the Second Lien Loan Agreement and the Second Lien Notes Indenture is generally comprised of a variable interest component, linked to Euribor (on loans denominated in euros), USD-Libor (on loans denominated in US dollars) or JPY-Libor (on loans denominated in Japanese yen), plus a margin. In order to hedge the interest risk related to the variable interest component, we have entered into various interest rate swap and option contracts. As a result, loans bearing floating interest rates are converted in economic terms into loans bearing interest rates which are either fixed or variable only within a defined range. This constitutes an effective cash flow hedge against the risk of interest rate fluctuation.

At inception, interest rate option contracts are accounted for at cost, which is the option premium. The initial cost of interest rate swaps is nil. Both the interest rate option contracts and the interest rate swaps are revalued to fair value as of the balance sheet date. Fair value gains amounting to €12 million (2005: losses of €3 million) were taken to the IAS 39 reserve in equity. These fair value adjustments are transferred from equity into the income statement when the hedged item, in this case the variable rate interest expense, is recognized in income. On this basis, fair value losses of €4 million (2005: €11 million) were transferred from the IAS 39 equity reserve to the income statement in 2006. Fair value changes of derivatives which do not qualify as cash flow hedges and ineffective portions of cash flow hedges are recognized directly in income. Negative deferred tax effects of €6 million (2005: €3 million) were recognized in equity.

Interest derivatives are comprised as follows:

Notional amount for next payment after December 31 in millions					Maturity	Interest to receive (6-month rates)	Interest to pay (6-month rates)	Payment dates
2006	2007	2008	2009	2010				
Interest swaps								
€ 200	€ 120	€ 120	€ 80	€ 80	Jun. 15, 2011	Euribor	3.6800%	June 15 and December 15
€ 200	€ 120	€ 120	€ 80	€ 80	Jun. 15, 2011	Euribor	3.6900%	June 15 and December 15
JPY 2,000	JPY 1,000	JPY 1,000	Expired	Expired	Jun. 15, 2009	JPY-Libor	0.5500%	June 15 and December 15
€ 100	€ 60	€ 60	€ 40	€ 40	Jun. 15, 2011	Euribor	3.6875%	June 15 and December 15
USD 125	USD 125	USD 125	USD 125	Expired	Jun. 15, 2010	USD-Libor	4.5275%	June 15 and December 15
Interest collar								
€ 240	€ 240	€ 240	€ 200	€ 200	May 15, 2011	Euribor less 5.00% if Euribor is above 5.00%	3.138% less Euribor if Euribor is below 3.138%	May 15 and November 15
Interest caps								
USD 100	USD 50	USD 50	USD 50	Expired	Jun. 15, 2010	USD-Libor less 4.62% if USD-Libor is above 4.62%		June 15 and December 15
USD 50	USD 50	USD 50	USD 50	Expired	May 15, 2010	USD-Libor less 4.62% if USD-Libor is above 4.62%		May 15 and November 15

The fair values of interest derivatives qualifying as cash flow hedges amount to €7 million (2005: €10 million negative).

Overview of derivative financial instruments

The following table shows a summary of the derivative financial instruments used by the Cognis Group:

€ millions	As of December 31	2006	2005	2006	2005
		Notional amounts		Fair values	
Foreign currency instruments		222	227	(1)	–
Interest rate instruments		962	1,199	7	(10)
Total		1,184	1,426	6	(10)

Credit risk

In 2006, Cognis generated approximately 7% (2005: 7%) of its revenues with its largest customer. Cognis' other customers each accounted for less than 3% (2005: 3%) of revenues. The ten largest customers accounted for about 20% (2005: 20%) of revenues. Thus, Cognis is not subject to a significant concentration of credit risk.

The maximum credit risk exposure as of the balance sheet date equals the carrying amounts of the financial assets.

(28) Contingent liabilities

Contingent liabilities are as follows:

€ millions	December 31, 2006	December 31, 2005
Guarantees and warranties issued	0	2

In accordance with the provisions of Section 17 of the Republic of Ireland Companies (Amendments) Act 1986, Cognis GmbH has given irrevocable guarantees for the year from January 1, 2006, to December 31, 2006, with respect to the liabilities, as referred to in Section 5 (c) (ii) of that Act, of the subsidiary companies Cognis Ireland Limited, Dublin, Cognis Ireland (Marketing) Limited, Dublin, Bumblebee Limited, Dublin, and Catstyecam Limited, Dublin. As of the balance sheet date, the liabilities guaranteed total €7 million (2005: €8 million).

(29) Other financial commitments

The amounts shown in the following table are the nominal values. Payment obligations under rent, leasehold and leasing agreements (operating leases) are shown at the total amounts payable to the earliest termination date.

€ millions	December 31, 2006	December 31, 2005
Payment obligations under rent, leasehold and leasing agreements	45	34
– of which due in the following year	17	11
– in the 2nd year	11	11
– in the 3rd year	9	3
– in the 4th year	3	2
– in the 5th year	2	1
– in the 6th year or later	3	6
Orders for property, plant and equipment	12	3
	57	37

Our commitments to purchase intangible assets were nil as of December 31, 2006 (2005: nil).

Other contractual obligations include a long-term purchasing contract for hydrogen amounting to €144 million (2005: €157 million) with a contract term to 2017 and other purchasing contracts for inventories amounting to €107 million.

In addition, Cognis is obliged to make regular payments for former employees to Henkel, which amounted to €1 million in 2006.

For finance lease commitments, please refer to Note 10 “Borrowings”.

(30) Compensation and loans to Supervisory and Management Board members and other key senior management

Total compensation to Management Board Members comprises short-term employee benefits in the amount of €3,369 thousand (2005: €2,096 thousand) and post-employment benefits amounting to €1,015 thousand (2005: €946 thousand).

Compensation to former Management Board members and their surviving dependants amounted to €598 thousand (2005: €578 thousand). Pension provisions of €18,096 thousand (2005: €17,437 thousand) for these individuals are included in accrued pension obligations.

The remuneration of the Supervisory Board amounted to €95 thousand (2005: €95 thousand).

In 2006, the Group granted loans amounting to €1,500 thousand to key members of senior management. These loans bear annual interest of 5% and have an indefinite term. These loans will be repaid upon the satisfaction of certain conditions.

(31) Auditor fees

In 2006, income includes the following fees, including the reimbursement of expenses, incurred in Germany with respect to our auditor KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany:

€ millions	Cognis GmbH Group (only Germany)
Year-end financial statements audit	0.8
Other attestation and valuation services	0.0
Tax services	0.0
Other services	4.6
Total	5.4

(32) Related party transactions

Transactions with shareholder

Cognis GmbH is owned by Cognis Holding GmbH, which in turn is owned by Cognis Holding Luxembourg S.à.r.l. Significant transactions with current and former shareholders are as follows:

- In May 2004, Cognis GmbH made a distribution, using capital reserves, to Cognis Holding Luxembourg S.à.r.l. in the amount of €320 million
- In January 2005, Cognis Holding Luxembourg S.à.r.l. contributed and sold its shares in Cognis GmbH to Cognis Holding GmbH & Co. KG, which was incorporated and renamed Cognis Holding GmbH

Equity participation scheme

The Cognis Group maintains an equity-related participation scheme for selected members of senior management by means of the partnerships named Cognis Management Beteiligungs GbR, Cognis Management Beteiligungs GbR II and Cognis Management Beteiligungs GbR III (collectively "Cognis GbR"), which collectively hold shares of Cognis Holding Luxembourg S.à.r.l. Participating managers are currently partners in Cognis GbR. All partners in the partnership are entitled to a proportionate share in the profits of the relevant partnership, in particular dividend payments, distributions in cash or in kind from Cognis Holding Luxembourg S.à.r.l. or the sale of shares held in Cognis Holding Luxembourg S.à.r.l.

Cognis Management Beteiligungs GbR was established in June 2002. Cognis Management Beteiligungs GbR II was incorporated in May 2004. The Partnership agreements do not include any vesting conditions. Therefore, the Company is not required to apply IFRS 2 to these arrangements. Cognis Management Beteiligungs GbR III was created in December 2006 and subscribed to new shares in Cognis Holding Luxembourg S.à.r.l. The shares were issued in exchange for cash, the issuance price being in line with fair value. The fair value was calculated using the discounted cash flow method.

Transactions with other related parties

Cognis Holding Luxembourg S.à.r.l. is controlled by funds advised by Permira, GS Capital Partners (a member of the Goldman Sachs Group, Inc.) and SV Life Sciences.

Affiliates of the Goldman Sachs Group, Inc. also:

- Are among the lenders of Senior Loans;
- Are Cognis' counterparties to certain interest rate derivative instruments with total notional amounts of €114 million (2005: €339 million) and foreign currency derivative instruments with total notional amounts of €45 million (2005: €51 million);
- Provide financial advisory services (together with Permira) to Cognis, together earning fees amounting to €3 million in 2006. In 2005, affiliates of the Goldman Sachs Group, Inc. earned fees of €1 million for financial advisory services provided to Cognis; and,
- Were involved in arranging the joint venture of the Oleochemicals business and received a fee of €2 million.

For transactions with joint ventures, please refer to Note 34 "Joint ventures".

(33) Principal subsidiary companies

		December 31, 2006	December 31, 2005
Company	Domicile	Share of capital %	
Cognis Deutschland GmbH & Co. KG	Monheim (Germany)	100	100
Cognis Oleochemicals GmbH	Düsseldorf (Germany)	50	100
Cognis IP Management GmbH	Düsseldorf (Germany)	100	100
Cognis Corporation	Cincinnati (USA)	100	100
Cognis France S.A.S.	Saint-Fargeau Ponthierry (France)	100	100
Cognis Iberia S.L.	Barcelona (Spain)	100	100
Cognis S.p.A.	Fino Mornasco (Italy)	100	100
Cognis Kimya Sanayi ve Ticaret A.S.	Istanbul (Turkey)	100	100
Cognis Brasil Ltda.	São Paulo (Brazil)	100	100
Cognis Japan Ltd.	Tokyo (Japan)	100	100
Cognis Oleochemicals (M) Sdn. Bhd.	Selangor (Malaysia)	50	50
Shanghai Cognis Oleochemicals Ltd.	Shanghai (China)	100	100
Cognis Mexico S.A. de C.V.	Ecatepec de Morelos (Mexico)	100	100
Cognis Performance Chemicals UK	London (UK)	100	100
Cognis Ireland Ltd.	Cork (Ireland)	100	100
Cognis B.V.	Hoofddorp (Netherlands)	100	100
Cognis Thai Ltd.	Bangkok (Thailand)	100	100

(34) Joint ventures

		December 31, 2006	December 31, 2005
Company	Domicile	Share of capital %	
Thai Ethoxylate Company Ltd.	Bangkok (Thailand)	50	50
Thai Fatty Alcohols Company Ltd.	Bangkok (Thailand)	50	–

These joint ventures contributed to consolidated assets and liabilities as of the balance sheet as follows:

€ millions	December 31, 2006	December 31, 2005
Current assets	3	3
Non-current assets	7	-
Current liabilities	1	-
Non-current liabilities	3	-

The effect of the joint ventures on the Group's sales and profit was not material.

Transactions with joint ventures

Transactions with Thai Ethoxylate Company Ltd. comprise predominantly sales. In 2006, sales from joint ventures to Group companies were €6 million, while sales to joint ventures amounted to €4 million. As of December 31, 2006, trade receivables of the joint ventures were €5 million and trade payables were €4 million.

From other contracts with joint ventures, revenues of €1 million were recognized which offset costs incurred.

Monheim, March 31, 2007



Dr. Antonio Trius
Chief Executive Officer



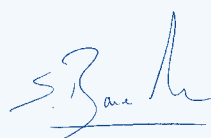
Dr. Helmut Heymann
Executive Vice President
Chief Administration Officer



Klaus Edelmann
Executive Vice President
Chief Financial Officer



Paul Allen
Executive Vice President
Functional Products



Stéphane Baseden
Executive Vice President
Nutrition & Health



Richard Ridinger
Executive Vice President
Care Chemicals

Report of the Independent Auditors

We have audited the consolidated financial statements prepared by Cognis GmbH, Monheim, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors Germany] (IDW) and in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosure in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and full IFRS and give a true and fair view of the net assets, financial position and result of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, March 31, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Michael Gewehr Alfred Pietsch
Wirtschaftsprüfer Wirtschaftsprüfer

Supervisory Board and Corporate Management

Supervisory Board of Cognis Verwaltungs-GmbH

Members of the Supervisory Board are also members of the supervisory boards or comparable boards of the entities listed in italics.

Dr. Harald Wulff

Chairman, Düsseldorf
(1) (3) (4) (5)
Former CEO of Cognis

Dr. Bernhard Gutsche

Düsseldorf
(2)
Director ED Process Development,
Cognis Deutschland GmbH & Co. KG

Gertraud Lauber

(until February 15, 2007)
Frankfurt am Main
(2)
Full-time Head of District, Industriege-
werkschaft Bergbau, Chemie, Energie
Sanofi-Aventis Deutschland GmbH

Thomas Fischer

Vice Chairman, Düsseldorf
(2) (3) (4) (5)
Chairman of the Workers' Councils
of Cognis Europe,
Vice Chairman of the Workers' Council of
Cognis Deutschland GmbH & Co. KG,
Düsseldorf site

Thomas Hergarten

Düsseldorf
(2)
Chairman of the Workers' Council of
Cognis Deutschland GmbH & Co. KG,
Düsseldorf site
Vice Chairman of the Workers' Council
of Cognis Europe

Sonnhild Dannowski

Illertissen
(2) (3)
Vice Chairman of the Workers' Council
of Cognis Deutschland GmbH & Co. KG,
Illertissen site

Dr. Uwe-Ernst Bufe

Königsstein
(1) (3)
Former CEO of Degussa Hüls AG
UBS Deutschland, Frankfurt a.M.
Air Liquide GmbH, Düsseldorf
Altana AG, Bad Homburg v.d.H.
Akzo Nobel N.V., Arnhem, Netherlands
Solvay S.A., Brussels, Belgium
Umicore S.A., Brussels, Belgium

Björn Killmer

London/United Kingdom
(1)
Director, Cognis Holding
Luxembourg S.à.r.l.,
Managing Director, Goldman Sachs
International

Séverine Michel

Luxembourg
(1)
Director, Cognis Holding Luxembourg S.à.r.l.,
Manager, Permira Luxembourg S.à.r.l.
debitel AG

Rolf Erler

Düsseldorf
(2)
Full-time Head of District, Industriege-
werkschaft Bergbau, Chemie, Energie
Rockwood Specialities Group GmbH

Richard Sharp

London/United Kingdom
(1)
Advisory Director, Goldman Sachs
International
Vice Chairman of ISS

John Cheesmond

Basel/Switzerland
(1) (4)
Managing Director SBV
Former Executive Vice President &
Management Board Member
Ciba Specialty Chemicals
Inolex Inc., Philadelphia, USA

Peter Antoszewski

(from March 16, 2007)
Bad Münders
(2)
Head of Wilhelm-Gefeller-Bildungszentrum,
Industriegewerkschaft Bergbau, Chemie,
Energie

(1) Owners' Representative

(2) Employees' Representative

(3) Member of Codetermination Committee pursuant to German legislation § 27 Abs. 3 MitbestG

(4) Member of Human Resources and Compensation Committee

(5) Member of Finance Committee

Cognis GmbH Management Board

Dr. Antonio Trius

Chief Executive Officer

Dr. Helmut Heymann

Executive Vice President
Chief Administration Officer

Arnold Kiel

Executive Vice President
Chief Financial Officer
(until September 30, 2006)

Klaus Edelmann

Executive Vice President
Chief Financial Officer
(from November 1, 2006)

Paul Allen

Executive Vice President
Functional Products
(from October 1, 2006)

Stéphane Baseden

Executive Vice President
Nutrition & Health
(from October 1, 2006)

Richard Ridinger

Executive Vice President
Care Chemicals
(from October 1, 2006)

Cognis Executive Council (until September 30, 2006: Cognis Executive Committee)

Dr. Yusuf Aktalay

Group Vice President
Process Chemicals

Paul Allen

Executive Vice President
Functional Products
(until September 30, 2006)

Stéphane Baseden

Executive Vice President
Nutrition & Health
(until September 30, 2006)

Dr. Alfred Meffert

Group Vice President
Corporate Operations

Richard Ridinger

Executive Vice President
Care Chemicals
(until September 30, 2006)

Dr. Carl Braun

Chief Legal Officer
(from October 1, 2006)

Dr. Christoph Breucker

Group Vice President
Operations & Product Management
Functional Products
(from October 1, 2006)

Dr. Jürgen Scherer

Group Vice President Corporate Key
Account Management & Legal
Representative Cognis Germany
(from October 1, 2006)

Bernhard Vogtland

Group Vice President Corporate
Finance, Tax and Investor Relations
(from October 1, 2006)

Dr. Levent Yüksel

Group Vice President Operations
Management Care Chemicals & GBM
Surfactants/Alcohols
(from October 1, 2006)